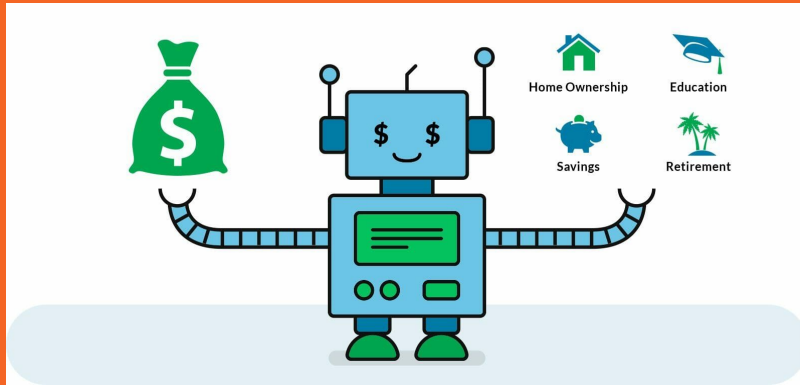


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# Robo-advisors



Ravi Ranganathan

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# Disclaimer

This talk is neither a testimonial or an endorsement.

It's aimed at helping you understand the ecosystem and its philosophy to make your own informed choices.

I am neither a tax professional nor a financial advisor.

I am, however, a staunch follower of [Jack Bogle's](#) genius and sometimes aspire to be an "[enterprising investor](#)" in [Benjamin Graham's](#) definition.

Any information presented has been checked for factual accuracy and is [verifiable](#).



# The Elevator Pitch



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# Investing isn't an art. It's a science.

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About 50 years ago, our Chief Investment Officer Burt Malkiel launched the passive investing revolution.

**Passive investing is foundational, but technology is our innovation.**

Our software-only solution puts your money to work automatically, while keeping costs and taxes low. And it's all effortless for you.

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Did you spot these keywords?

1. Passive Investing
2. Technology
3. Effortless
4. Low taxes

There is a tremendous variety of products and there are existing market leaders and old incumbents rapidly entering in.

HOWEVER, THERE'S SOME  
SUSPENSE UNTIL THE  
UPCOMING LAUNCH OF  
**VANGUARD'S** ENTRANT  
*DIGITAL ADVISOR* IN  
**EARLY 2020**



Fidelity Go



**Vanguard®**



# Investment Philosophy

This will be the first thing any decent robo-advisor mentions on their website.

Here are some of common elements you'll notice quickly.

- **Maximize Long-term**
- **Diversified Portfolio**
- **Vehicle : Low-cost Index funds**

**and usually there are mentions of... Modern Portfolio Theory (?)**



# Wealthfront

## Asset Classes [\[Source\]](#)

- U.S. Stocks
- Foreign Developed Market Stocks
- Emerging Market Stocks
- Dividend Growth Stocks
- U.S. Government Bonds

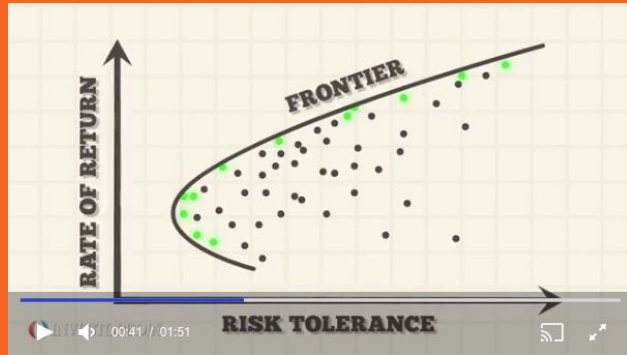
- Corporate Bonds
- Emerging Market Bonds
- Municipal Bonds
- Real Estate
- Natural Resources
- Risk Parity

Table 1: Wealthfront instrument expenses vs. industry average

	EXPENSE RATIO
Actively managed mutual funds	0.75%
Wealthfront-selected ETFs	0.09%
<b>Annual Fee Savings</b>	<b>0.66%</b>



