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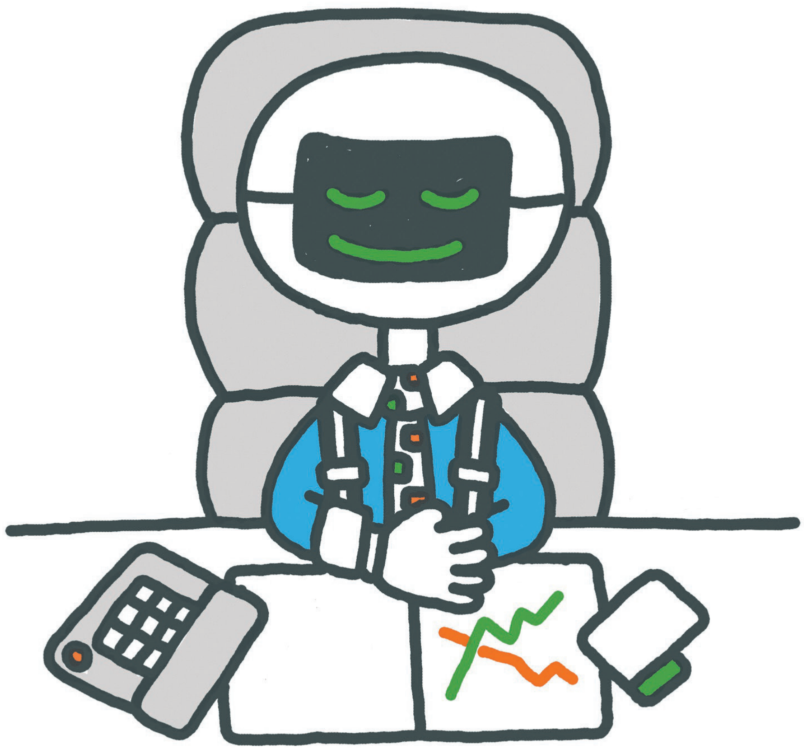

Oscar Bolton Green

In *Barron's* annual ranking of robo-advisors, the evolution continues. The next big thing? Checking and savings accounts. **By Ben Walsh**

Robos Look Beyond Investing

Barron's first cover story on robo-advisors depicted a suited cyborg behind a desk in a fancy skyscraper. The original mission of the robos, after all, was to replicate the best of human investing advice, at a fraction of the cost. The robos had no need to turn down clients—in many cases, they arrived with no minimum account size. They quickly signed up thousands of clients and recruited several billion dollars in assets. But continued growth has required some clever evolution. The financial advisor as cyborg was an oversimplification.

Barron's third-annual robo ranking—in partnership with Backend Benchmarking—shows that robo assets continue to rise, to at least $440 billion at last count, according to Backend's analysis. The increase has been driven by new services, including access to live advisors, sustainable-investing products, and higher-yielding cash accounts.

Those all have a more traditional bent than the robos' initial innovation of software-driven asset allocation. Gone is the idea that a single investment product would draw customers. "Across the board, they're really expanding the platforms to be more all-inclusive personal finance platforms, as opposed to just robo-investing platforms," says Backend research analyst David Goldstone.

"When the markets got shaky, people weren't as hip on robos. They were more interested in cash options they had." Ken Schapiro, CEO, Backend Benchmarking

The first market downturn was always going to be a moment of peril for the robo-advisors, but the businesses largely survived the market's 20% decline at the end of last year.

Five prominent robo-advisors attracted $40 billion in the first half of 2019, data from Backend show. Those same firms—Betterment, Personal Capital, Schwab, Vanguard, and Wealthfront—added $25 billion over all of 2018.

But the latest growth has come with a twist.

New Services

Assets are being driven by products that are new to the robos, but effectively old hat elsewhere in the financial world: cash management, spending and budgeting, and sustainable investing. "When the markets got shaky, people weren't as hip on robos," says Ken Schapiro, Backend Benchmarking's founder and CEO. "They were more interested in cash options they had. So that seems to be a growing thing."

