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FEATURE

# Robo-Advisors Thrived Amid the Covid-19 Volatility. Here's Barron's Latest Robo Ranking.

**By Sarah Max**

It has been nearly a decade since Betterment and Wealthfront ushered in digital advice. For most of that time, stocks went straight up. As the market soared, more companies signed on to the idea of software-driven, automated investing tools, including legacy firms like Charles Schwab and Vanguard. And why not? During the long bull market, it hardly mattered how investors made decisions.

Until Covid-19, of course, when the S&P 500 index tumbled 34% in just over a month. Chaotic periods are when human advisors justify their fees. So how did their lower-cost robotic cousins handle their first real stress test? As it turns out, quite well.

Six months into a chaotic year, a typical moderately aggressive robo-advisor account was down just 2.9%, according to data from Backend Benchmarking, a Martinsville, N.J.–based firm that follows the robo industry. That performance, which is buffered by fixed-income holdings, comes at a time when the S&P 500 was down 4%.

Meanwhile, what began as a nascent category of start-ups focused on optimizing investment portfolios has become a ubiquitous service offered by many of Wall Street's largest firms. At the end of 2019, assets managed by so-called robo-advisors reached an estimated $631 billion, up from $558 billion a year ago.

"These things aren't just robos anymore," says Ken Schapiro, founder of Backend Benchmarking. "They're really comprehensive personal-finance platforms, with additional products and tools, and the ability to talk with a human advisor."

Against this backdrop, Barron's has compiled its fourth annual robo ranking, based on an exclusive partnership with Backend Benchmarking, which has spent five years funding and maintaining accounts with 40 robo services.

The portfolios ranked by Backend generally carry a 60/40 split of stocks and bonds, offering ballast in down markets and sufficient reward when conditions are good. But, as with human advisors, the robo returns are wide-ranging. During the first six months of the year, the best returns came from the taxable account at Wealthsimple. Backend's taxable account at the firm was up 0.43%, a rare absolute gainer among robo accounts.

Robos whose stock allocations tilted more toward international, small-cap, or value-oriented equities didn't perform nearly as well. Schwab's Intelligent Portfolios, for example, fell 6.5% in the first half of the year because of a tilt toward value and international stocks.

But performance is only part of the story. Keeping customers invested and tracking their goals is equally important. Here, too, the robos performed admirably. Based on data provided by many firms, robo clients not only stayed the course during the height of volatility this year, they also increased their contributions. That put them in position to reap the rewards of stocks' stunning rebound.

Betterment, a $22 billion robo-advisor, reports record sign-ups in the first quarter—a 25% increase from the same period last year. And 26% more customers made ad hoc deposits than ad hoc withdrawals from accounts.

Schwab says there was a significant increase in appointments scheduled with financial planners, which are available in some of its Intelligent Portfolios offerings. "But the majority of our clients stayed invested and didn't touch their portfolios," says Cynthia Loh, who heads up the firm's digital advice and innovation efforts. "The first quarter was actually among our highest quarters we've ever had across digital advice in terms of new account openings."

TD Ameritrade's robo service saw a similar trend. "Since the market downturn began, we've seen Essential Portfolios new account openings increase over 150% from the same period a year ago, including some of our largest weeks ever," says Keith Denerstein, director of investment products and guidance at TD Ameritrade Holding (ticker: AMTD).

## Ranking the Robos

Financial advice goes well beyond returns, and Backend Benchmarking has built its study accordingly. To rank the robos, Backend looks at performance over the longest period available for all of the advisors in the study, which is now 2.5 years.

To account for customized portfolios and investment approaches across the robo landscape, Backend created a normalized benchmark that compares each robo portfolio against an average portfo-

