

FINANCIAL PLANNING | BEST ROBO-ADVISORS

The Best Robo-Advisor for You: Barron's Annual Ranking

BY ANDREW WELSCH

The robo-advisor business was once dominated by small fintech firms, led by sometimes brash founders, and seen as a mortal threat to human financial advisors. Not anymore.

Today, the sector is rapidly maturing. A menu of cookie-cutter portfolios is being complemented by an array of customization options, ranging from the automated to the bespoke. Robo-advisors are increasingly part of a spectrum of financial-planning services and a growing part of the wealth management business. The category, which some now just call “digital advice,” oversaw an estimated \$988 billion as of March 31, up 26% from the same period a year ago.

Robo-advisors continue to grow out of traditional banks and brokerages, either organically or through acquisition. Earlier this year, UBS Group (ticker: UBS) said it was buying pioneering robo-advisor Wealthfront for \$1.4 billion. Shortly after the deal was announced, CEO Ralph Hamers told analysts, “We need it to grow and adapt the brand.” UBS was founded in 1862 and has about 9,200 human advisors serving mostly high-net-worth clients.

The digital-advice revolution isn't just a boon for wealth management companies. Robo-advisors have expanded the number of Americans who can access financial-planning services at a lower fee and asset minimum than they would have in previous decades. Robo fees vary, but clients are typically charged about quarter of a percent, or 25 basis points, on their invested



Illustration by Michal Bednarski

assets. Traditional advisor fees are closer to 1% of assets.

“There are millions of people who are getting better portfolio management than they would’ve gotten on their own,” says Tobin McDaniel, head of SoFi Invest, a unit of SoFi Technologies (SOFI). “I think it’s a fantastic foundation for most investors.”

A flourishing digital-advice business underscores the importance of Barron’s annual robo ranking, now in its sixth edition. The ranking is based on an exclusive partnership with Condor Capital Wealth Management, which previously issued its analysis through its Backend Benchmarking research unit. The firm funds, maintains,

and tracks 58 accounts with 33 providers.

When the first robo-advisors emerged in 2008, the digital services were defined largely by smooth interfaces, simple portfolios, and automated rebalancing. Today, robo customers can expect more customization and an expanding array of features. Executives at several firms say digital-advice clients have been asking for more personalization.

“A large minority of customers still choose ‘Do it for me.’ It’s a meaningful percentage, but it’s not everyone. And it’s trending toward the other direction,” says Mike Reust, head of retail at Betterment, one of the original robo-advisor firms.

Tracking the Performance

Here are performance figures for the accounts held by Condor Capital Wealth Management, which are designed to track as closely as possible to a mix of 60% stocks and 40% bonds.

| Robo-Advisor | YTD | 1-Yr | 3-Yr | 5-Yr | Account Minimum | Fees |
|------------------|---------|---------|-------|-------|---------------------|--|
| SoFi | -16.45% | -13.26% | 4.67% | 5.14% | \$1 | None |
| Wealthfront | -12.40 | -9.58 | 6.10 | 6.43 | 500 | 0.25 |
| Fidelity | -15.04 | -11.62 | 4.46 | 5.57 | Digital: No minimum | Digital: No advisory fees under \$10,000 |
| SigFig | -15.51 | -13.37 | 4.64 | 5.53 | 2,000 | No advisory fees under \$10,000 |
| Merrill Edge | -14.32 | -10.95 | 4.41 | 5.05 | 1,000 | 0.45 |
| Personal Capital | -14.27 | -11.45 | 5.02 | 5.25 | 100,000 | 0.89; discounted tiered pricing at higher asset levels |
| Vanguard | -15.29 | -12.18 | 4.38 | 5.20 | Digital: 3,000 | Digital: 0.20 |
| Betterment | -15.37 | -13.58 | 3.74 | 4.56 | Digital: No minimum | Digital: 0.25 |
| Schwab | -13.26 | -11.41 | 3.79 | 4.34 | Digital: 5,000 | Digital: None |
| U.S. Bank | -16.56 | -14.39 | 4.05 | N/A | 1,000 | 0.24 |

Note: Returns through June 30.

Three- and five-year returns are annualized.

N/A=not applicable

Source: Condor Capital Wealth Management

Betterment clients can add so-called tilts to their portfolios, including biases toward value stocks, climate impact, and technology growth.

But don't confuse that for a self-directed account, Reust says. "You don't go in and see a list of 10,000 exchange-traded funds. That's not what we are talking about," he explains. "We're talking about six options where you can say, 'I want it to feel like it's not cookie-cutter. It's for me.'"