# Modern Portfolio Theory

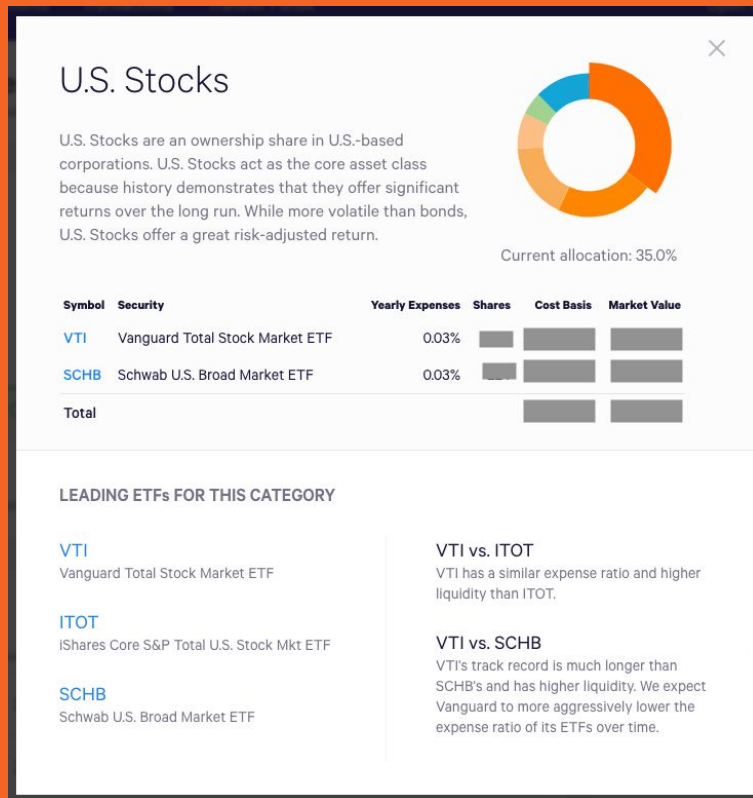


Maximize return, given a *fixed* risk

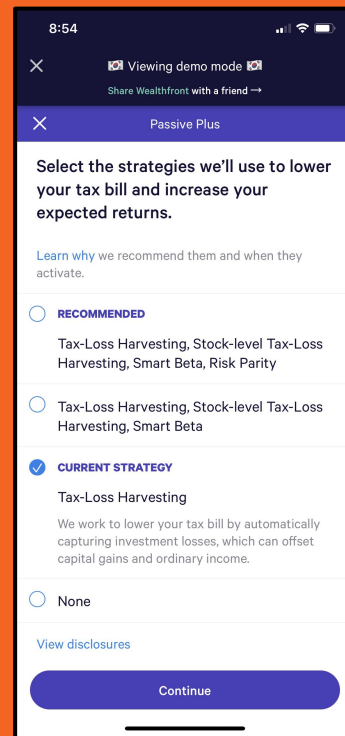
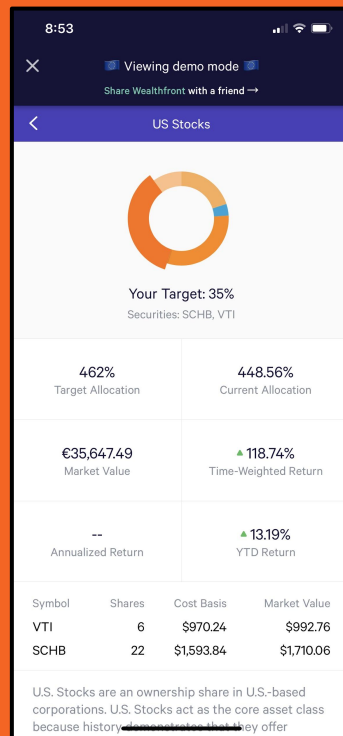
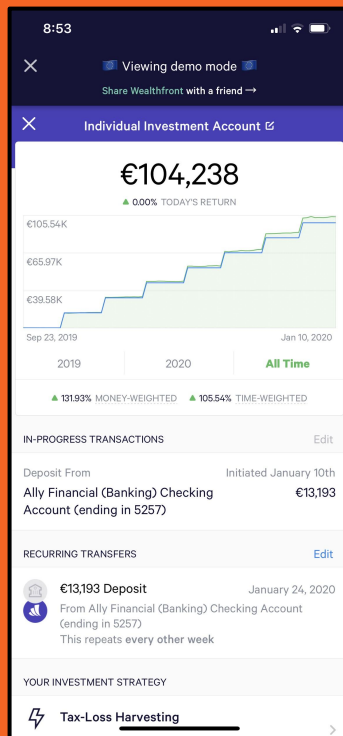
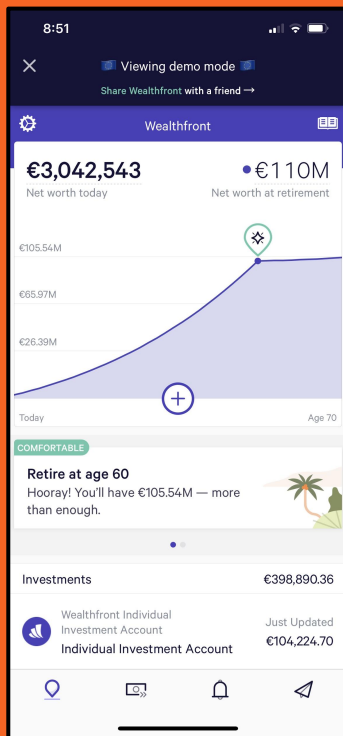
Diversified Portfolio					
YTD ANNUALIZED LIFETIME ?					
ASSET CLASS	TARGET	CURRENT		MARKET VALUE	RETURN
U.S. Stocks	35%	34.2%			▲ 0.2%
Foreign Stocks	31%	31.0%			▼ -0.4%
Emerging Markets	20%	19.8%			▲ 0.4%
Dividend Stocks	10%	10.7%			▼ -0.2%
Municipal Bonds	4%	4.1%			▲ 0.5%
Cash		0.3% *			--
Risk Score: 10.0					
Show disclosures					