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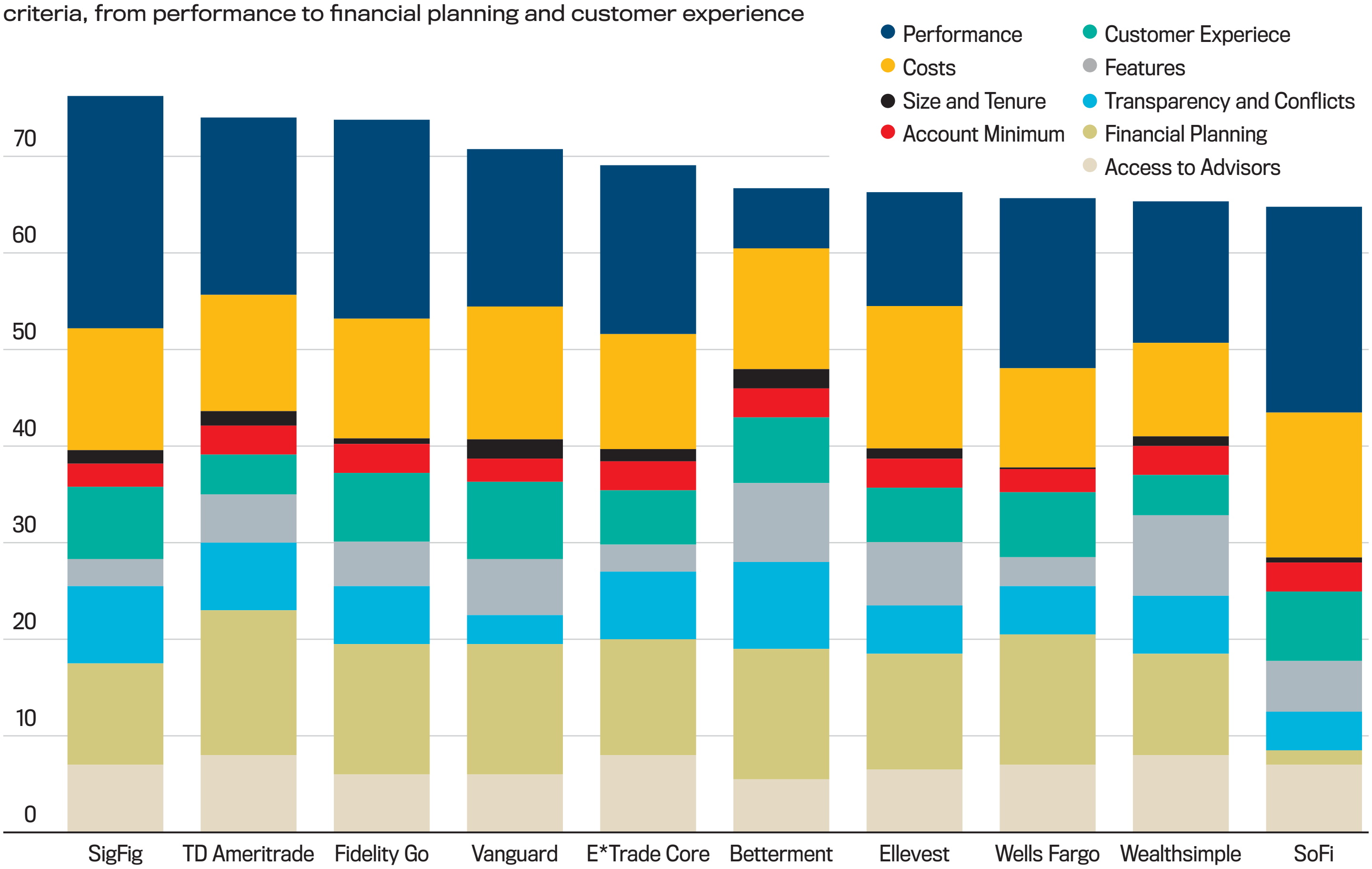
# The Top 10 Robo-Advisors

Backend Benchmarking ranks 40 robo services, based on a wide range of criteria, from performance to financial planning and customer experience




# How It Breaks Down

The ranking is based on 45% quantitative factors, like performance, and 55% on qualitative ones, such as financial planning. The full breakdown is below.

| Robo Name | Access to Advisors | Financial Planning | Transparency and Conflicts | Features | Customer Experience | Account Minimum | Size and Tenure | Costs | Performance | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **SigFig** | 7.00 | 10.50 | 8.00 | 2.80 | 7.48 | 2.40 | 1.40 | 12.61 | 24.06 | 76.24 |
| **TD Ameritrade** | 8.00 | 15.00 | 7.00 | 5.00 | 4.12 | 3.00 | 1.50 | 12.04 | 18.36 | 74.02 |
| **Fidelity Go** | 6.00 | 13.50 | 6.00 | 4.60 | 7.12 | 3.00 | 0.58 | 12.39 | 20.60 | 73.79 |
| **Vanguard** | 6.00 | 13.50 | 3.00 | 5.80 | 8.00 | 2.40 | 2.00 | 13.75 | 16.30 | 70.75 |
| **E*Trade Core** | 8.00 | 12.00 | 7.00 | 2.80 | 5.62 | 3.00 | 1.27 | 11.91 | 17.48 | 69.07 |
| **Betterment** | 5.50 | 13.50 | 9.00 | 8.17 | 6.80 | 3.00 | 2.00 | 12.50 | 6.23 | 66.69 |
| **Ellevest** | 6.50 | 12.00 | 5.00 | 6.55 | 5.64 | 3.00 | 1.07 | 14.74 | 11.79 | 66.28 |
| **Wells Fargo** | 7.00 | 13.50 | 5.00 | 3.00 | 6.72 | 2.40 | 0.17 | 10.27 | 17.61 | 65.66 |
| **Wealthsimple** | 8.00 | 10.50 | 6.00 | 8.34 | 4.17 | 3.00 | 1.00 | 9.68 | 14.65 | 65.34 |
| **SoFi** | 7.00 | 1.50 | 4.00 | 5.25 | 7.19 | 3.00 | 0.53 | 15.00 | 21.31 | 64.78 |
| **Maximum** | 10.00 | 15.00 | 10.00 | 10.00 | 10.00 | 3.00 | 2.00 | 15.00 | 25.00 | 100.00 |