SoFi, which ranked highest for best overall robo-advisor this year, is planning to add more personalization options, including possibly ESG portfolios, which focus on environmental, social, and governance factors, in the next 12 months. "The whole point of a robo-advisor is to help someone get invested and stay invested," says McDaniel, who previously worked at Charles Schwab (SCHW), where he developed services aimed at self-directed investors. "The more ownership they feel over the portfolio, even if built by experts for them, the more likely they are to stick to it."

Other forthcoming features among robo-advisors will potentially help improve investors' performance. Vanguard Group plans to add daily tax-loss harvesting to Personal Advisor Services, its hybrid digital offering, in the coming weeks. Tax-loss harvesting is the practice of selling underperforming investments to offset taxable capital gains elsewhere in a portfolio. Sev-

eral robo-advisors, including Betterment, already offer it.

Vanguard will add the feature to its pure digital robo-advisor at a later date. The company has developed the technology in-house, says Jonathan Cleborne, head of Vanguard Personal Advisor Services. "It's pretty deeply integrated into our record-keeping system," he says.

SoFi also plans to add daily tax-loss harvesting in the next 12 months, McDaniel says.

In some cases, investors can expect to see more integration between robo services and their banking parents. Morgan Stanley (MS) bought E*Trade Financial in 2020; today, executives say that E*Trade's robo-advisor increasingly leverages Morgan Stanley's research and intellectual capital. The acquisition "has given us a lot of additional resources and tools," says Michael Loewengart, head of portfolio management for Morgan Stanley Portfolio Solutions.

Fidelity Investments added a "next best action" feature to its digital-advice service, Fidelity Go. The feature suggests actions that clients can take, such as automating monthly contributions, says Idy Auner, squad leader of product management at Fidelity.

The technology has promise, but the industry is still in the early stages of development and adoption of more-sophisticated artificial intelligence, says David Goldstone,

Condor Capital's manager of investment research. More-advanced AI could potentially look holistically at an investor's finances. "It's one thing to say you're not on track to reach your home-savings goal and another to say you're not on track, here are three things you can do to make sure you reach that goal," Goldstone says.

Direct indexing—the ability for customers to build their own index of stocks—might also be on the horizon. "The computing horsepower, the ability to do fractional shares—it's all coming together," says Kenneth Schapiro, founder and CEO of Condor Capital.

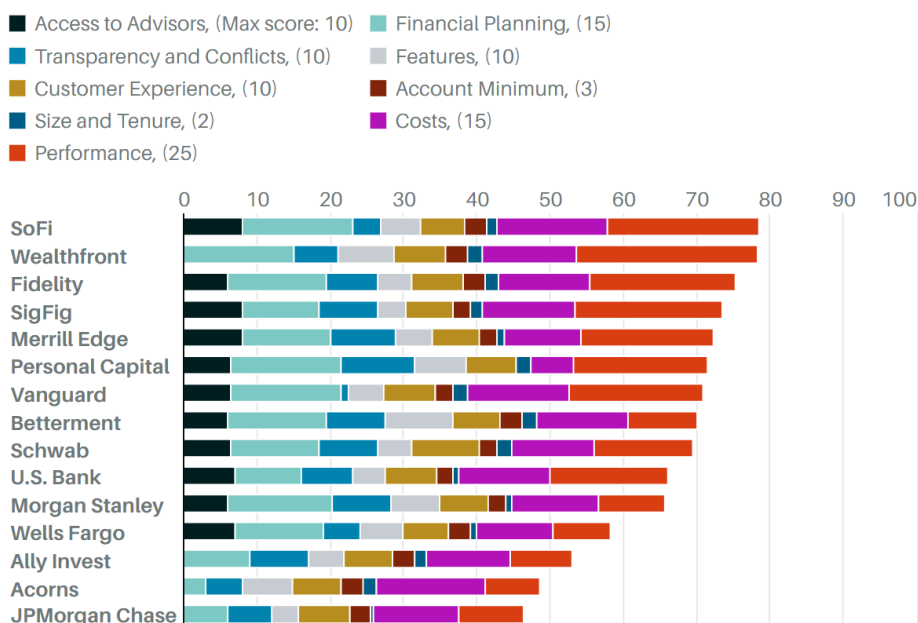
Several major brokerage firms have developed or bought technology that would allow investors to do direct indexing, but they have yet to introduce it for their robo services. The technology could potentially enable investors to build custom ESG indexes, for instance. It could also have advantages for investors who hold concentrated positions in shares of a single company. "If you work at Google and you have a lot of company stock, then you don't want to own the S&P 500. You want to own the S&P 499," Goldstone says.

