

Fintech Unit 1 Homework Submission

by **Marshall Wolfe** on 04/25/2020

Overview and Origin



<https://www.acorns.com>

- Acorns is a private company, incorporated in 2012, headquartered in Irvine, California.
- The company was cofounded by father and son team Walter and Jeff Cruttenden.
- Walter encouraged his son Jeff to begin investing at age 11. The idea for Acorns came about when Jeff got to college. "By the time I got to college, I was surprised at how many of my peers had interest in investing but couldn't overcome the barriers in their way, such as high minimum balance requirements and fees," Jeff said. "From that point on, my father and I sought to simplify investing and create a more realistic approach for young people to get started."^[1]
- Officially launched on August 26, 2014 with an iOS and Android app that allows customers to invest their "spare change" from linked credit and debit card purchases by rounding receipts up to the nearest dollar and investing the amounts according to demonstrated risk tolerance. Acorns was the "original round-up app."^[2]
- Portfolio options were designed in partnership with paid advisor Harry Markowitz, Nobel laureate, founder of Modern Portfolio Theory, and member of the board of advisors.^[3]
- Shlomo Benartzi joined as Chair of Behavioral Economics Committee in 2018 to launch "Money Lab." His first experiment at Acorns asked customers "would they like to save \$5 every day, \$35 a week or \$150 a month?" Only 7 percent preferred to save \$150 a month while nearly 30 percent chose to save \$5 a day.^[4]
- Richard Thaler, Nobel Memorial Prize recipient in Economic Sciences for contributions to behavioral economics, also sits on the board of advisors.^[5]
- According to Crunchbase, Acorns has had 12 funding rounds, raising hundreds of millions of dollars from high profile backers including Jennifer Lopez, Alex Rodriguez, Bono, Ashton Kutcher, and Kevin Durant. PayPal, BlackRock, and NBCUniversal also have a stake in the company.^[6]

- Acorns now partners with CNBC to "make more information on investing and finance available to a broader audience through Acorns' Grow website"^[6:1] (<https://grow.acorns.com>).

Business Activities

"Our mission is to look after the financial best interests of the up-and-coming, beginning with the empowering step of micro-investing."^[7]

- The founders sought to promote incremental and passive investing by simplifying the process and creating a more realistic approach for young people to get started in investing, eliminating barriers to adoption. Jeff Cruttenden said, "While investing small amounts regularly may seem insignificant, it's proven to add up over time." With *little* impact, you have the seeds to grow something that could have a *big* impact.^[1:1]
- The target customer is "every American with a household income under \$100,000" according to CEO Noah Kerner.^[8]
- In 2018 nearly 70% of American households earned less than \$100,000 according to Statista.^[9]
- Solutions offered:
 - **Acorns Invest** (\$1 per month, core investment service for first-time users)
 - Account can be set up in less than 5 minutes
 - 7 asset classes offered:
 - Government Bonds (iShares 1-3 Year Treasury Bond ETF)
 - Corporate Bonds (iShares iBoxx Investment Grade Corporate Bond ETF)
 - Large Company Stocks (Vanguard 500 ETF)
 - Small Company Stocks (Vanguard Small-Cap ETF)
 - Emerging Market Stocks (Vanguard Emerging Markets Stock ETF)
 - Real Estate Stocks (Vanguard REIT ETF)
 - International Large Company Stocks (Vanguard FTSE Developed Markets ETF)
 - **Acorns Later** (\$2 per month, adds retirement savings to core investment services)
 - A questionnaire identifies lifestyle and goals
 - 3 types of IRAs available:
 - SEP IRA
 - Traditional IRA
 - Roth IRA
 - Automatic rebalancing to become more conservative closer to retirement
 - Recognizes external 401(k) and IRA accounts and offers to roll those over
 - **Acorns Spend** (\$3 per month, adds all-digital checking account to core investment and retirement services)
 - No overdraft fees

- No minimum balance fees
- Unlimited free or fee-reimbursed ATMs nationwide
- FDIC insured up to \$250,000
- Includes fraud protection and digital card lock with excellent human customer support team
- Stackshare shows Acorns to be using the following technologies^[10]:
 - **Application & Data:** JavaScript, Bootstrap, React, PostgreSQL, Amazon EC2, Amazon S3, Redis, Ruby, Amazon CloudFront, Android SDK, Rails, Swift, Scala, Kotlin, Apache Spark, D3.js, Polymer
 - **Utilities:** Google Analytics, Mailgun, Optimizely, Segment
 - **DevOps:** GitHub, Docker, New Relic, Sublime Text, Vim, Travis CI, Amazon EC2 Container Service, Grafana, Amazon CloudWatch
 - **Business Tools:** G Suite

Landscape

- Acorns occupies the Robo-Advising/Micro-Investing FinTech domain.
- The major trend and innovation over the last 5-10 years is the addition of human advice to previously all-digital offerings^[11] with "hybrid-robo-advice" allowing investment managers to utilize digital services for portfolio-rebalancing or asset allocation to optimize their quality of advisory services at shorter time.^[12]
- Competitors include Betterment, Wealthfront, Ellevest, SoFi Invest, Charles Schwab Intelligent Portfolios, Stash, and Robinhood.

Results

- So far, Acorns has achieved:
 - over \$1.2 billion in assets under management^[3:1]
 - over 6.8 million users^[6:2] (with the stated goal to grow the user base to 100 million customers)^[6:3]
 - 1 million users with IRAs through the platform^[6:4]
 - more than \$1 billion invested by users^[6:5]
 - average monthly Round-Ups of \$30 through the signature program^[6:6]
 - an impressive board of advisors and high profile celebrity investors
- Acorns' valuation of \$860 million as of its latest fundraising has surpassed that of rival Betterment.^[6:7]

- Acorns has been honored on Forbes "Best Startup Employers 2020" list, Forbes FinTech 50 2020 list, Fast Company's 50 Most Innovative Companies of 2019 list, and featured by Apple as their "App of the Day" in 2019.^[5:1]

Top Recommendation

- Tax loss harvesting is a feature offered by the competitors and should be seen as a requirement moving forward for Acorns as it seeks to grow its user base in the highly competitive marketplace.
- Adding tax loss harvesting would require algorithms that incorporate computational rules like the 30-day IRS wash-sale rule. When a realized gain is made, the system would sell a losing investment to counteract the gain but will not be able to repurchase the same security due to the algorithm.^[13]
- Competitors Wealthfront and Betterment have stated that they can offer an additional annual return of 0.77% to 1.55% for their investors through tax loss harvesting algorithms.^[13:1]

Additional Recommendations

- Additional recommendations include increasing the set of investment options available, rethinking the fee structure for low balance accounts (because \$12 annually equates to 8% management fee on a \$150 balance account), continue to prioritize the design of the app and website which stand out against the crowd of competitors, and focus on adding hybrid-robot-advice with a human touch wherever possible. Currently the customer support team is human, but the addition of human investment advice would be seen as a nice upgrade.

Sources

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