

Fintech-Case-Study-2019

Overview and Origin

Key facts

- ▶ Founded in 2008
- ▶ Founders
 - ▶ Andrew Rachleff – Chairman, CEO and
 - ▶ Daniel Carroll – CSO
- ▶ How did the idea for the company (or project) come about?
 - ▶ Andrew recognized that there is a need to democratize access to sophisticated investment products
 - ▶ Andy also found that even the best-managed endowments in the world relied on spreadsheets, outdated tools, and manual calculations. It turned out that even high-end investors needed an upgrade. He recognized that Software could make investing easier and better for more people.
 - ▶ Daniel realized that to most people didn't have access to good financial advice. So he started tinkering with a few solutions. He eventually built a prototype that got some traction, and even got the attention of a lecturer at Stanford.
 - ▶ That's when Andrew and Daniel met.



Wealthfront founders Andy Rachleff and Daniel Carroll.
Source: Wealthfront



Funding

- ▶ Total funding amount received to date: 204.5 million
- ▶ Total 6 Funding rounds to date
- ▶ First round in 2008 (Angel round), latest round was in January 2018 (Series E)
- ▶ Source:
<https://www.crunchbase.com/organization/wealthfront#section=funding-rounds>



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Business activities

Services / Competitive advantage / Technologies employed

► Services:

- Wealthfront is a privately owned investment manager, providing automated financial planning and banking services. Wealthfront invests in public equity, fixed income markets, mutual funds, and exchange traded funds. It also invests in real estate and natural resources.
- Wealthfront's Services comprise: Services: Free Financial Planning, Tax-loss Harvesting, Stock-Level Tax Loss Harvesting, Single Stock Diversification, Smart Beta, Risk Parity, Portfolio Line of Credit, Referral Program Rewards, Third-Party Account Support, College Savings Plan, Mobile App

► Competitive advantage:

- Through the software (technology), Wealthfront is able to offer a very low-cost alternative to classic financial advisory for individuals. It is characterized by:
 - Low or no minimum investment requirement
 - Low or no management fee
 - Immediate accessibility (via mobile app)

► Technology

- Front End: application server is a JRuby on Rails web server and our client-side application is built using React, Redux and D3; Automated testing infrastructure uses a variety of frameworks and libraries including Jest, Sinon, Chai, RSpec and Capybara
- Back End: Java or similar language (such as C++ or C#); Offline data stores (preferably Hadoop stack)
- Data Platform: SQL; Machine learning technologies (Spark, Tensorflow, AirFlow, SageMaker etc.



Mission

- Mission is to deliver sophisticated financial advice to everyone, through expert crafted software.

Customer profile

- People who have not access to good financial advice and want to save for certain events in their lives: Home buying, retirement, college, travel
- People, who don't need the personal contact to an advisor to make investment decision.
- Current typical customer base is aged < 45 years

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Landscape

Major Industry trends



Domain

- ▶ Major Trends over the last 5-10 years:
 - ▶ Increase in AuM: After suffering through the global recession of 2008-2009, the asset management industry has recovered and is growing. expected to reach \$101.7 trillion (by 2020, CAGR of ~6%); this market presents numerous opportunities for both incumbents and disruptors to grow and capture market share.
 - ▶ Downward pressure in advisory fees and increased reporting requirements
 - ▶ Aging population leading to more generational wealth transfer
 - ▶ Millennials, generation x and have different investing habits than previous generations
 - ▶ Trend from active investment strategies to more passive investment strategies (index funds, ETFs) as fewer active managers beat their benchmarks (therefore do not justify their fees)
- ▶ Competitors:
 - ▶ VanGuard
 - ▶ Betterment
 - ▶ Future Advisor / Black Rock
 - ▶ Ellevest
 - ▶ Acorns
 - ▶ Wealth Managers / Brokers who develop their own robo-advisors:
 - ▶ Charles Schwab
 - ▶ E-trade
 - ▶ UBS
 - ▶ Bank of America

- ▶ Robo-Advisor in Wealth Management, Investment Advisory (RIA), Wealth-Tech



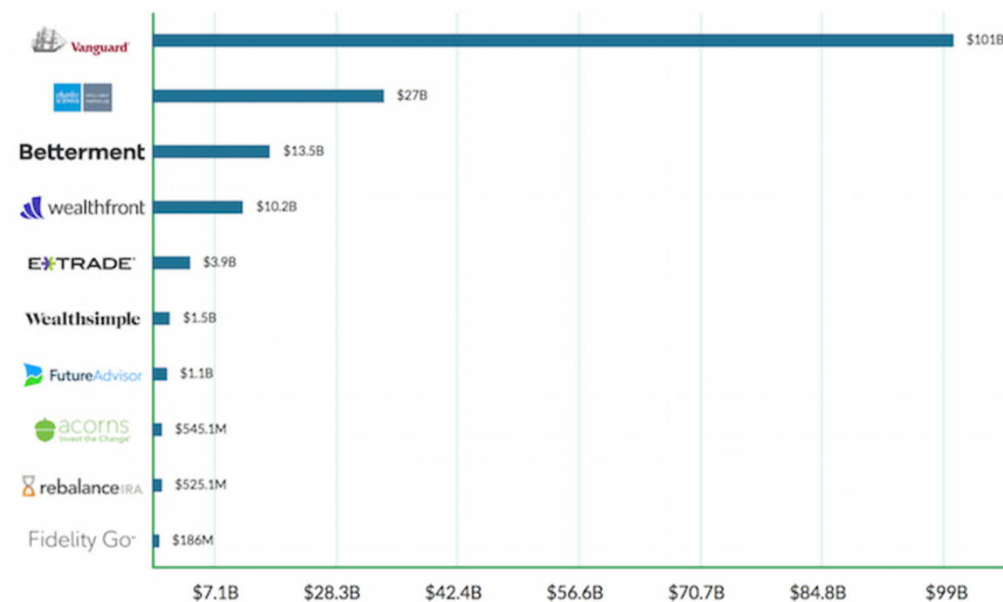
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Results