Diversified Portfolio					
YTD ANNUALIZED LIFETIME ?					
ASSET CLASS	TARGET	CURRENT		MARKET VALUE	RETURN
U.S. Stocks	35%	35.7%			▲ 49.5%
Foreign Stocks	22%	21.5%			▲ 30.0%
Emerging Markets	17%	17.0%			▲ 34.4%
Dividend Stocks	8%	8.1%			▲ 54.3%
Natural Resources	5%	4.7%			▼ -10.8%
Municipal Bonds	13%	12.8%			▲ 13.5%
Cash		0.2% *			--
Risk Score: 8.0					
Show disclosures					

# Sample of actual allocation



# Wealthfront : Product





# Wealthfront : Features

- Killer mobile products
- Auto-allocation + Rebalancing
- Auto-contribution / DCA
- Personal Investment, 401ks, IRAs, Roth IRAs, 529s, ...
- High-yield Savings, expansion to one-stop shop
- Borrowing / HELOCs / ...
- Tax-loss harvesting / Direct Indexing / Risk Parity
- Investment Planning and Simulation
- Spousal link
- Good advice baked in!
- Blogs and informational emails

# Some standout features

## Reminders in volatile markets

In these volatile markets it's good to remind ourselves of two timeless investment lessons that are especially invaluable:

First, index investing coupled with tax-loss harvesting remains superior to 90% of high priced investment managers with the promise they can beat the market.

Second, consistently putting new money in your account ensures that your purchases will be made at favorable prices during inevitable market ups and downs.

[Read more from Burt here →](#)

**The best investments you are likely to make are during periods when everyone is fearful.**

*Burt Malkiel, Chief Investment Officer*

Has your risk tolerance changed?

Changing your risk score may incur taxes as we trade into your new portfolio, so we only recommend updating your risk score when life events change your risk tolerance.

Adjusting for the market?

Not a good idea. Changing your risk score to attempt to time the market can reduce your long-term returns. [Why?](#)

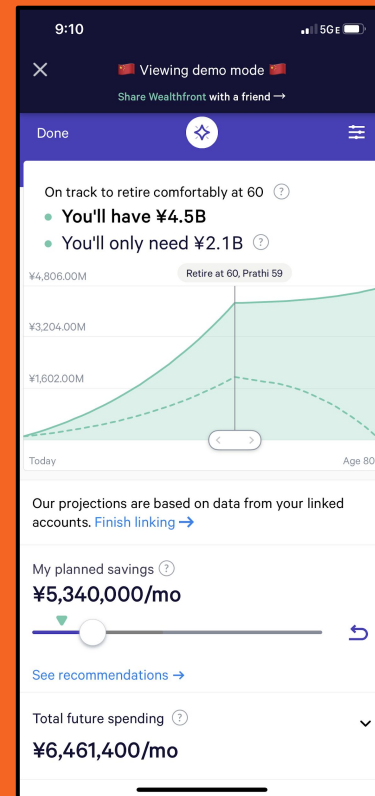
[Change my risk score](#)

[Cancel](#)

## Can I use Wealthfront to time the market?

Wealthfront is not designed for [market timing](#). If you try to time the markets by using existing Wealthfront features, you are likely going to be disappointed with the results. Wealthfront is designed to provide a long-term, low-cost diversified portfolio.

Wealthfront does not provide for market timing for good reason. Several empirical studies have tried to measure the cost of bad market timing decisions. They all agree that investors that try to time the market tend to do much worse than a buy-and-hold investor who avoided market timing altogether. A well-known [study](#) of the so-called “behavior gap” by Dalbar Associates estimates





# Downsides

- Over-the-top fees : ~0.25%
- Customer Service and Support
- Lack of Control
- Limited History
- Portability and Lock-in risk
  - ◆ Direct Indexing
- Known Failures!

# Prominent Failures

MARKETS

## Robo Adviser Wealthfront Cuts a Fee to Appease Angry Investors

Firm to halve risk-parity fund's expense ratio but will continue to automatically enroll certain clients in it

SEC clobbers Wealthfront on multiple alleged offenses; settles case with 'cease and desist' order, \$250,000 fine

The big charge relates to tax-loss harvesting but Tweeting testimonials also comes into play

December 21, 2018 — 11:58 AM by [Brooke Southall](#)



2 Comments

Wealthfront agreed to a \$250,000 penalty from the federal Securities and Exchange Commission (SEC) after the federal regulator alleged a series of violations, which it promised to cease and desist.

