

# Lesson 8: Robo-Advisors and Digital Wealth

## Module 1: FinTech Fundamentals

Digital Finance

# Robo-Advisor Definition

## Automated Wealth Management

- Algorithm-driven allocation
- Low minimum investment
- Passive ETF strategies
- Tax optimization

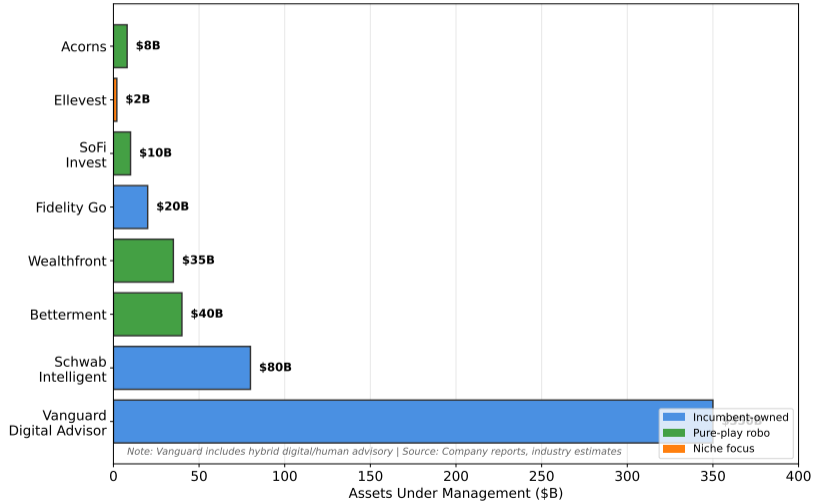
## Robo-Advisor vs Traditional Advisor

Traditional Advisor		Robo-Advisor	
<b>Fees:</b>	1-2% AUM + commissions	<b>Fees:</b>	0.25-0.50% AUM
<b>Minimum:</b>	100K – 1M+	<b>Minimum:</b>	0 – 500
<b>Service:</b>	Human relationship	<b>Service:</b>	Algorithm-driven
<b>Planning:</b>	Holistic financial plan	<b>Planning:</b>	Goal-based portfolios
<b>Access:</b>	Office hours, calls	<b>Access:</b>	24/7 app/web

**Key Insight:** Robos democratize investing | Traditional advisors offer personalized guidance

US Robo-Advisory AUM: \$1.4T (2024)  
Projected: \$2.5T by 2028  
Source: Statista, Deloitte

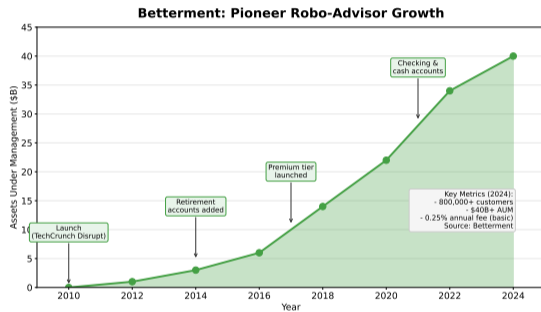
## Robo-Advisor Market Leaders (2024)



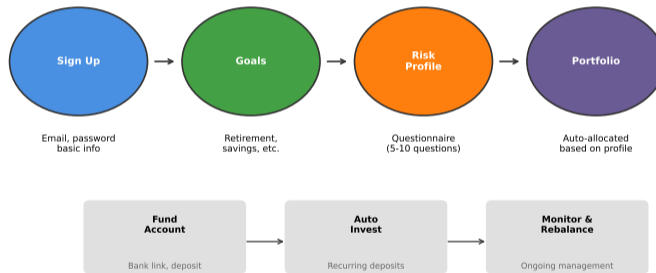
# Betterment Case Study

## First Robo-Advisor

- Founded: 2008
- \$40B AUM (2023)
- 800,000+ customers
- 0.25% annual fee



## Robo-Advisor Onboarding Flow



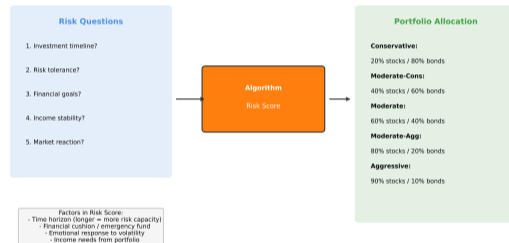
**Typical onboarding: 5-10 minutes | Account funded in 1-3 days**

