Application of the Roger's Market Segments to the study of Wealth Management & Robot-Advisory: a focus on *Wealthfront*

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***Abstract*— The purpose of this paper is to investigate the impact of robot-advisors like *Wealthfront* on financial planning through Rogers' Market Segments theory and to explore strategies for overcoming skepticism.**

I. Introduction

Robot-advisors are revolutionizing finance thanks to their cost-effectiveness, quickness, and accessibility. The market response to this innovation is analyzed through Rogers' theory.

II. Rogers' Market Segments

Rogers' theory introduces five Market Segments into which population can be categorized when adopting innovation (Figure 1):

1) Innovators (2.5%): novelty and risk seekers, capable of accepting failure.
2) Early adopters (13.5%): recognize advantages of new ideas; potential customers rely on them.
3) Early majority (34%): complexity-averse, they adopt innovation only when fully tested and meets their needs.
4) Late majority (34%): reluctant to change, adopt technology primarily to avoid falling behind once it's well established.
5) Laggards (16%): very skeptical about change, adopt innovation only when their previous system is obsolete, often after innovators have moved on to newer ideas [1].

Each group has its own personality, but belonging to one depends on the specific case. Innovation spreads when adopted by successive segments.
Later, Moore introduced a "chasm" between early adopters and the majority, with the last three categories being more skeptical than the first two [2].

III. Wealth Management & Robot-Advisory

Robot-advisors are AI-driven financial planning platforms using tools like Modern Portfolio Theory, algorithmic trading, machine learning, and natural language processing [3]. Emerging after the 2008 financial crisis, they are the new frontier of banking digitalization [4].

Their strengths include [3][4][5] investing strategies free from human emotional bias, easy access to information, rapid responses, ease of communication, constant activity, minimal

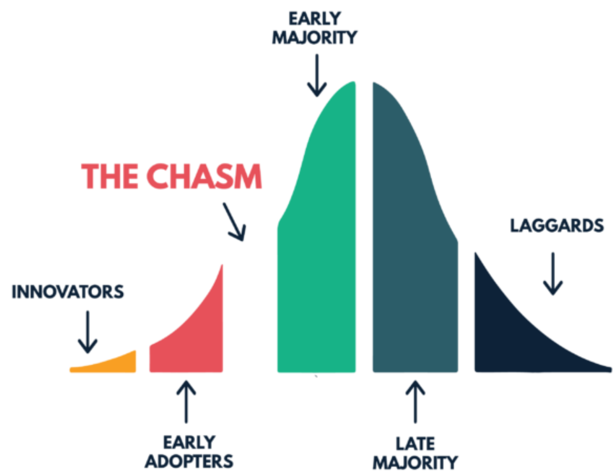

Fig. 1: Innovation adoption lifecycle

initial capital, and low management fees (average 0.25% vs. 1% for traditional advisors). A 2022 study [3] found they perform as well or better than human planners, with an average annual return of 7.2% compared to 6.8%.
However, they lack [4] personal interaction and guidance, flexibility, and the ability to address client's human needs, often beyond financial matters. Whenever investment policies change traditional advisors react immediately, whereas robot-advisors need time and money to be reprogrammed [5]. Ultimately, the regulatory environment is subject of debate due to their inability to act as fiduciaries, lack of general accountability, and ethical concerns in data security and management [3].

Two main types of robot-advisors have emerged [6]:

1) AI-powered platforms from established companies.
2) Independent start-ups, like *Wealthfront*, which will be analyzed in detail later.

Hybrid solutions, merging human and machine contributions, also emerged.

IV. Discussion

A. *The Wealthfront case*

Wealthfront is the world's second largest robot-advisor [6]: founded in 2008, it started by allowing users to select professional money managers but shifted to cutting-edge automation only two years later [7].

It creates customized investment portfolios based on risk tolerance, time horizon, and financial goals (such as retirement accounts or college savings [8]), but also offers features like personal loans [6] and debit cards, like a traditional bank.

