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ROBO- ADVISORS

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OVERVIEW

Robo-advisors are becoming more and more mainstream these days, necessitating a closer examination of what these services offer to investors. Managing your own finances can be difficult and starting off can be ever harder without any guidance. Often times those who try to invest on their own without any prior knowledge or experience invest haphazardly and lose money, and those who want the help may not be able to afford it or may not meet the minimum account balance that some financial planning firms require. Enter, robo-advisors.

Now, what exactly is a robo-advisor? A robo-advisor is an online application that provides financial guidance and services through an automated system with little or very limited human supervision. These programs first gather pertinent life and financial information from the user and then use an algorithm to select investments that best fit the user's investment needs and financial goals. A user's portfolio is crafted from criteria like the risk the investor is willing to assume, the returns the investor wants to receive, and when the investor needs the money to be liquid. Once the user answers the evaluation questions, the software will take all of the user's information into consideration and select a diverse portfolio of exchange-traded funds (ETFs) that best fits the user's investment and financial profile.

With all the robo-advising options available, which one should you choose? The various platforms boast different strengths and target certain niches, striving to set themselves apart from their competitors in one way or another; hence the need to evaluate each option to ensure you select the optimal service for your hard-earned cash. In this piece, we will provide an overview of seven of the top, widely-used robo-advisors to help you decide if leveraging the services of a robo-advisor is the best fit for your financial life, and if so, which application is best suited for your investment needs.



BETTERMENT

An organization can be structured in many different ways, depending on its objectives. The structure of an organization will determine the modes in which it operates and performs. Betterment is noted as the robo-advisor that kickstarted the robo-advising movement with its launch in 2010, and this application is one of the top robo-advisors available right now. There are two service options associated with the application: Betterment Digital and Betterment Premium. Betterment Digital is designed for newer, novice investors who are looking to dip their feet into the world of investing, and there is no account minimum required to get started.

Additionally, the Betterment Digital management fee is a competitive 0.25% of assets under management (AUM) annually. By contrast, Betterment Premium has a higher fee, coming in at 0.40% AUM annually, and has a \$100,000 account minimum. With this enhanced platform, users are paying for unlimited access to advice from certified financial planners. A few of the most important perks for users involve automatic rebalancing for all accounts, tax strategies and tax-loss harvesting for accounts for all taxable accounts, a wide range of investment options that include socially responsible vehicles, and no annual, transfer or closing account fees. Additionally, Betterment supports a strong variety of accounts, including individual and nonretirement accounts, all forms of IRAs, trusts, and cash accounts; however, notable accounts not supported include 529 college savings plans.

Another appealing perk with the Betterment application is that when you sign up for either version of the Betterment platform, you are automatically taken through a goals-setting exercise that asks you for details regarding your personal and financial life. The app then suggests target goals based on your answers, such as what your emergency savings amount should be, which investment goals you should be working towards, and what retirement savings goals you should be aiming for. The application also allows users to add customized personal goals to report that you can track and work towards.

Betterment does have its downsides. In terms of having access to a human advisor, users must pay an extra fee for advice packages and consultations or pay for the Premium service. Additionally, in the goals-setting suggestions, one of the main ones Betterment suggests is an emergency fund. This is great; however, the application advises placing this money into a low risk allocation, which is typically frowned upon as most individuals do not want their emergency funds invested at all to ensure the money is liquid and readily available.

PERSONAL CAPITAL

Personal Capital is a unique player in the robo-advisor space because it is a hybrid advisor, meaning it combines both algorithms and human advisors. What really makes Personal Capital different from its peers is the fact that the application is primarily designed for high-net-worth investors, as the minimum investment is \$100,000 up front – a fairly steep barrier to entry. The management fees also ring in high, coming in between 0.49-0.89%, which are among the highest fees of all robo-advising platforms. This fee depends on the size of your account and starts at the higher end of 0.89% for accounts hitting the minimum balance of \$100,000 and only gets down to the lower 0.49% management fee for accounts of \$10 million and up.

Although Personal Capital seems to be aimed for the niche high-net-worth investor, the application does offer an extensive range of free high-quality financial tools and retirement calculators. All users have access to a team of advisors; however, the application does provide investors with account balances over \$200,000 with two assigned financial advisors for an enhanced and more personal advising experience, as with the team of advisors, there is no guarantee you will communicate with the same advisors every time you reach out. Personal Capital supports most accounts, including non-retirement accounts, all forms of IRAs, trusts, and cash accounts, but it does not support 529 accounts and will only advise on these account allocations. A plus that sets Personal Capital apart from its competitors is its incorporation and offering of individual securities for investors, in addition to a variety of funds that also include several socially responsible vehicles. Furthermore, the application offers automatic rebalancing on all accounts, has zero account fees, and applies tax-loss harvesting for applicable portfolios.

