# Wealthsimple Technologies Inc.

# Overview

Wealthsimple is a Toronto FinTech startup that offers multiple financial tools that include, robo-advising, automatic investing, tax return filing, commission-free stock trading, and personal banking accounts (depending on Country). According to the Federal Canadian Corporation Registries, Wealthsimple Technologies Inc. was incorporated as of December 29th 2016 (Canada, n.d.). The company was founded in Toronto on September 2014 by Michael Katchen (Casey, 2015); co-founders include Rudy Adler (Adler, 2020) and Brett Huneycutt (Honeycutt, 2020).

Wealthsimple originated as a favor to a colleague. Katchen was working at a Silicon Valley startup in 2012; the company was later sold to Ancestory.com. His colleagues from the startup acquired a portion of capital from the sale of the company and they wanted Katchen to set up a financial portfolio for them to invest the capital. They liked his work and their feedback was a request for Katchen to invest and manage the account; they were Wealthsimpes first clients (Barzilary, 2017).

# Funding

## 2014

In an interview with Katchen, he revealed that the company’s initial source of funding was for $1.9 million in the summer of 2014 (Chevreau, 2015). Some of those investors included Joe Canavan, Eric Kirzner, and Roger Martin; all whom are actively involved in business investing.

## 2015

Power Financial Corporation announces their investment in robotic advising. They invest $30 million into Wealthsimple to expand their demographics of wealth management (Pett, 2015). Wealthsimple now holds about 10,000 clients and collectively has $400 million of Assets Under Management (AUA) (Chevreau, 2015).

## 2017

According to Forbes, Wealthsimple has raised $37m of investment capital from the Power Financial Corporation group of companies. This has now brought Power Financial Corporations’ investment in Wealthsimple up to $74 million (Barzilay, 2017). Another major milestone for Wealthsimple during 2017 includes reaching $1 billion CAD under management. (Wealthsimple, n.d.)

## 2019

Currently, the company is privately held with the goal of an IPO (Initial Public Offering) once the company reaches their target of $20 billion in AUA. Recently they have announced $4.3 billion in AUA (Kirkwood, 2019).

Lead by Allianz X – the digital investment division of German Asset Manager Allianz Group – Wealthsimple successfully raised $100 million to build a fully stacked financial service. This round also included a 30 million additional financing from Power Corp and its subsidiaries. (Soltys, 2019)

According to Bloomberg, Wealthsimples’ total market value of the company’s financial assets collectively sums up to CAD $5 Billion as of August 15th 2019 (Alexander, 2019).

## Business Activities

The financial service industry has historically been a interpreted as an aggressive industry that may be too complicated for the average person but seductive to large organizations. This has created a gap of inequality of priority. Bankers prioritize large organizations because they profit more off them than they would by the average person. The average person may receive subpar advice, pay more than they realize in fees, and not be valued by the organizations that are profiting off them. This is a problem for the younger generations that value relationship building, trust, and sustainable business practice.

Wealthsimples’ goal is to bridge the gap between millennials and investing. This is for the individuals who may not have the education, experience, confidence, or time to be able to analyze investments on their own. They have relatively low-cost investments, transactions and accounts, discount brokerage service, tax submission service and commission-free stock trading (specific to Canada). The company focuses on building relationships with customers and helping them achieve wealth with little to no effort. In an interview Katchen states that: “…we have 150,000 clients now that are mostly young professionals that banks are really bad at servicing. So, we’re acquiring this entire generation of clients that are proving they want more and more of a relationship with us as we launch new services.” (Soltys, 2019)

## Target Market

Wealthsimples’ platform is directly targeted at millennials. According to the 2016 Canadian Millennial Social Values study conducted by Environics Institute, Millennials strongly value making an important and meaningful contribution to society. This study also shows that one in four Millennials are actively involved in a cause or issue primarily related to social justice, the environment, politics or health care (The Environics Institute , 2017).

According to StatsCan, Millennials are now the largest generation of Canadians; they represent 27% of the total population. In terms of net worth, millennials are stated to be more fortunate than their younger generations of Gen-X (Andrew Heisz, 2019). Not only do these values and statistics reflect Canadian Millennials, it is also a common trend throughout the US and the UK (United States Census Bureau, 2015). Wealthsimple has already launched their expansion into the United states as well as the United Kingdom.