[CONCEPTUAL FLOW]

## Questionnaire Inputs

- Time horizon
- Risk tolerance
- Financial goals
- Liquidity needs

## Risk Profiling: From Questions to Portfolio

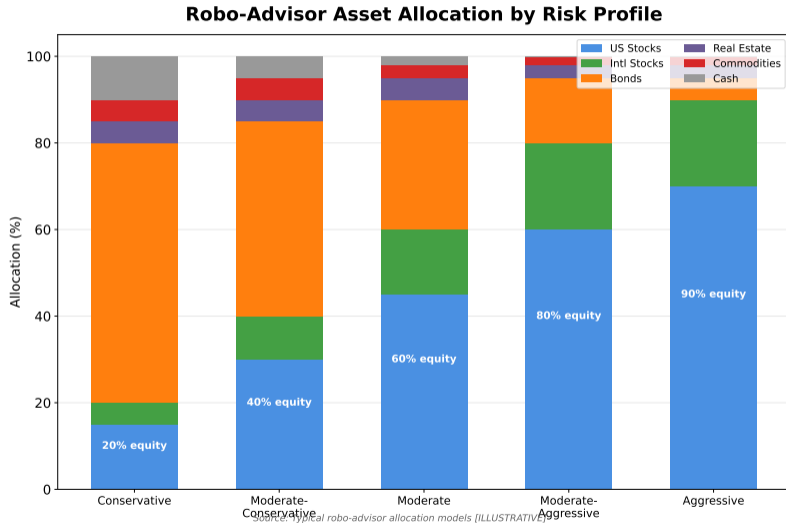


[CONCEPTUAL PROCESS]

## Modern Portfolio Theory

- Mean-variance optimization
- Efficient frontier
- ETF-only implementation
- Global diversification



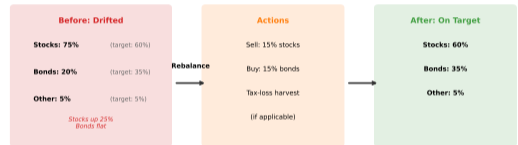


# Automatic Rebalancing

## Drift Management

- Threshold: 5% deviation
- Calendar-based triggers
- Tax-aware trading
- Transaction cost minimization

## Automatic Portfolio Rebalancing



Rebalancing Triggers:  
- Drift threshold (e.g., 5% deviation)  
- Calendar-based (quarterly/annual)  
- Cash flow events (deposits)  
- Tax-loss harvesting opportunities

[CONCEPTUAL EXAMPLE]

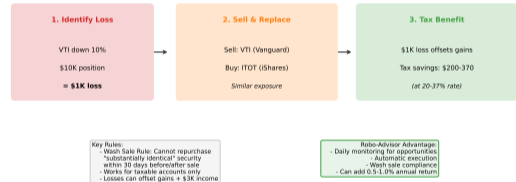
# Tax-Loss Harvesting

## Automated Tax Optimization

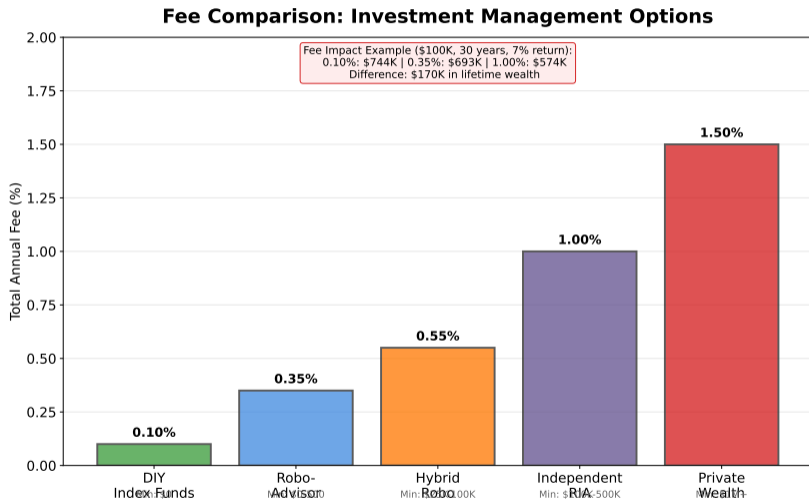
- Sell losing positions
- Buy similar ETF (avoid wash sale)
- **\$3,000** annual deduction
- 0.77% alpha (Betterment)