Personal Capital also offers investment checkups, fee analyzers, and spending trackers that offer a depth to its services other applications lack. Another perk this application offers is called the Personal Capital dashboard, which allows users to view their entire financial picture in one place. As users' assets grow and contributions increase, the app rewards users with additional services like college savings planning, home financing, and estate tax information, making the application more geared to the long-term investor.

SOFI AUTOMATED INVESTING

SoFi Automated Investing is a new player in the robo-advisor field that is quickly growing and gaining traction. SoFi is similar to Betterment in that it is designed for individuals who are new to the investing realm and looking to get started, and the application offers some of the best bang for your buck benefits when weighed up against its competitors. SoFi requires either an upfront deposit minimum of \$100 or, unlike other robo-advising applications, allows users to make \$20 recurring deposits, which is a very reasonable entry and commitment in comparison to the heftier minimums other apps call for. Additionally, there are no management fees or account fees, and the average investment fee is extremely low at 0.085%. The app offers unlimited access to certified financial planners (CFPs) and complete quarterly rebalances on all accounts for free.

Additionally, SoFi does not deprive investors of services because of its low account minimum, as the application offers free, unlimited access to certified financial planners for all users, which positions SoFi as an attractive option for beginning and young investors. The service also offers automatic rebalancing and a significant range of low-cost investment options. Additionally, there is a 0% management fee and no administrative fees, which is unique to the robo-advising arena. SoFi may even help you cover some of the fee a competitor charges you for closing out and transferring an account to SoFi. The application also offers ETFs from over 20 asset classes and free wealth forecasting and financial tools. Additionally, an offering that makes SoFi unique is its free career counseling, again an attractive feature for the young investor.

A few cons to point out are the limited account types available to users, as clients only have access to individual and joint non-retirement accounts, and Roth, traditional, SEP and rollover IRAs. SoFi also does not currently offer tax-loss harvesting on accounts, but the service has said that it plans to launch free tax-loss harvesting to all clients soon. Lastly, something important to note is that this application is still very new to the robo-advising market, having just debuted in 2017, so it has not quite established much of a track record yet, and this newcomer status may cause some investors to pause.

WEALTHFRONT

Wealthfront was recently recognized as the best overall robo-advisor via NerdWallet for its ability to excel in various ways and accommodate the largest variety of investors. This robo-advisor is especially ideal for investors with a small sum to invest, as Wealthfront offers a promotion that involves free management for account balances under \$5,000. For balances exceeding that amount, the management fee is a competitively low 0.25%. Wealthfront also boasts zero account fees and free auto-rebalancing on all accounts. The application also has a robust lineup of goals-based saving and planning tools available to all users.

Furthermore, Wealthfront offers a variety of tax-optimization tools and strategies, such as daily tax-loss harvesting on all taxable accounts and stock level tax-loss harvesting for accounts over \$100,000. This application also provides its clients with the ability to easily import tax-loss harvesting data from Wealthfront to TurboTax, which saves clients time when trying to reduce their overall tax burden in a given year. Additionally, Wealthfront boast diverse investment options and support for any and all accounts you can think of, from Roth IRAs to 529 college savings plans, trusts, and joint non-retirement accounts. Another way that Wealthfront shines is through the Wealthfront Cash Account, a feature the service launched in early 2019, that provides clients with access to a high-interest savings account that currently pays over 2% interest, making it competitive with many online banks.

One con that is important to note is that Wealthfront lacks a human advisor option, making it strictly a robo-advisor. Where Wealthfront makes up for this is through its commitment to expanding its digital advice offerings that are entirely free for anyone to use, even if you don't have an account with the program.



ELLEVEST

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Another big name in robo-advising these days is Ellevest, known for its many socially responsible investing (SRI) options. More predominantly, Ellevest prides itself in being “for women by women;” however, the application also caters to male investors, as the features that make the application unique in its mission to better serve female investors arguably make the app a better resource for all types of investors. An example of this is the application’s gender-specific savings tools and goals that factor in the gender pay gap and the differences in gender longevity when running projections. The app’s big appeal is moving away from gender-neutral investing with the goal of creating goals-based savings plans and investment portfolios as specific as possible to the investor’s unique and personal financial life. Ellevest boasts a commitment to tailoring recommendations based on an individual’s gender and specific financial profile with accommodative investment portfolios as opposed to the conventional portfolio models used by a majority of advisors. The app also offers “Impact Portfolios” that allow investors to allocate up to half of their portfolios into funds that promote the advancement of women.

