

Lesson 8: Robo-Advisors and Digital Wealth

Module 1: FinTech Fundamentals

Digital Finance

Automated Wealth Management

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

`figures/robo_vs_traditional.pdf`

figures/robo_market_leaders.pdf

First Robo-Advisor

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

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Customer Onboarding Flow

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Questionnaire Inputs

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

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Modern Portfolio Theory

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

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Asset Allocation Examples

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Drift Management

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

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Automated Tax Optimization

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

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30-Year Projection

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

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Unit Economics

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

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Hybrid Success

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

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Traditional Firms Enter

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

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Current Issues

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

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Next Generation

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

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Key Takeaways

- **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