Source: Backend Benchmarking

## Year-to-Date Returns

The robos hold a mix of stocks and bonds. Here's how the portfolios performed over the first six months of 2020.

| Robo-Advisor | Equity | Fixed Income | Overall Return |
|---|---|---|---|
| Wealthsimple | -7.7% | 13.0% | 0.4% |
| SigFig | -6.6 | 6.8 | -0.3 |
| SoFi | -4.5 | 2.4 | -1.8 |
| TD Ameritrade | -7.2 | 4.8 | -2.8 |
| E*Trade | -8.7 | 5.6 | -3.0 |
| Ellevest | -7.6 | 0.7 | -3.3 |
| Fidelity Go | -7.1 | -0.5 | -3.3 |
| Wells Fargo | -6.7 | 1.8 | -3.3 |
| Vanguard | -6.1 | 1.9 | -3.3 |
| Betterment | -10.2 | 2.0 | -5.4 |

Source: Backend Benchmarking

lio that's adjusted to match the account's stock/bond split. Performance, which also takes into account fees and risk-adjusted returns, carries a 45% weighting in Backend's score.

But strong performance means nothing if investors aren't saving enough, or if their portfolios don't mesh with their risk tolerance. So Backend gives a 55% weighting to qualitative factors, including customer experience, features, transparency, financial planning, and access to advisors. (See the table for a breakdown of the top 10 ranked robos. Backend will be publishing the full ranking on its own website on Aug. 10.)

SigFig takes the top spot in this year's results—with the best performance relative to its normalized benchmark and the best risk-adjusted performance measured by the Sharpe ratio. Its portfolio returned 4.71% annually over the past 2½years, versus 3.22% for the average portfolio in Backend's ranking.

While SigFig manages just $835 million of assets directly, its technology is behind the portfolio tools used by planners at major financial institutions, including Citizens Bank, UBS, and Wells Fargo.

One area where SigFig stands out is in its oversight of outside accounts. The firm allows users to link external investment portfolios, which it then flags for high fees, mismatched risk, or poor diversification. For customers who want to roll over assets from existing accounts, as opposed to funding accounts with cash, SigFig's premium service factors for such things as tax implications and transaction costs, and migrates assets over accordingly. The premium service is 0.25% for accounts over $10,000; accounts below that amount are free.

Given that many people will have multiple employers during their career—with multiple retirement plans—the ability to look at various plans is key. "By the time you're 50 or 60 years old, your money is spread all over the place, which is a really big problem for a lot of people," says CEO Mike Sha, who co-founded SigFig in 2007, initially as a portfolio tracking tool.

Other robo-advisors are taking steps to bring 401(k) assets into the fold, but it's still early days for account aggregation, says Backend's Schapiro.

This year's runner-up in the overall ranking is TD Ameritrade, which manages $20 billion across three tiers of service, including an all-digital Essential portfolio, a hybrid Selective portfolio that offers access to human advisors, and Personalized service that, among other premium offerings, looks at clients' overall finances.

TD Ameritrade's model looks more like a traditional advisor than a robo. "This is still an old-school approach to providing advice," says David Goldstone, Backend's manager of research, noting that TD's website doesn't have the same suite of digital tools or user experience as other top robos. It gets a perfect score on financial planning, though. One asterisk: TD Ameritrade is in the process of being acquired by Charles Schwab (SCHW), and it isn't clear whether or how existing portfolios will be integrated into Schwab's Intelligent Portfolios platform.

Another asterisk: TIAA scored high on our ranking, but we removed it from the leader board after the firm confirmed that it is no longer offering its digital advisory service to new customers. Current customers can continue to use the service, known as TIAA Personal Portfolio.

**Fuzzy Borders**

The lines between human and digital advice continue to blur. Firms that were founded on digital-only models, including Betterment, now offer human advice, while traditional financial advisors recognize that their clients—especially younger ones—want the convenience and transparency of digital.

"Five years ago, the robo universe was primarily fintechs like SigFig, Betterment, and Wealthfront, and now you have the Vanguards, Schwabs, and Fidelitys jumping in, and you'll see more institutions," says SigFig's Sha, who compares the evolution to that of online banking. "In the very early days, internet banks were their own category. Now, the idea of an internet bank is kind of silly because you can't be a bank today without having a digital experience."