Additionally, Ellevest has a \$0 account minimum and offers up to \$750 in cash bonus with a qualifying deposit; however, take note that the qualifying deposit for the top \$750 cash prize is a hefty \$250,000. All users have access to a wide range of asset class investments and automatic rebalancing, and users also enjoy zero account transfer and closing fees. There are also two versions you can choose from – digital and premium – with digital having an account management fee of 0.25% and premium having a fee of 0.50%. Premium clients have access to a certified financial planner and career coach, so with the premium version, clients are paying for that human advisor interaction. A notable con with this application is the limited types of accounts it supports, as Ellevest only accommodates taxable personal accounts and traditional, Roth, and SEP IRAs.



VANGUARD

Vanguard's robo-advisor function, called "Vanguard Personal Advisor Services," brings a mix of human advising and robo-advising. Most important to note up front about this service is its sizable account minimum of \$50,000. The big draw of Vanguard is its established presence in the robo-advising space, as its Personal Advisor Services branch has about \$120 billion in assets under management (AUM), making it one of the biggest robo-advisors available. Because of its large AUM, Vanguard is able to boast a low fee of 0.3%; however, the substantial account minimum is one of the highest numbers you will see in the robo-advising arena. The application supports a wide range of accounts, including all forms of IRAs, non-retirement accounts, and trusts, but does not support 529 accounts. One big pro is Vanguard's hybrid aspect to its robo-advising service, as Vanguard account holders are able to speak with certified financial planners in addition to leveraging the robo-advising aspect of automated portfolio management. With Vanguard, you are coughing up that account minimum to earn access to personalized service that many other robo-advising competitors do not offer. Additionally, Vanguard provides a strong investment lineup, and portfolios are created by its advisors for clients on an individual basis, which again speaks to the personalized service leveraged via its hybrid advising model. Vanguard also provides its clients with access to financial planning calculators and tools in addition to educational materials. That being said, Vanguard is best suited for individuals looking for comprehensive financial planning.

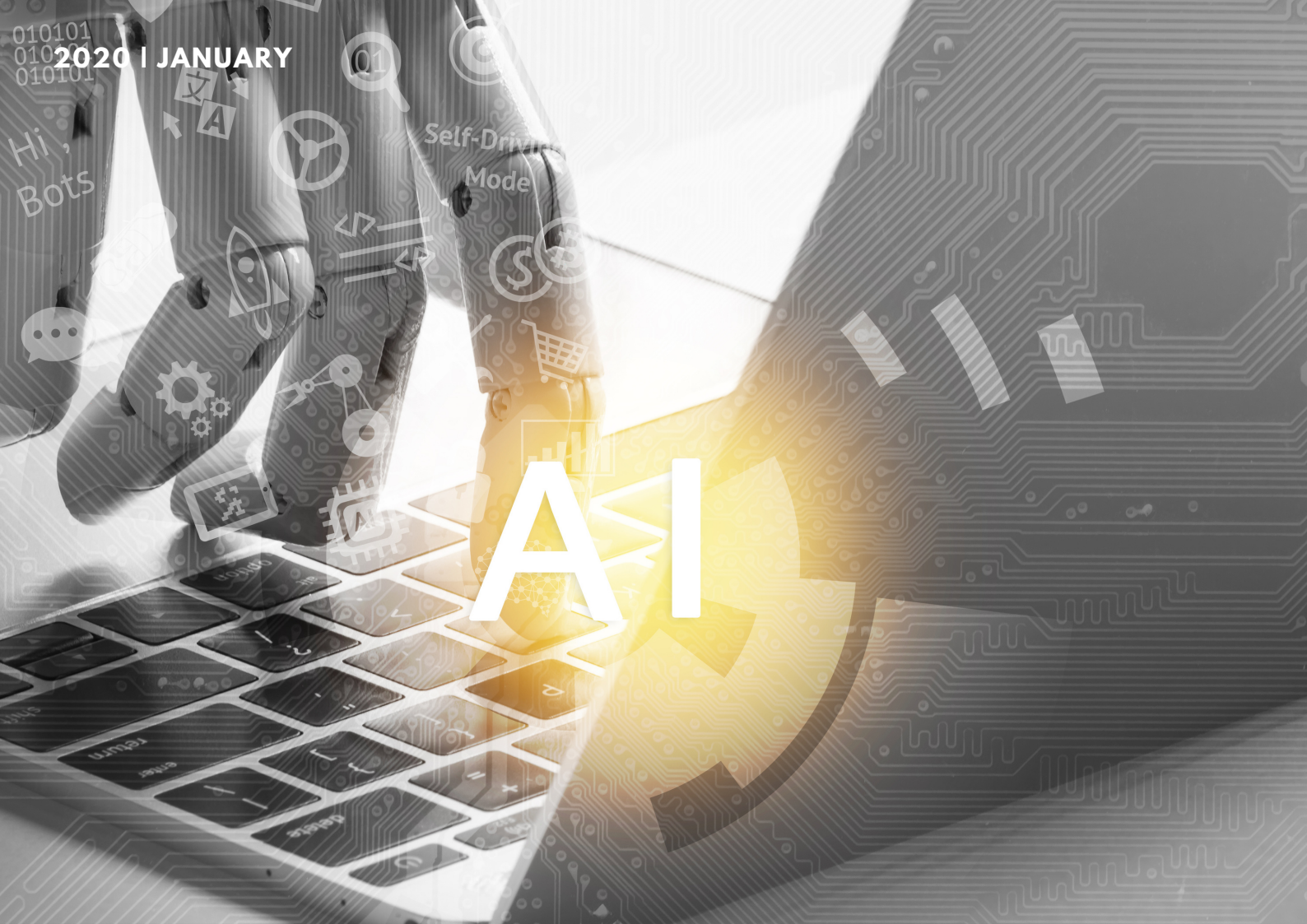
One con to note is that the account management fee does not decrease until the account exceeds \$5 million, which positions the application towards the higher-net-worth niche. Also, although there are no account opening fees, users may incur transaction costs if they use non-Vanguard investment products in their portfolios. Another surprising shortfall is Vanguard's tax-loss harvesting service that although available to clients, is not automatic and is addressed on a client-by-client basis. Some individuals, especially those with the significant account minimums that Vanguard requires, may be disappointed in this and looking more for daily monitoring.

