

UNDERSTANDING THE “ROBO-ADVISOR” LANDSCAPE

04.18.2016 | PINNACLE PARTNERS FORUM

MICHAEL E. KITCES

MSFS, MTAX, CFP®, CLU, ChFC, RHU, REBC, CASL

Partner. Director of Research, Pinnacle Advisory Group

Publisher. The Kitces Report, www.kitces.com

Blogger. Nerd's Eye View, www.kitces.com/blog

Twitterer. @MichaelKitces, www.twitter.com/MichaelKitces



Handouts/Additional Materials at: kitces.com/PINAPR16

UNDERSTANDING “ROBO-ADVISORS”

Introducing the “robo advisor”



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

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

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

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



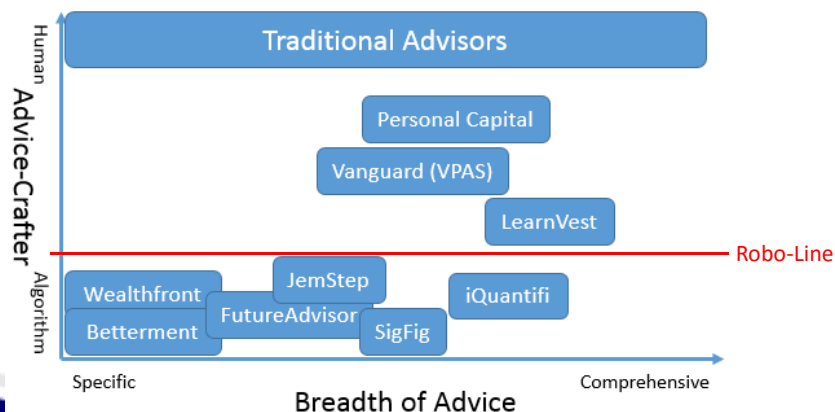
© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/PINAPR16

@michaelkitces

UNDERSTANDING “ROBO-ADVISORS”

- Framing the “Robo Advisor” landscape



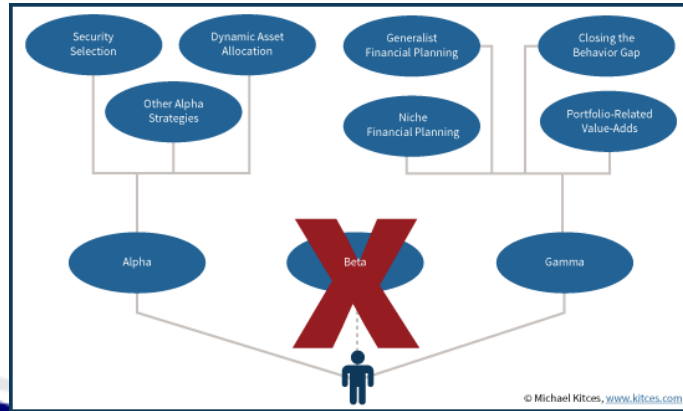
© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/PINAPR16

@michaelkitces

UNDERSTANDING “ROBO-ADVISORS”

- “Robo Advisors” driving down the cost of beta



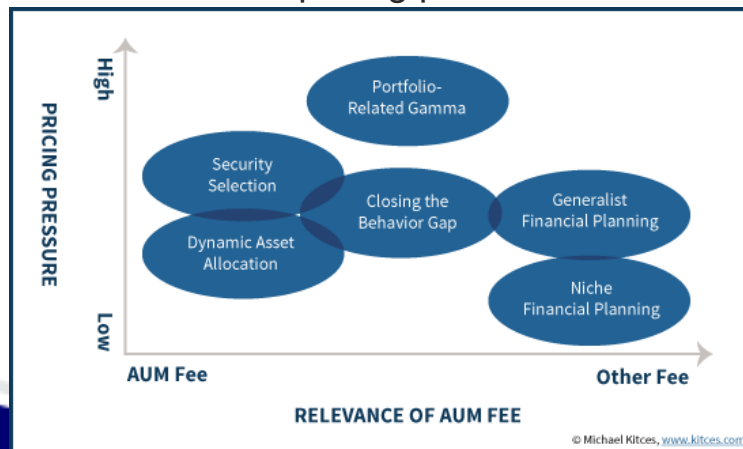
© 2013 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/PINAPR16

