Understanding The "Robo-Advisor" Landscape

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Understanding "Robo-Advisors"

Introducing the "robo advisor"

Source: Barron's, "Robo Advisors Take On Wall Street"

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Understanding "Robo-Advisors"

- Defining a "Robo Advisor"
  - Software to automate the implementation of portfolio asset allocation through algorithms

    - Determining both the assets in the portfolio, and the "matching" of the portfolio to the investor
    - Intended to be "cheaper" by eliminating human advisors

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Understanding "Robo-Advisors"

- Defining a "Robo Advisor"
  - Other notable features
    - Automated rebalancing & tax loss harvesting
    - Fully electronic/online onboarding process
    - Excellent client experience through technology

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Understanding "Robo-Advisors"

- "Robo Advisor" versus Technology augmentation versus Online Advice
  - Using technology or an online delivery model does not define "robo advisor" – that's just a human using technology!
    - The "cyborg" or "bionic" advisor leverages technology **and** human interaction

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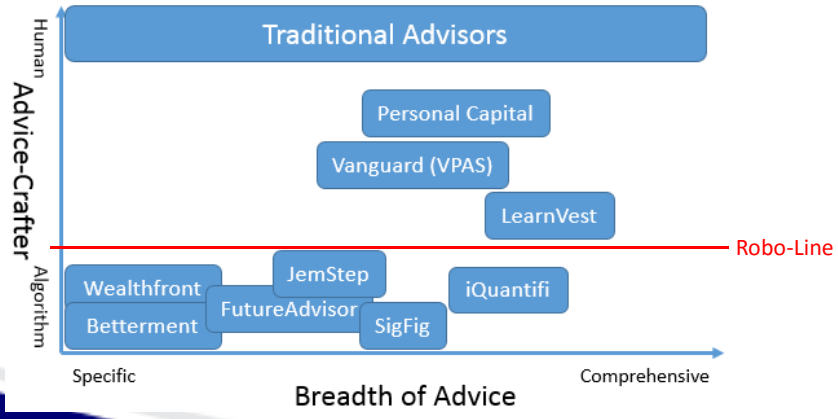
Understanding "Robo-Advisors"

- Framing the "Robo Advisor" landscape



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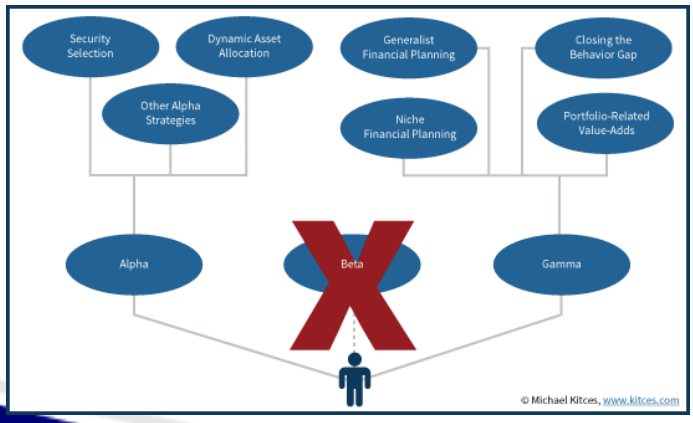
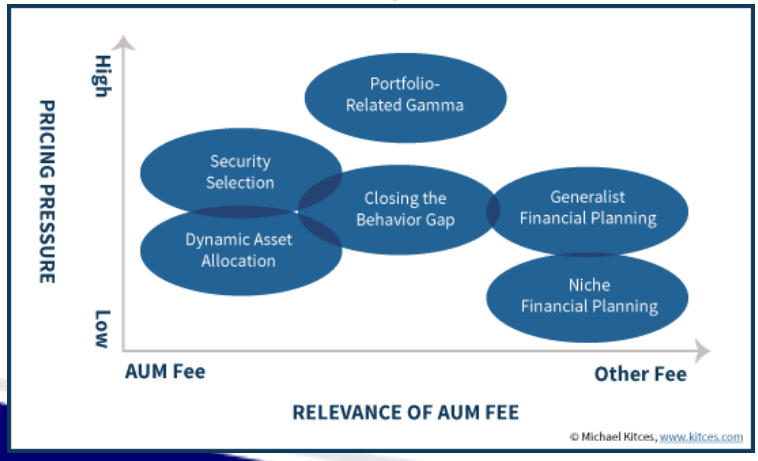
Understanding "Robo-Advisors"