SCHWAB

Schwab offers a unique robo-advising service to its clients called "Schwab Intelligent Portfolios." A big selling point for this application is that it has no account management fee for its basic service. There is an account minimum of \$5,000, which is not nearly as significant as Vanguard's minimum but is significantly greater than some of its competitors with no account minimums or small minimums of \$100 to \$500. Schwab does provide all clients with notable pros, including automatic rebalancing, access to customizable portfolios, and a wide investment selection that boasts portfolios built from over fifty ETFs that cover over twenty asset classes. Additionally, Schwab offers high-quality tools for financial goal tracking and boasts 24/7 support to its clients, while many competitors do not offer support outside of set business hours.

Schwab does offer a premium service that involves a \$30 monthly cost and provides clients with access to certified financial planners. The catch is that service also requires a \$25,000 minimum account balance and charges a one-time planning fee of \$300 for the unlimited access to its array of certified financial planners. However, until you build and grow your account into the six figures, it seems prudent to stick with the basic service, so you can avoid paying the one-time planning fee until you feel you require the more extensive advising services offered through the premium level.

A unique negative for Schwab users is the high cash allocations in all accounts, with a minimum of 6% cash in all portfolios. Additionally, tax-loss harvesting is only available on accounts of \$50,000 or more. Another important shortfall to note is the somewhat limited variety of accounts supported by Schwab's services, as clients only have access to non-retirement accounts, Roth, traditional and rollover IRAs, and trusts. These cons aside, the Schwab name does carry a strong reputation that offers a bonus comfort when it comes to handing over your hard-earned cash to a management service.



CONCLUSION

Since the inception of the robo-advising sphere in 2008, the market for robo-advisors has grown significantly, and it will only persist as technology continues to advance. The overarching selling point for robo-advising is that there are now low-cost options for every type of investor that create opportunities for people to enhance their financial literacy and take a step in the right direction when it comes to saving for their futures and retirements. All robo-advising applications have pros and cons, and in a way, the robo-advising field has become like the credit card market in that it is saturated with options boasting reward incentives, various management fees, and features for niche investors. As the robo-advising space gains more traction, additional options will continue to pop up and saturate the market, making it prudent for individuals to thoroughly evaluate the options available before making a commitment.

While robo-advising is great in many ways, especially during the early stages of an individual's financial life, it innately has its shortfalls when compared to in-person, human financial advice. Once you reach a certain stage in your professional life, you may find you have outgrown the services offered through a robo-advising or hybrid-advising space. At such a point, it may be time to seek out a human financial advisor that you can meet with one-on-one and in-person to specifically craft a financial and investment plan that brings you through the home stretch of your working career and into your retirement years.