## Tax-Loss Harvesting

Automated Tax Optimization Strategy



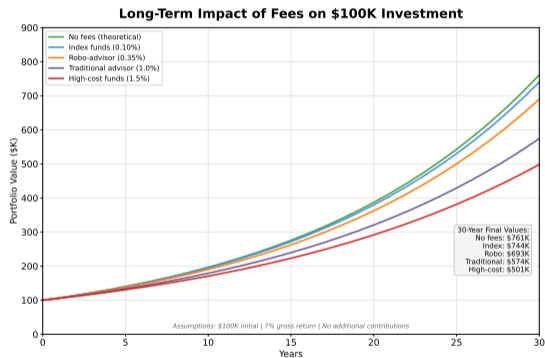
Source: IRS Publication 550, industry estimates



# Fee Impact Over Time

## 30-Year Projection

- Portfolio: **\$100,000** initial
- Return: 7% annually
- Robo (0.25%): **\$652,000**
- Advisor (1%): **\$574,000**



## Unit Economics

- CAC: \$150-300
- AUM per customer: \$50,000
- Revenue: \$125/year (0.25%)
- Breakeven: 2-3 years

## Robo-Advisor Unit Economics

(Per \$100K AUM Account)

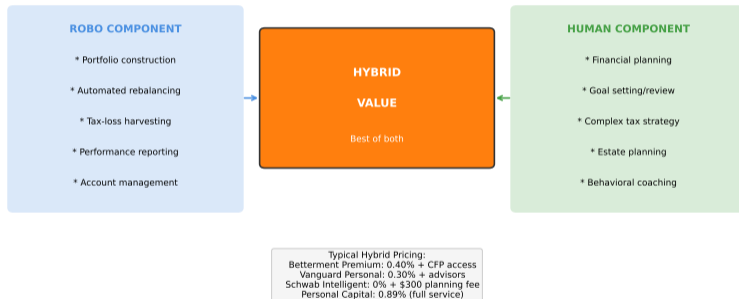
REVENUE	COSTS	PROFITABILITY
Management fee (0.25%) \$250/year	Customer acquisition \$150-300	Year 1: Break-even to loss
Premium tier (if) +\$100-200	Tech infrastructure \$30-50	Year 2: Marginally profitable
Cash sweep interest +\$50-100	Compliance/regulatory \$20-30	Year 3+: \$150-250/year profit
Total: \$300-450/year	Customer support \$20-40 Year 1: \$220-420	LTV:CAC: 3-5x (target)

Key insight: Profitability requires scale (\$50B+ AUM) and customer retention (5+ years)  
Average account size matters: \$5Kaccount = unprofitable | 100K+ = profitable

Source: Industry analysis (ILLUSTRATIVE)

## Hybrid Advisory Model

*Combining Robo Efficiency with Human Expertise*



*Source: Company pricing pages (2024)*

## Hybrid Success

- 0.30% fee tier
- Human advisor access
- **\$250B** AUM (largest)
- **\$50,000** minimum

## Vanguard: Largest Hybrid Robo-Advisor

Digital Advisor	Personal Advisor	Wealth Management
Min: \$3,000	Min: \$50,000	Min: \$5M+
<b>Fee: 0.20%</b>	<b>Fee: 0.30%</b>	<b>Fee: 0.30%</b>
* All-digital	* CFP-access	* Dedicated team
* Automated investing	* Video meetings	* Tax/estate planning
* Goal tracking	* Full planning	* Alternative investments

Vanguard Advisory (2024):  
- \$350B+ AUM (largest robo-hybrid)  
- 2M+ clients  
- 89% revenue from advisory fees  
- Market leader in low-cost advisory