## Solutions

Wealthsimples’ value proposition is their level of customer service, low-fee investing and, their simplistic graphical user interface (GUI). Wealthsimples’ customer service strategy is similar to a sales strategy where the focus is on building relationships with their clients and conversations are approached in a human way instead of a technical way. This offers Wealthsimple a strong advantage over other banks because more young people will be attracted to companies that share their same values. This approach is executed with the acknowledgement that most clients are coming from non-financial backgrounds; the company prides themselves with keeping their strategies simple.

Robo-advisors and wealth management services can be intimidating to novice investors as well as too technical for the average person. There is a significant amount of financial advice online that can overwhelm and misinform the average investor on what is the best investment for that specific person with their specific level of risk tolerance. Wealthsimple markets themselves in a non-technical human approach; instead of explaining interest’s rates relative to inflation, they humanize stories about money and how it interacts with that specific person’s world. This approach has allowed Wealthsimple to connect with individuals on a personal level. You’re now able to connect with individuals who may have otherwise not been thinking about investing because of how “complex” it may seem to an someone who doesn’t have any financial background/education.

Furthermore, they also possess a crucial advantage over most other startups. Wealthsimple is primarily owned by Power Corp and its subsidiaries. In an interview, Katchen states that, Wealthsimples’ unique relationships with Power Corp is one of the major contributing factors to as how and why Wealthsimple has been able to acquire a significant Canadian market share of robo-advising. With Power Corps capital, Wealthsimple has the opportunity to compete against large corporate players that small startups would otherwise likely not stand a chance simply due to limited funding (Soltys, 2019).

This strategic partnership with Power Corp has given Wealthsimple a significant opportunity for rapid growth across different target and geographical markets. They have the experience in developing some of the largest financial brands in the world. Since they have the experience they also have the credentials to offer guidance and mentorship (Barzilay, 2017).Wealthsimple was built by millennials for millennials; whereas, Power Corp has been around for a while and focuses on a different generation. Because Wealthsimple has been able to operate independently with capital from Power Corp, they have been able to capture their target market with the guidance of a different generational perspective.

## Technologies

One of the many technologies that Wealthsimple uses is React Native. React Native is a platform for mobile development that utilizes a sophisticated User Interface (UI) and User Experience (UX) while also being compatible with both IOS and Android. One of the key features that makes Wealthsimple so attractive to millennials is their easy to use mobile app. On this app you can trade stocks, manage accounts, and send EMTs; all in a user-friendly way.

Frequent development releases is a crucial component to a technology company. Being able to regularly address customer feedback, fixing issues, and improving the product is the basis to building consumer trust. React Native allows Wealthsimple to increase their development speed by allowing them to simultaneously releases new features on both IOS and Android. This also allows the company to reduce their overhead costs related to sprint planning and quality assurance (Wealthsimple, 2018).

## Landscape

Wealthsimple started with providing services within the robo-advising and now has expanded past those services; overall, they are within the wealth management domain. This includes automatic investing, chequing and savings account with card transactions, stock trading and filing online tax returns; these services are specific to Canada and may vary depending on Country.

The past major trends and innovations within this domain over the past 5 - 10 years include but isn’t limited to; portfolio proposals, dedicated fund management, algorithmic based adjustments, to fully automatized investments (The Expansion of Robo-Advisory in Wealth Management, 2016). Figure 1 shows an example timeline of robo-advisory evolution.

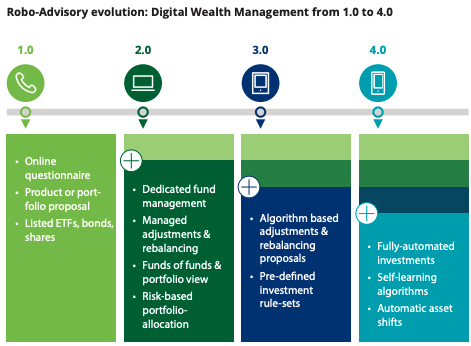


Figure - Robo Advisory Evolution Sourced from Deloitte

Below is Figure 2 that represents Assets under Management in the Canadian Robo-Advisors segment; this segment amounts to CAD$11,470m in 2020 (Statista, 2020). According to this forecast the future of robo advising is expected to increase in popularity.