At every level of the client experience, firms continue to refine features, interfaces, mobile app displays, and even the wording in risk-tolerance surveys. "Our customer base lives on their phone. So they measure any digital experience against the best," says

How the Robos Stack Up

Here's how top robo-advisors rank based on a variety of measures—both qualitative and quantitative—in the latest survey from Condor Capital Wealth Management.

Overall Score by Category



Source: Condor Capital Wealth Management

John Danahy, Fidelity's head of digital planning and advice. In that sense, robo-advisors are competing with e-commerce sites, food delivery apps, and ride-sharing platforms.

But even amid constant tinkering and a flood of personalization options, a focus on simplified offerings prevails at several firms. Fidelity's digital-advice portfolios are composed of stock and bond ETFs, and the asset manager doesn't have plans to radically change it. "Half the battle is getting some-

one to have the confidence to invest," Danahy says. "These building blocks are clear and transparent, and that really helps with younger investors."

The robo evolution has also had the effect of changing how wealth management firms compete for customers, he adds. "The battleground for clients is shifting to earlier in the life cycle," Goldstone says.

The robo movement seems to have helped persuade those newer investors to stick with stocks even through the turbulence of

the past year. Executives chalk it up to investors knowing what their long-term goals are and how they're going to achieve them.

"When a client has a financial plan, their correlation with confidence is so much higher," Fidelity's Danahy says. "So I think the act of setting up a plan, whether it's saving for a house or retirement, gives a longer-term perspective. And that's so valuable."

As the robo sector matures, investors are benefiting—and society might, too. Many people don't

save enough for their retirement. Of Americans who have a retirement account, the median savings was just \$65,000 in 2019, according to a Federal Reserve survey. The right advice, at a reasonable fee, might help more Americans reach their goals.

Finding the Right Robo for You

When it comes to picking a robo-advisor, investors have a wide range of choices. Performance matters, but so do the features that firms offer. You can pick one that comes with the option to speak with a human financial planner, or opt for a purely digital relationship. To help you select the right robo-advisor, here are the top contenders in key categories, as chosen by Condor Capital Wealth Management.

Best Overall

For a second consecutive year, SoFi topped the list for best overall robo-advisor, thanks to low fees and strong performance. The company began with student loan refinancing, but it now offers banking, financial planning, and career coaching, in addition to its digital portfolio tools.

Best for Digital Financial Planning

Personal Capital, owned by retirement plan company Empower since 2020, offers financial-planning tools, some of which are free. The firm's toolbox for investors includes a portfolio checkup feature that explains how and why you should rebalance your portfolio as well as a fee analyzer that can uncover hidden fees in your mutual funds and retirement accounts.

Best for First-Time Investors

Betterment's platform is well suited to investors who are just getting started. The firm, founded in 2008, is one of the oldest robo-advisors and offers an intuitive interface, easy-to-use planning features, tax-loss harvesting, and the ability to see the impact of hypothetical changes to your financial plan. Betterment has no investment minimum and charges a 0.25% annual fee for its basic customer plan.

Best for Complex Financial Planning

Vanguard Personal Advisor Services is a top choice for investors with more-complex needs and who are looking to speak with a live financial advisor. Vanguard's hybrid robo service requires an initial conversation with a human advisor, a minimum investment of \$50,000, and charges an annual fee of 0.30%, well below the cost of a traditional financial advisor.

Digital Advice Nears \$1 Trillion

Assets under management at robo-advisors are up 26% from a year ago, according to the latest estimates from Condor Capital Wealth Management.

| Robo-Advisor | AUM (bil) |
|------------------------------------|----------------|
| Edelman Financial Engines | \$290.4 |
| Vanguard | 272.4 |
| Morningstar Retirement Advice | 105.1 |
| Fidelity Investments PPA | 87.5 |
| Schwab | 76.1 |
| Betterment | 33.8 |
| Wealthfront | 24.9 |
| Personal Capital | 22.9 |
| TD Ameritrade Selective Portfolios | 21.7 |
| Guided Choice | 6.2 |
| Bloom | 5.6 |
| Other Incumbents | 27.6 |
| Other Independents | 13.4 |
| Total AUM | \$987.6 |

Note: data as of March 31, 2022

Source: Condor Capital Wealth Management