**The Robo-Advisor for Millennials**

**Origin and Overview**

Wealthsimple is a fintech company that specializes investment management. The firm was founded in 2014 by Michael Katchen in Toronto, Canada. Before founding Wealthsimple, Michael Katchen worked for a start-up company called 1000memories, which was an online business for organizing old photos and memories. 1000memories was eventually acquired by Acenstry.com. Before that, Katchen was a consultant in finance and technology at McKinsey & Company.

Katchen was investing as a teenager and had already developed a financial understanding at an early age. He always wanted to be an entrepreneur too. As soon Katchen graduated from university, he joined a start-up company. There, he realized how much potential there was in technology. After the acquisition of the company, he started Wealthsimple. The idea behind Wealthsimple is to provide financial freedom, especially to millennials, by providing services using technology. The services would compete with larger investment management firms, at a much lower cost. It also provides services such as dividend reinvesting and tax-loss harvesting that would only be available to high net-worth individuals. These services are time-consuming and tedious if they were done on their own.

The company raises funds by equity issuing through venture capitals and angel investors. The first investment came from 15 investors in Toronto at about $2 million. One year later, Wealthsimple received $30 million from Power Financial Corporation in a Series A Funding. In 2019, they raised $100 million led by Allianz Group.

In just six years of operations, Wealthsimple has now become one of the fastest growing fintech companies in North America, with $5 billion in AUM with 175,000 clients.

**Business Activities**

Most millennials do not have the required funds to go to a traditional investment bank. Thus, Wealthsimple provides everyone a way to invest and trade at a much lower rate by using algorithmic-based programs. Since Wealthsimple is a technology-based company that uses algorithm to automate trade, they can charge at a much lower rate because no human capital is required. The average investment management fee is around 2%, Wealthsimple charges only 0.4% to 0.5%. Also, many services including trading, dividend reinvesting, tax loss harvesting, and automatic rebalancing are free. The minimal amount to open an account is $0. Wealthsimple also provides financial advisers to help younger people achieve their financial goals.

Wealthsimple’s goal is to acquire this entire generation as clients and build a long relationship with them. This includes anybody who are just starting their careers and are looking to save money. Over time, Wealthsimple see themselves as the new traditional bank as millennials grow older. Many traditional banks are very bad at servicing young people because most of them do not have enough money.

Wealthsimple’s competitive advantage is that they are the pioneers to the robo-advising market. Thus, they are already ahead of the rest of the market. Another advantage that it has is that it provides services outside Canada, such as US and United Kingdom. This could result in greater international market share. A major competitor is a US-based company called Betterment. They only provide services in the US.

Comparing the Wealthsimple to other traditional banks, Wealthsimple provides superior competitive advantage. With minimal human capital required, they are able charge far lower fees. Wealthsimple also provides services for free that traditional banks charge a fee on, such as trading. Thus, low net-worth individuals would be more attracted to robo-advisors than traditional banks.

The process of using Wealthsimple would be to first provide your personal information. Then, you would fill out a questionnaire which includes risk tolerance, financial goals, time horizon, past investment experiences, and investment knowledge. After that, the computer would use an algorithm-based program to generate a portfolio of ETF’s and other securities. The technology used to generate portfolios with questionnaires is using algorithm and coding. Wealthsimple uses JaVascript, ES6, and Java to write code. To store code, they use React and GitHub and many other programs.

Mobile apps are very important to Wealthsimple because most customers access the service through their mobiles. In 2016, Wealthsimple started to use React Native into the existing app. Cross-platform code reuse, hot reloading, and CodePush have the potential to increase the speed at which new features and bug fixes can sent out to the users.

**Landscape**

Wealthsimple’s main domain is a combination of both investment management and robo-advising. One of the major trends in robo-advising is the development of mobile apps. Most millennials and small investors use mobile apps to check their portfolios and access to other information. Mobile apps are more convenient to use. As cellphones become faster and more powerful, more people will turn to mobiles to do their banking.

Another trend is the targeting of smaller investors. Because robo-advisors charge very little fees, in order to make revenue, they need to attract a large number of small accounts. Investment management robo-advisors are mainly into investing in ETF’s. ETF’s are electronically traded funds and they are very cheap to invest.

Another trend would be to use automation in their program. For example, if the client does not want their portfolio to go lower than a certain amount, then the program would automatically sell the securities that are making the most loss. This also reduces the need for human capital because everything is automated.

Other major companies in this domain are Betterment, Wealth Front, Interactive Advisors, M1 Finance, and Personal Capital. There also traditional banks, such as CIBC, JP Morgan Chase that are developing their own robo-advisor.

**Results**

Since the market of this domain is relatively new, the growth of the companies operating in this domain has been rapid. Wealthsimple has now $5 billion in AUM, and they are projecting to have $8 billion in the next couple of years. They are creating a new market for younger generations who have smaller accounts that they want to invest.

One of the popular metrics that is used to determine the success of a relatively new company is their growth rate. Wealthsimple’s growth has been extremely fast. By the end of 2015, they had 10,000 clients. By February 2018, they had 65,000 clients. And by August 2019, they have 175,000 clients.

Wealthsimple’s AUM has also significantly grown over the past 6 years. In 2015 their AUM was $400 million. In February 2018, their AUM was $1.9 billion. Currently their AUM is now at $5 billion. By using growth rate as a metric, it is safe to say that Wealthsimple has been very successful.

In terms of competition in Canada, Wealthsimple is the biggest robo-advisor. However, in the US, there are several companies that are larger in terms of AUM, such as Betterment, Wealth Front, Personal Capital. However, these companies started several years before Wealthsimple.

**Recommendation**

Wealthsimple could provide other services such as UTMA and UGMA custodial accounts. These accounts allow minors to receive money when they are older. This is very much used for low net-worth individuals who have children because most of these individuals are planning their children’s finances far ahead of time. Thus, they could acquire more clients from other robo-advisors who do not have UTMA and UGMA.

Another suggestion would be to use other financial instruments to invest, such as individual stocks, bonds, indices, etc. Investors, especially experienced ones, prefer to have a wide range of asset classes to invest in. Investing simply in ETF’s restricts the company from growing.

The issue with robo-advising is that they cannot provide the services that a human advisor can make. Human advisors not only manage portfolios but provides discussions about concerns and everything related to your portfolio. Robo-advisors typically provide information about the technology not the portfolio. Thus, most robo-advisors have human financial advisors, which are expensive. As AI software become more advanced, robo-advising will become a more serviceable bank, even competing with traditional banks.

**Citation**

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