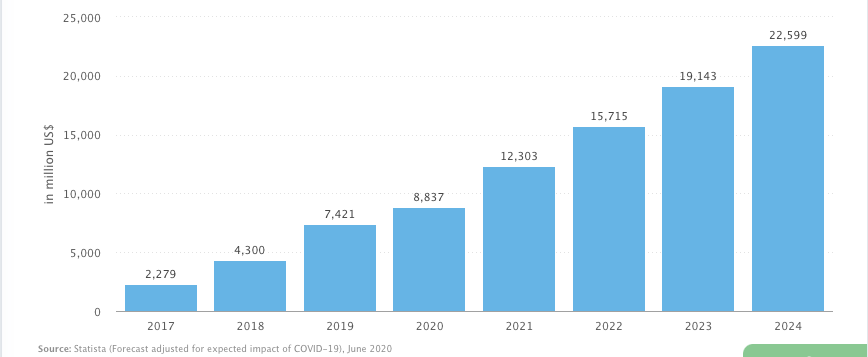


Figure – Canadian Assets under Management in the Robo-Advisors segment; Sourced from Statista

Other companies within this domain include but isn’t limited to: Questwealth Portfolios, Just Wealth, Wealth Bar, BMO SmartFolio, Modern Advisor, RBC InvestEase, Responsive Capital Management, Smart Money Capital, and Invisor (Best Robo-advisors in Canada 2020, 2019).

## Results

Wealthsimple has successfully acquired 70% market share of digital financing for millennials (in Canada). The strategy they took to attract millennials would include acknowledging that their target market wants to support small, local, and socially responsible businesses. Wealthsimple allows their client to search and invest in socially responsible companies. Wealthsimples’ values show within their work for their clients – a “feel good” approach to financial investing (Iskowitz, 2019).

The bottom line in comparing core metrics of robo advisors comes down to annual performance; however, robo-advising is not the only service that Wealthsimple offers which can make comparing brands slightly challenging. Some performance metrics that Wealthsimple uses internally for portfolio performance include: Simple (Naïve) Return, Time-Weighted Return and Money-Weighted Return. The portfolios that include these Key Performance Indicators (KPIs) include: Halal Conservative, Halal Balanced and Halal Growth Portfolios along with the standard Conservative, Balanced and Growth Portfolios. These portfolio annual returns range from 7.2% - 18.4% for the Halal portfolios during period 2017 - 2020, and 24.4% - 38.7% for the standard portfolios during 2014 – 2020 (Wealthsimple, 2020). All companies diversify their portfolios differently and would adjust each portfolio to reflect a client’s risk tolerance thus creating difficulty to compare investment companies with the data that is readily available.

## Recommendations

Based on a study conducted on the quantitative methods inside on Robo Advisors, my recommendation would be to continue to improve and augment their algorithms instead of developing brand new systems. This study suggests that “companies that use more sophisticated methods attract higher overall Assets under Management volumes” (Mikhail Beketov, 2018).

Additionally, since Wealthsimple is already aiming to become a full stacked financial service I would also suggest that they consider exploring algorithmic trading in the foreign exchange market. Wealthsimple could potentially benefit from adopting this service because the opportunity for client profits increases substantially solely because the foreign exchange market is substantially larger than the stock market. The foreign exchange market is estimated to trade around $5 trillion a day whereas if you combined every global stock market it would average out to roughly $200 billion per day (Venketas, 2019). Although this type of investing may attract a different crowd of investors, it would still fit within their goals of becoming a full stacked financial service.

If Wealthsimple were to expand into this service, they would need to develop and adopt a sophisticated algorithmic trading robot. This technology would be appropriate as it would be consistent with the type of business structure they have. If they were to use human personal instead of a robot, they must consider the possibility of inconsistency and human error. Although expanding into this market could possess new challenges, it would also bring the opportunity to attract a greater market share of investors.

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