This company waited 14 years to become profitable. Despite relatively low business costs, high fixed costs required significant trust in the innovation process. The breakthrough was driven by *cash accounts*: high yield (5% APY) saving accounts that grew assets throughout the 2020s [7].

Wealthfront appeals to younger generations, especially Gen Z and millennials, due to low fees (0.25%), free management of up to $10K, and a low minimum initial investment ($500) [8].

About 90% of its users are under 45: a core target of enthusiasts and visionaries who, in the words of co-founder Andy Rachleff, are in the "wealth accumulation phase of their life, vs. wealth preservation" [9].

B. Innovation adopters: who uses Wealthfront

Wealthfront, like many other robot-advisory startups, does not target the entire population. The clear contrast with traditional financial planners means that only certain market segments are adopting this innovation.

A 2018 study profiled robot-advisory users [4]. Elders still prefer traditional financial planners, while the new technology is mainly adopted by people in their 20s and 30s.

TABLE I: Age distribution in 2022 [3]

Age group	Percentage (%)
18-24	25
25-34	40
35-44	20
45-54	10
55+	5

Robot-advisors are favored by those with lower income and net worth, less impulsive financially, and relatively knowledgeable about personal and household financial matters. These customers may not meet the initial capital requirements of traditional planners or simply seek accessible and low-cost services.

Interestingly, those with a larger percentage of inherited wealth often prefer financial advisors for the sense of security provided during sudden external changes.

According to Rogers' diffusion of innovation theory, *Wealthfront* has attracted both innovators and early adopters but faces the challenge of crossing the chasm to reach the early majority.

Young adults, being enthusiasts and visionaries, are more inclined to take risks and invest in innovations, thanks to their proficiency with technology. They fall into both innovators and early adopters, partly due to their generally low net worth and income. They benefit from minimal fees, low initial capital requirements, and less likelihood of inherited wealth.

People in their 40s are early adopters; in 2022, 20% of users were in the 35-44 age range, having recently embraced robo-advisors as advantages became apparent.

Adoption continues to grow as technology consolidates, with *Wealthfront* reaching one million consumers in 2024. However, crossing the chasm in the short term could prove quite difficult.

To ensure that the majority adopts the innovation, the company must address a crucial question: is the spread of robot-advisors due solely to their minimal requirements or to actual benefits? In other words, will users who successfully adopt the innovation switch back to traditional solutions?

Performance comparison shows even higher annual return for robot-advisors, indicating this paradigm is likely to prevail. The spread of technological readiness and trust is crucial for reaching the majority, influenced by early adopters' experiences.

However, the need for personal and human interaction remains a major advantage for traditional financial planners, alongside ethical and regulatory concerns. A lot of time is needed for the laggards to be forced to use robot-advisory; as often happens with innovation, it's likely both alternatives will coexist to address different needs.

To cross the chasm, AI-powered systems should not be seen merely as cheaper alternatives to traditional ones. Instead, financial consultants and robot-advisors should collaborate, combining machine unbiasedness with human guidance. Banks like Deutsche Bank and Credit Suisse, traditionally relying on financial planners, have already sensed the potential and invested in the emerging market.

Data analysis could be used to tailor portfolios more personally. *Wealthfront* is already expanding its areas of expertise, allowing clients to save for specific goals like buying a house, college, or retirement. Estate planning, taxes, and insurance can be the next targets, potentially making robot-advisory essential for the majority.

C. Future scenarios

It's unclear how long it will take for skeptics to prefer robot-advisors over traditional planners. However, the potential to integrate the strengths of both options suggests this shift is likely. Concerns about data security and algorithmic transparency will affect this transition and need further regulations.

Additional studies are required to understand how the adoption of new technology by the majority will impact investor behavior and the finance industry.

V. Conclusions

In conclusion, robot-advisory services have successfully attracted innovators and early adopters, especially younger individuals with lower net worth and income who are less financially impulsive. The growth of *Wealthfront* and its data-driven approach suggest that the early majority will likely be reached soon.

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