- "Robo Advisors" driving down the cost of beta



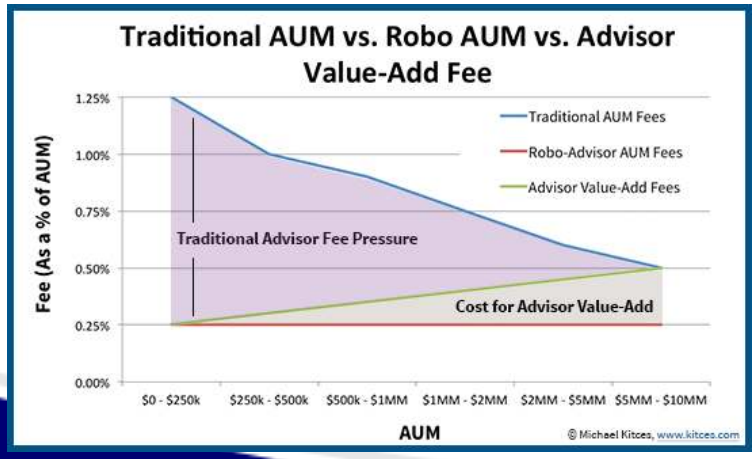
Understanding "Robo-Advisors"

- "Robo Advisors" & pricing pressure



Understanding "Robo-Advisors"

- "Robo Advisors" & pricing pressure



Understanding "Robo-Advisors"

- "Robo Advisors" & who's really winning?

Firm	AUM	% Fee	Revenue
Wealthfront	$3.0B	0.25%	$7.5M
Betterment	$3.5B	0.25%	$8.8M
FutureAdvisor	$600M	0.50%	$3.0M
Total	**$5.8M**		**$19.3M**

- Personal Capital: $2.0B AUM, $18M revenue?
- VPAS: $30B+ AUM, $90M+ revenue?
- Schwab launches quasi-hybrid solution?
  - $5B in first year?

Understanding "Robo-Advisors"

- What *is* a robo-advisor really?
  - An alternative to a mutual fund?
  - A direct-to-consumer SMA?
  - A form of TAMP for advisors?
  - A distribution channel for ETFs?
  - A technology solution for managing assets?
    - Self-directed *or* by advisors?
  - An alternative custodial platform for advisors?

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Understanding "Robo-Advisors"

- True "Robo Advisor" threats
  - Mutual and index funds; ETFs
    - Indexing 2.0 solutions
    - Natural tax bias in favor of granularity?
  - Smart beta and algorithmic investing
    - Solved by software
  - Custodians & broker-dealer platforms
    - A generational shift underway?

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Understanding "Robo-Advisors"

- Will "robo-advisors" pivot into new spaces?
  - Challenging of 401(k) environment
    - Recordkeeping, plan administration, in addition to "just" investment management
    - More challenging distribution?
    - Upstarts just beginning to come in
      - But will they gain traction?
    - Financial Engines just bought Mutual Fund Store!

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Understanding "Robo-Advisors"

- Where will robo-advisors go from here?
  - Blurring lines between an investment solution, a technology solution, or just a traditional solution with better technology
  - "Everyone" wants better technology
    - Robo-advisors pivoting to serve human advisors
    - Fidelity acquires eMoney, Northwestern buys LearnVest, Envestnet buys FinanceLogix

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Understanding "Robo-Advisors"

- Where will robo-advisors go from here?
  - Robos as a distribution channel
    - Schwab launches SIP, Blackrock buys FutureAdvisor, Invesco buys Jemstep
  - Technology will increasingly drive distribution overall
    - Relevant to 529 plans as a plan-selection tool!
      - Though such tools have their own distribution and client acquisition cost challenges!

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Questions?

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