[@michaelkitces](https://twitter.com/michaelkitces)

UNDERSTANDING “ROBO-ADVISORS”

- “Robo Advisors” & pricing pressure



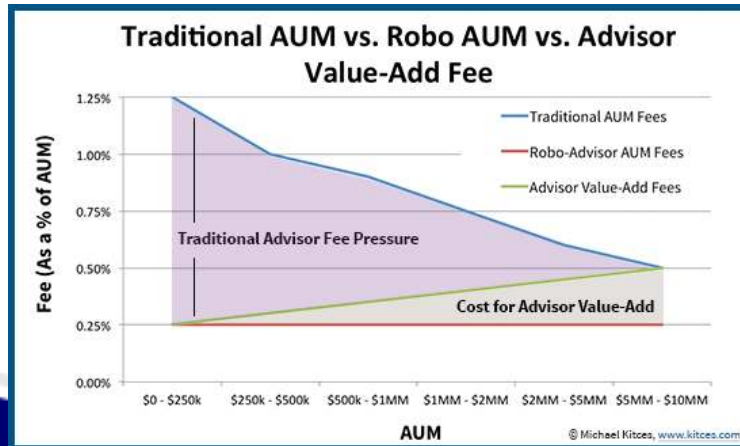
© 2013 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/PINAPR16

[@michaelkitces](https://twitter.com/michaelkitces)

UNDERSTANDING "ROBO-ADVISORS"

- "Robo Advisors" & pricing pressure



© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/PINAPR16

[@michaelkitces](https://twitter.com/michaelkitces)

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?

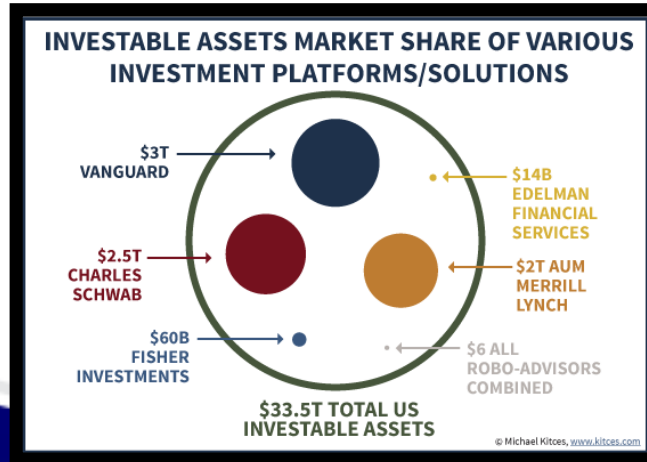
© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/PINAPR16

[@michaelkitces](https://twitter.com/michaelkitces)

UNDERSTANDING “ROBO-ADVISORS”

- Are robo-advisors really disrupting anything?



© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/PINAPR16

 @michaelkitces

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?

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/PINAPR16

 @michaelkitces

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?

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/PINAPR16

 @michaelkitces

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!

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/PINAPR16

 @michaelkitces

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

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/PINAPR16

 @michaelkitces

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!

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/PINAPR16

 @michaelkitces

UNDERSTANDING "ROBO-ADVISORS"

- The ongoing disruptive force of technology
 - First "stock brokering" died with discount/online brokers
 - So we became fund pickers
 - Then active mutual fund picking died as reporting tools made it clearer how bad most are
 - So we became asset allocators
 - Now "robo-advisors" are commoditizing asset allocation
 - So we become... financial planners & wealth managers
 - *Technology doesn't "kill" advisors, but it does force our ongoing evolution up the value-add chain*

© 2013 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/PINAPR16

 @michaelkitces

QUESTIONS?

Handouts & additional materials:
www.kitces.com/PINAPR16

Contact: questions@kitces.com

© 2013 Michael Kitces | kitces.com

 @michaelkitces