Core Metrics and ranking

- ▶ Assets under Management
- ▶ Across the pure robo-advisors, Wealthfront is at the top together with Betterment in terms of Assets under Management, however most assets in the US are still managed by banks and other asset managers

Largest Robo Advisors By Assets Under Management



Business impact

- ▶ Wealthfront manages \$13bn in assets
- ▶ It takes the work done by old-fashioned human financial advisers and uses algorithms to perform it instead
- ▶ Passive investing revolution
- ▶ Rather than pay a financial professional large amounts of money to pick securities for them, passive investors simply pay a very modest fee to buy a broad, predetermined, diversified basket of stocks.
- ▶ It's easier, it's much cheaper, and it almost always outperforms the active investors over the long term.

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Results

Core Metrics and ranking

- Number of accounts

Robo-Advisors With the Most AUM - 2019

Show entries

Search:

Robo-Advisor	Assets Under Management	Number of Accounts
1. Vanguard Personal Advisor Services	\$115 billion AUM	Not available
2. Schwab Intelligent Portfolios	\$37 billion AUM	300,000
3. Betterment	\$16 billion AUM	400,000
4. Wealthfront	\$11 billion AUM	250,000
5. Personal Capital	\$8.5 billion AUM	19,000 paid users (over 2 million using the free tools)



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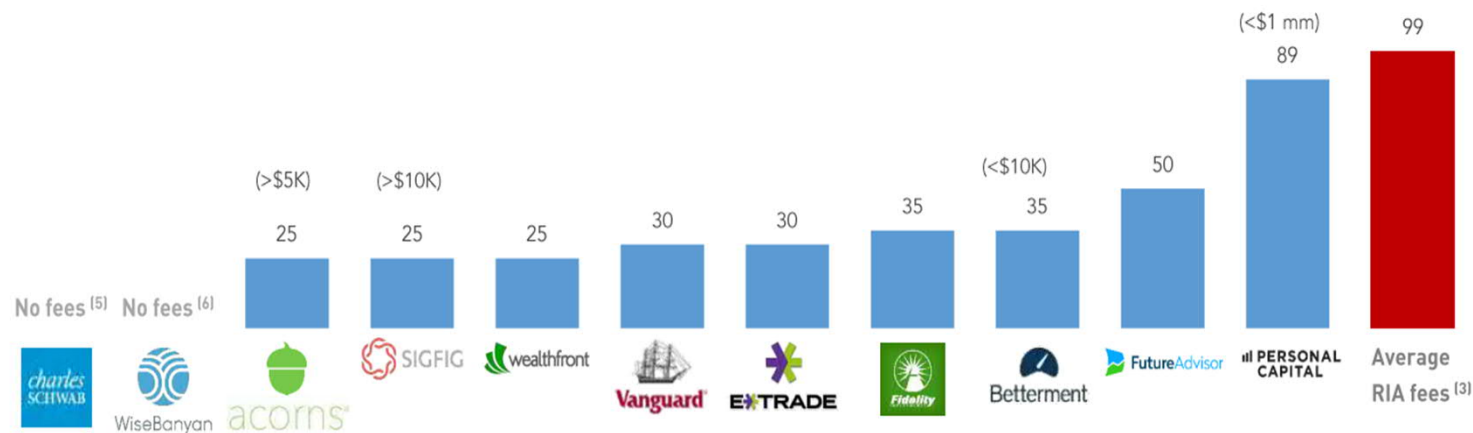
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► Management fees

Robo-advisor Fees (in bps) ^[2]



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Recommendations

Potential future product strategies

- ▶ If you were to advise the company, what products or services would you suggest they offer?
 - ▶ In order to drive business growth, Wealthfront should consider adding more products to their portfolio (lending etc.)
- ▶ Why do you think that offering this product or service would benefit the company?
 - ▶ Wealthfront's key customer base (<45 age) ages and their lives become more complex, which require more complex products (mortgage, private loans, credit cards, insurance etc.)
 - ▶ In the longer run it would help to retain customers (increase customer stickyness = valuable relationships)
- ▶ What technologies would this additional product or service utilize?
 - ▶ A lending platform would have to be created. Wealthfront can also collaborate with existing (alternative) lenders in this space (Sofi, Lendingtree, Laurel Road Bank)
- ▶ Why are these technologies appropriate for your solution?
 - ▶ Current lending platforms are easy to use and provide instant quotes as well as overnight approvals
 - ▶ Significant volume of loans can be originated in a very short period of time
 - ▶ There is appetite in the market for student loans which can be exploited
 - ▶ Wealthfront could sell the originated loans and only retain management and servicing of the loans



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Sources



- ▶ <https://www.wealthfront.com/>
- ▶ <https://riabiz.com/a/2019/4/26/wealthfront-adds-staggering-1-billion-to-its-robo-bank-in-less-than-a-month-but-critics-say-its-treading-the-line-again-on-possible-conflicts-of-interest>
- ▶ <https://www.wired.com/story/beware-roboadvisors-wealthfront-betterment/>
- ▶ <https://www.nerdwallet.com/best/investing/robo-advisors>
- ▶ <https://www.financialsamurai.com/largest-robo-advisors-by-assets-under-management-aum/>
- ▶ <https://www.roboadvisorpros.com/robo-advisors-with-most-aum-assets-under-management/>
- ▶ <https://www.ftpartners.com/wealth-technology-report>