Sure enough, Fidelity Go, launched in 2016, takes third place in this year's robo ranking thanks to strong performance,

## What You'll Pay

While many human advisors charge an annual 1% fee on assets, the robos start at just 0.25%, with some offering their service free for initial investments

| Robo-Advisor | Account Minimum | Fee |
|---|---|---|
| SigFig | $2,000 | No fee for first $10,000; then 0.25% annually |
| TD Ameritrade | $5,000, $500 w/auto deposit | 0.30% for intitial tier of service |
| Fidelity Go | No minimum for digital advice | No fee for first $10,000* |
| Vanguard | $3,000 for digital advice | 0.20% annually including underlying fees |
| E*Trade | $500 | 0.30% annually |
| Betterment | No minimum for digital advice | 0.25% annually |
| Ellevest | No minimum for digital advice | $1 a month for initial tier of service |
| Wells Fargo | $5,000 | 0.35% annually |
| Wealthsimple | No minimum for basic account | 0.50% annually on accounts over $100,000 |
| SoFi | No minimum | No fee |

*Fidelity Go charges $3 / mo. for accounts from $10K to $50K and 0.35% annually above $50K. Source: Backend Benchmarking high marks on qualitative factors, and its fee structure. In August, Fidelity is moving to a membership-fee model, charging $3 a month for accounts with a balance of $10,000 to $50,000; accounts of more than $50,000 have an all-in fee of 0.35%, and those with less than $10,000 are free. Fidelity isn't the only firm with a membership model: Acorns, Ellevest, and Schwab also offer flat-fee services.

Firms increasingly offer different tiers of service. Last year, Fidelity rolled out its Personalized Planning and Advice service, which is similar to Fidelity Go, with the addition of unlimited "coaching" from human advisors. The service has a $25,000 account minimum and costs 0.5% (including underlying fund fees).

Vanguard entered the robo game five years ago with Vanguard Personal Advisor Services. The fund giant is now the largest robo player, with $172 billion in assets as of the end of June. The service, which has a $50,000 minimum and 0.3% fee, was initially designed for Vanguard clients who were approaching retirement and wanted answers to more-nuanced questions, such as when to claim Social Security, how to manage health-care costs, and when to transition to retirement income.

"We were blown away" by the popularity of the product, says Jon Cleborne, head of Vanguard Personal Advisor Services, noting that the average age of customers in the service is 57. The fund giant saw an opportunity to roll out a complimentary service, Digital Advisor, aimed at younger investors balancing competing goals, such as saving for retirement, buying a home, building an emergency fund, or paying off debt.

The pilot launched last year and has a $3,000 minimum and 0.2% fee, which includes underlying fund fees. Its investment philosophy is simple, comprising four index funds that cover "almost the entire investible securities universe," says Cleborne. Even so, allocations are highly customized. "We have 360 different glide paths that we will map to key off different elements of your personal situation," he adds. Vanguard's portfolio construction stands out from other robos, which tend to offer many more funds within their accounts.

**The Big Picture**

The role of the robo-advisor has evolved, to be sure. Whereas robos once focused on designing and managing a single investment portfolio, they have extended their reach considerably to take a more—borrowing from a term popular with advisors—holistic approach to financial planning.

Betterment doesn't rank in the top five this year—its allocation to international, small-cap, and value stocks has been a drag on performances—but its other features give it one of the highest qualitative scores, second only to Personal Capital.

Wealthfront, another robo pioneer, doesn't make the top 10. The firm lost points in Backend's ranking due to the portfolio's performance and the firm's lack of personalized investment advice from live advisors. Wealthfront offers a leading set of digital features, though.

Wealthfront notes it does have product specialists available via phone: "We don't refer to or market these professionals as financial advisors because that label has no value to our client base," a Wealthfront spokeswoman wrote in an email.

Schwab's Intelligent Portfolios lagged behind its normalized benchmark—due to allocations to value and international stocks, plus a 10% cash allocation—but its suite of digital advice products posted the highest score for customer experience.

Schwab made up for some of those losses with tax-loss harvesting. A customer who invested $100,000 in a moderately aggressive portfolio in September 2019 and invested an additional $1,000 a month through June 30 would have seen $10,700 in harvested losses over that period, based on Backend's analysis of an account it holds. For someone in the 24% tax bracket, that's potentially $2,500 in tax savings.

Moreover, Schwab's $47 billion robo is one of the leaders when it comes to helping retirees manage retirement income, notes Backend. Launched earlier this year, Schwab Intelligent Income looks across investors' retirement and taxable accounts to project how much customers can safely withdraw and determine the most tax-efficient strategies for doing so.

"Everyone helps you save money, but there are very few solutions in the marketplace that help you manage the spending of your money when you're in retirement," says Schwab's Loh. "We've automated the complicated process of generating that paycheck from your investment portfolio."

No single robo does all things for all investors—yet. But with new features, better algorithms, and the option of human advice, robos have proved to be far more than a fringe product for cost-conscious digital natives.