Robo-Advisors

2021 Q2 Backend Benchmarking report cited in Barron's

Brenda Bloch-Young, August 25, 2021

Barron's partnership with Backend Benchmarking

What is a robo-advisor?

- Robo-advisors are digital platforms that provide automated, algorithm-driven investment services with little to no human supervision.
- Most often automate and optimize passive indexing strategies that follow mean-variance optimization.
- Often very inexpensive and require very low opening balances so that nearly everybody can benefit from a robo-advisor if they choose.
- Best suited for straightforward investing and are not the best options for more complex issues, such as estate planning.

The original mission of robo advice was to give investors access to diversified and risk-appropriate portfolios, and then automate the process to remove the behavioral pitfalls that many investors face.

Backend Benchmarking's process
Reports are issued quarterly and are free

Backend opens accounts that target a moderately aggressive allocation—typically a 60/40 mix of equities and fixed income.

Recent report ranks firms based on 3 years of performance.

Considers fees, human support, and total assets under management.

Robo-advisors now offer ESG funds and access to cryptocurrencies.

The category grew 25% in the last year with $785B under management.

The results reported in Barron's

Robo-advisors use portfolios with a mix of stocks and bonds. Here are the three-year annualized total returns, plus what it all costs.

Robo-Advisor	3-Yr Equity Return	3-Yr Fixed-Income return	3-Yr Overall Return
SoFi	16.1%	4.3%	11.7%
SigFig	15.3	5.8	12.1
E*Trade Core	14.5	6.0	11.3
Betterment	13.8	4.8	11.0
Fidelity Go	14.9	4.4	11.2
Vanguard	15.1	4.4	11.0
Morgan Stanley	13.4	4.9	10.8
Axos Invest	15.3	5.9	12.1
Wealthfront	14.0	5.2	11.6
Ellevest	14.5	3.5	10.0

Specific rankings
Best overall robo-advisor - SoFi Invest

Lowest cost, access to advisors, minimum investment is $5

Sharpe ratio of 0.81

Largest allocation was to SFY, a proprietary fund that invests in the 500 largest U.S. companies.

"SoFi invested around 4% in mid-cap funds and 2% in small-cap funds, which boded well given that the S&P 500 returned close to 67%, cumulatively, for the 3-year period ending June 30, 2021, while the Russell Mid-Cap and Russell Small-Cap returned approximately 58% and 46%, respectively."

Best performance for First-time investors

Betterment wins, with SoFi as the runner up

For a low fee of 0.25% annually, Betterment offers a wide variety of investment options, excellent digital planning tools, and access to CFP-designated advisors.

Offers a smart beta portfolio as well as an income-focused portfolio.

Also offers three new ESG-themed options, including Climate Impact, Social Impact, and Broad Impact.

Intutitive dashboard is rated highly for use in specific financial goals

Best performance for Digital Financial Planning
Wealthfront is the winner

The ability to create a digital financial plan and link outside accounts that "accurately reflect the complexity of an individual's financial life.

"Autopilot" is designed to alert the investor when they holding excess cash above a pre-designated threshold or save for the purchase of a home.

The ease of digital planning is described as "smooth."

Best performance for Complex Planning
Vanguard is the winner

PAS (Personal Advisor Services) is one of the largest robos with $243B in assets at the end of June.

Low management fee at 0.30% and a minimum investment of $50k, an individual is able to work with an advisor on planning.

Do investors realize this is a robo?

Vanguard joined the others in purchasing technology to allocate funds.

A big ding for Schwab….?

$200M fine from the SEC

While it is not entirely clear what the fine was for, speculation is that it is related to the significant cash allocations held in the Intelligent Portfolios.

Backend Benchmarking estimates that investors missed $1.13B in earnings due to cash held in accounts rather than invested in Schwab's fixed income funds.

"Free" has a cost - a fee of 0.30% would have increased income earned by an estimated $531M.

Backend Benchmarking quarterly reports are free.

Generally, we post them to the forum website.

Worth reading as the analysis is becoming more nuanced.