Source: Vanguard 2024 annual report, company website

## Traditional Firms Enter

- Schwab Intelligent Portfolios
- Fidelity Go
- Morgan Stanley Access Investing
- Fee pressure on advisors

## Traditional Firms: Robo-Advisory Products

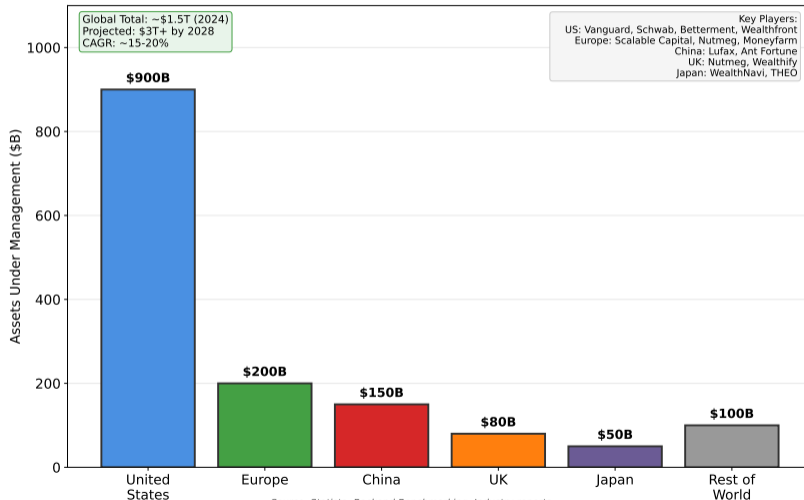
Vanguard Digital	Schwab Intelligent	Fidelity Go	Merrill Edge
Fee: 0.20%	Fee: 0%*	Fee: 0%**	Fee: 0.45%
Min: \$3K	Min: \$5K	Min: \$0	Min: \$1K
AUM: \$350B+	AUM: \$80B+	AUM: \$20B+	AUM: \$10B+

\* Schwab: No advisory fee, but holds cash allocation (earns interest spread)  
\*\* Fidelity: Free under \$25K, then 0.35%

Incumbent Advantage: Existing customer base, brand trust, cross-sell opportunities  
Challenge: Legacy systems, advisor channel conflict, lower margins

Source: Company websites, SEC filings (2024)

## Global Robo-Advisory Market by Region (2024)



# Challenges and Limitations

## Current Issues

- Behavioral coaching gap
- Complex planning needs
- Low profitability margins
- Commoditization pressure

## Robo-Advisor Industry Challenges

### Unit Economics

- \* Low fees = thin margins
- \* High CAC (\$150-300)
- \* Small accounts unprofitable

### Market Volatility

- \* Client panic in downturns
- \* Algorithm trust tested
- \* Behavioral coaching gap

### Competition

- \* Incumbents copying
- \* Race to zero fees
- \* Feature commoditization

### Differentiation

- \* Similar portfolios
- \* Limited personalization
- \* Generic experience

### Regulation

- \* Regulatory requirements
- \* Algorithm audits
- \* Cross-border complexity

### Customer Retention

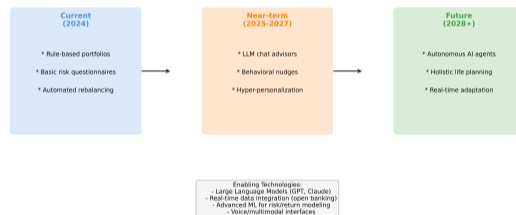
- \* Easy to switch
- \* Low engagement
- \* Churn in bull markets

[INDUSTRY ANALYSIS]

## Next Generation

- ChatGPT financial planning
- Real-time sentiment analysis
- Behavioral nudges
- Holistic financial wellness

## Future of AI-Powered Advisory



[FORWARD-LOOKING ANALYSIS]

- **Fees:** 0.25% vs 1% saves \$78K over 30 years
- **Strategy:** Passive ETF allocation + rebalancing + tax optimization
- **Market:** \$2.5T AUM globally, dominated by incumbents
- **Evolution:** Pure robo → hybrid models winning
- **Future:** AI personalization and behavioral coaching