Wealthfront's cash account, which offers a 2.57% interest rate and is FDIC-insured, brought in more than $1 billion in the month after it was announced. "We want clients to be able to automatically deposit their paychecks into Wealthfront, and we will be able to optimize every single dollar that comes into our ecosystem, allocating it to the right accounts," Wealthfront spokeswoman Kate Wauck wrote in an email. "We believe that delivering this will allow us to remove the excess cost in the financial industry and give it back to the people."

Just this past week, fellow robo pi-

(over please)

Ranking the Robos' Returns...

Fidelity's robo-advisor has generated the leading annualized return over the past two years.

	2-YEAR ANNUALIZED PERFORMANCE		
Robo-advisor	Total Portfolio	Equity Only	Fixed Income Only
Fidelity Go	7.26%	9.20%	4.02%
WiseBanyan	7.00	8.62	3.85
Wealthfront	6.92	8.19	4.09
SigFig	6.87	8.73	3.87
TD Ameritrade	6.71	8.11	3.07
Vanguard	6.46	8.45	3.36
Ally Financial	6.33	7.42	4.17
E*Trade	6.27	7.80	3.92
TIAA	6.27	8.09	3.21
Merrill Edge	6.02	7.97	3.33
Acorns	6.00	8.07	2.50
Ellevest	5.97	7.88	2.98
SoFi	5.84	7.92	3.35
Betterment	5.81	6.54	4.08
Wealthsimple	5.68	6.99	3.59
Personal Capital	5.61	6.78	2.33
Schwab	5.18	6.19	3.79
FutureAdvisor	5.14	6.49	3.23

Note: Performance through 6/30/19.

$440 Billion

Estimated total assets under management by robo-advisors, according to Backend Benchmarking

$65 Billion

Estimated growth in robo assets in first half of 2019

$17.7 Trillion

Total assets managed by registered investment advisors, wirehouses, national and regional brokerage firms, and independent broker-dealers, according to Tiburon Strategic Advisors.

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Number of robo-advisors tracked by Backend Benchmarking

...and Assets Under Management

While start-ups like Betterment and Wealthfront pioneered the robo-advisor industry, offerings from legacy financial firms now dominate in terms of assets under management. Here's a breakdown of the robo providers with track records of at least two years.

Robo-advisor	AUM (mil)	Clients	Account Minimum	Annual Advisory Fee
Vanguard	$140,000	NA	$50,000	0.30% for the first $5 million
Schwab	41,000	315,000*	$5,000	No fee
TD Ameritrade	19,900	NA	$5,000	0.30%
Betterment	17,600	419,543	No minimum	0.25%
Wealthfront	15,000	221,142	$500	0.25%
Personal Capital	10,000	20,000	$100,000	0.89% for the first $1 million
FutureAdvisor	1,192	12,285	$5,000	0.50%
Acorns	1,149	4,500,000*	No minimum	$1/month for Acorns Core (free for college students)
SigFig	485	11,168	$2,000	No fee for the first $10k; 0.25% for balance over $10k
Ellevest	283	22,824	No minimum	0.25%
WiseBanyan	179	23,659	No minimum	No fee for basic package
Ally Financial	176	t11,400	$100	0.30%
Wealthsimple	89	14,869	No minimum	0.50% fee on accounts less than $100k
SoFi	79	19,057	$1	No management fee
E*Trade	NA	NA	$500	0.30%
Fidelity Go	NA	NA	No Minimum	0.35%
Merrill Edge	NA	NA	$5,000	0.45%
TIAA	NA	NA	$5,000	0.30%

*Number of accounts. NA=Not Available.

Source: Backend Benchmarking

oneer Betterment said that it would offer customers FDIC-insured checking and savings accounts. The savings account is available now and carries up to a 2.69% interest rate. Checking accounts will be available later this year.

Betterment sees the new offering as a natural extension of its investing products. "To really serve our customers, we have to help them with their everyday money, as well as their long-term money," CEO Jon Stein tells Barron's. "When we launched in 2010, we were talking about being our customers' everyday money manager, as well as their long-term investing manager.…This is our way of moving to compete with the big retail banks."

Robo-advisors are also responding to the increase in demand for sustainable investing—portfolios defined by environmental, social, and corporate governance, or ESG, factors. But Backend's analysis shows that such portfolios only modestly increase sustainability scores.