A separate SEC order found that New York City-based Hedgeable Inc., a robo adviser which had approximately \$81 million in client assets under management, made a series of misleading statements about its investment performance.

The robo-advisors have factors that can lead to a form of arrogance that leads to this sort of trouble, says Tim Welsh, president of Nexus Strategy.



Andy Rachleff wrote in his blog last year: 'The value of the tax-loss harvesting benefit at Wealthfront far exceeds the advisory fee in terms of the after-tax benefit.'

Wealthfront is again forced to disclose a bad mistake - testing how far the move-fast, break-things-then-apologize culture can go

The Redwood City robo issues erroneous 1099 data in 2017 that it just discovered. It happened around the time it dumped Apex.

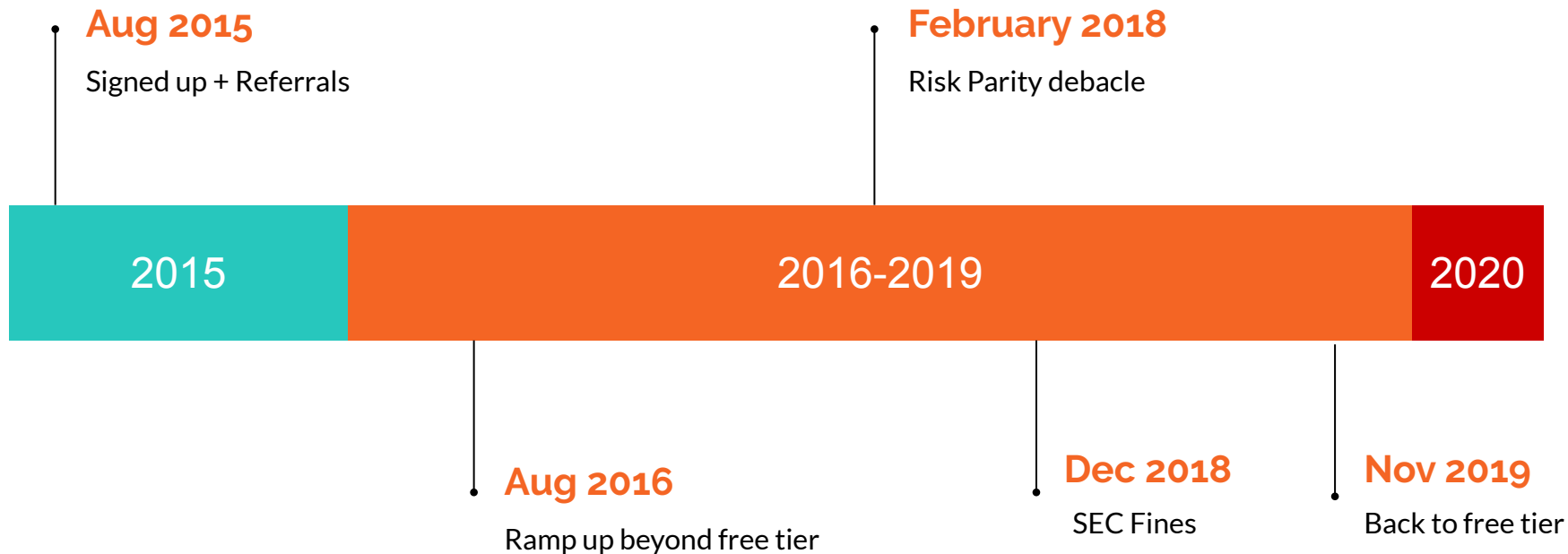
October 18, 2019 — 9:13 PM by [Oisin Breen](#)

No sooner does hedge fund take big Wealthfront stake than the robo pivots toward becoming one

Tiger Global brought \$75 million of cash in January but the New York hedge fund's baggage of higher fees, hard-to-grasp fees, PhD investing may have been quickly transferred, too

March 7, 2018 — 3:26 PM by [Lisa Shidler](#)

# Personal Journey





A close-up, shallow depth-of-field photograph of a person's hands. The hands are positioned over a wooden surface, and a small stack of copper-colored coins is being built. The person's face is partially visible in the background, looking down at the coins. The lighting is warm and soft.

# Who is this *IDEAL* for?

Those who are ***brand-new*** to or ***afraid*** of investing - get set up WITHOUT the advanced features.

If you want to remain apathetic and uninformed about investing, but yet want to stay in the market.



# Good luck!

I hope this talk helped you gain a better understanding of this space.

Feel free to reach out for questions and conversations on this or other investment related topics!

[rravisrinivas@gmail.com](mailto:rravisrinivas@gmail.com)

<https://rravi.dev>