The robos' regular equity portfolios had ESG scores of 51.7 to 53.6 (using a 0-to-100 scale from Morningstar), while the sustainable portfolios scored 53.2 to 57. In addition, Backend found, the sustainable options only modestly, if at all, improved robo performance and came with higher fees.

New Players

If the robo industry still needed any validation, it came this month, when JPMorgan Chase (ticker: JPM) finally launched its You Invest Portfolios. You Invest will charge an annual fee of 0.35% and waive the costs on underlying exchange-traded funds. That puts You Invest's pricing roughly in line with that of other major robo providers.

Backend tracks 42 total robos, with nearly every major bank now involved. Goldman Sachs (GS) has yet to offer a full robo product, though the firm acquired a robo-like retirement provider called Honest Dollar in 2016 and the registered investment advisor United Capital Financial Partners in 2019.

Goldman is developing a digital wealth management product that will be part of its Marcus retail brand, a spokesman for the bank said.

The crowded field is helping to push down fees and boost interest rates on savings accounts. But don't expect many new entrants from here on, at least not from independent start-ups. "It's really difficult to compete with Betterment, Personal Capital, and Wealthfront when it comes to ease of use and ability to streamline services," Goldstone observes.

However, legacy players, such as Vanguard, Charles Schwab (SCHW), and Fidelity don't need to win the technology game or offer rock-bottom fees. Their robo products can recruit assets from their existing customer base—a massive opportunity. "They already have a lot of assets paying a lot more in fees," Schapiro says. "They don't need to be the lowest price."

Performance

Robo-advisors enable transparency that is otherwise difficult to find in the traditional financial advisory business. Wealthfront publishes historical returns, for instance, across a variety of risk-adjusted portfolios.

But Backend has done it one better. Beginning four years ago, the firm began opening accounts at every major robo, aiming to standardize the portfolios with an asset allocation of 60% stocks and 40% bonds. Those accounts allow Backend to track and compare performance at each firm; it now has two-year returns for 18 of them. Backend reports those results once a quarter; it provided Barron's with an exclusive look at its second-quarter data. The firm's full report will be released in August.

As of June 30, Fidelity Go has delivered the best performance of the group, with a two-year annualized return of 7.26%. Fidelity Go charges a 0.35% advisory fee with no expenses levied on the underlying funds.

WiseBanyan came in second, with a 7% two-year annualized return. It doesn't impose an advisory fee and has a 0.09% average weighted expense ratio on underlying funds. Robo pioneer Wealthfront came in third, at 6.92%. Its service carries a 0.25% advisory fee and a 0.11% average weighted expense ratio. (See the accompanying table for more results).

The two bottom spots in the performance ranking were occupied by Charles Schwab and BlackRock-owned FutureAdvisor.

Schwab's head of digital advice and innovation, Cynthia Loh, told Barron's in an email that the firm focuses on its clients' long-term returns, as well as access to digital planning tools, live experts, and fees. She noted that Schwab's robo performance over the past three years was better than in the past two. BlackRock declined to comment.

Many of the robo funds have a distinct value-investing tilt, Backend found. And while that screens well historically, value investing has underperformed in recent years, as highflying tech stocks dramatically outpaced the market. While no robo tilts fully toward growth, Backend's analysis found, those closest to neutral (in value versus growth) have outperformed over the past two years. "The three biggest things that have determined investment performance are growth versus value, international versus domestic, and fees," Schapiro says.

Fidelity, of course, may not hold on to the top spot next year. And it wasn't gloating about its returns. "Clearly, performance is important," says John Danahy, Fidelity's head of digital planning experience. But he adds that Fidelity Go is more focused on goals and showing clients' progression. "That's what we're really trying to deliver with Fidelity Go—a sense of visibility into the experience."

The goal-driven approach, Danahy says, is important to Fidelity Go customers, who tend to be younger than the rest of the firm's clients, more web-savvy, and more likely to view investing through a cautionary lens.

Shifting demographics and new customer bases are indeed pushing the robos to evolve on the fly, sometimes pushing investing into the background. "Mark my words," says Goldstone, "six months or a year from now, we're going to be talking a lot more about cash management, spending, and where your direct deposit is going." ■