Financial Advice for People Who Aren't Rich

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Your Money

By RON LIEBER

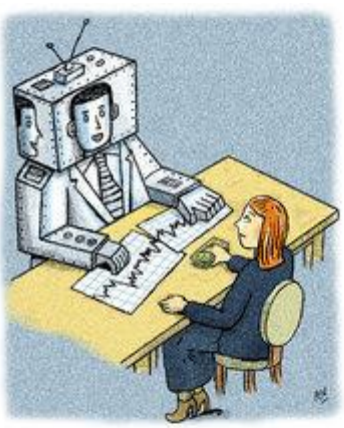
For a couple of years now, a number of entrepreneurs have been racing to solve the same problem: the financial services industry's persistent inability to provide personalized advice and appropriate investments at a reasonable price to customers who are not rich.

It was easy at first for established players to dismiss companies likeBetterment, Wealthfront and LearnVest as robo-advisers, niche services or certain failures. That line of thinking wrote their offerings off as training wheels for know-nothing young adults until they graduated to a grown-up, gray-haired financial adviser — even though these start-ups gathered piles of fancy venture capital money.

But recent developments suggest that those new players may be something more than the starter homes of the personal finance world.

Betterment, which builds and manages investment portfolios of index and exchange-traded funds, realized that 20 percent of its assets were from customers over the age of 50. They were asking for advice on withdrawing their retirement money, and the company is now introducing a service to assist them.

Photo



CreditRobert Neubecker

Then there's the index fund giant Vanguard, whose investment products are often at the heart of the portfolios that these new services are building for their own customers. It is now piloting an offering of its own that nearly matches the new players on price while offering unlimited financial planning along with investment management. That's something that most of the new "we'll run your money for you" companies don't offer.

Vanguard’s full-service offering, called Personal Advisor Services, costs 0.3 percent annually of the assets it’s managing. For now, customers need $100,000 in accounts there to join, but the company plans to drop the minimum to $50,000 at some point soon. An existing Vanguard service that resembles the new one costs 0.7 percent annually on the first $1 million and requires at least $500,000 on balance.

This new program, which has no wait list for now but may add one if too many people sign up, may not work, though Vanguard has spent more than two years planning and testing it. But by extending both investment advice and planning to many more customers and asking them to pay less than half of what some of its other customers already pay, Vanguard is all but admitting that the start-ups were right in identifying an enormous advice gap in the financial services industry.

With this week’s column, we’re introducing a chart on our site that lists these companies and explains their pricing and services. For now, we’ve limited it to services that will help you pick the right index funds or similar investments and rebalance them over time, while charging you less than 0.50 percent of your money each year. Some of the companies charge monthly fees (or no fees at all, like WiseBanyan). We will update this chart as companies come and go and offerings change.

The fact that so many start-ups have jumped into this space speaks to a problem with a basic business model that has plagued the financial advice industry for decades. Helping people sort through their investments, budgets, employee benefits, taxes, estate planning and insurance takes time. No two clients are exactly alike.

If advisers earn their compensation through commissions from investment or insurance companies, then they’re likely to favor those funds and policies. This often isn’t in the best interest of the customers, most of whom ought to be in low-cost index funds. And the better index funds and similar investments tend to come from companies that don’t pay commissions.

Customers can pay advisers directly, and many do pay them 1 percent each year of the money under management. But a large number of the best advisers won’t get out of bed for less than $5,000 or $10,000 annually (drawn from a $500,000 or $1,000,000 portfolio), given the amount of time and resources it takes to do right by a client. Some others charge by the hour and still agree to work in a client’s best interest, but plenty of customers dislike being on the clock.

Some people need no professional help at all. They don’t mind spending time managing their finances. They invest in the right things, don’t bail out when the markets go bonkers and don’t have messy financial situations resulting from inheritances or disabled children or small business tax complications.

But companies like Betterment and Wealthfront realized that many other people wanted a bit of hand-holding when it came to investments. So they built easy-to-use sites that sought customers’ goals and risk tolerance and then put the money in a portfolio of index or exchange-traded funds. To address the question about what these random entrepreneurs know about investing, both companies cite decades of research about the right way to construct their collections of investments and rebalance customer holdings when markets rise and fall.

Inexpensive Advice for Index-Fund Investments

These companies offer help picking and rebalancing index and exchange-traded funds or similar investments, and none charge more than about 0.5 percent of your assets each year for the privilege.

REQUIREMENT

COMPANY/PRODUCT

COSTS

COMMENTS

AssetBuilder

0.20 to 0.45 percent of assets, depending on balance, plus trading costs.

Uses investments from a company called Dimensional Fund Advisors, which creates funds that are similar to index funds but don’t mimic standard indexes precisely.

$50,000.

Betterment

0.15 percent to 0.35 percent of assets.

None, but people with less than $10,000 must deposit $100 or pay $3 each month.

Betterment has a new service that helps people figure out what a safe amount of money is to withdraw for retirement each month.

Folio Investing

Folio Investing has a number of “Ready-to-Go” portfolios of exchange-traded funds that customers can buy in a single transaction.

$29 per month or $290 annually.

None.

(Unlimited Plan)

FutureAdvisor

0.5 percent of assets.

None.

Tax-loss harvesting is included at FutureAdvisor. It also gives advice on your 401(k), which less expensive services may not do.

Hedgeable

0.05 to 0.25 percent of assets; $100 minimum.

Hedgeable also offers a Retirement Plus plan with more active monitoring and charges 0.40 to 0.75 percent of assets.

$5,000.

(Retirement Free Plan)

Jemstep Portfolio Manager

Free for first $25,000; $17.99 to $69.99 per month after that, depending on balance.

Jemstep also evaluates the holdings in your 401(k) or other workplace retirement account, which other services may not do.

None.

MarketRiders

$14.95 per month or $149.95 annually, plus trading costs.

None.

MarketRiders tells you which funds to buy and when to rebalance but doesn’t do it for you. The company’s owners started Rebalance IRA for people who want more help.

Rebalance IRA

None, but there’s a $500 minimum annual fee.

0.5 percent of assets, plus $250 start-up fee, plus trading costs.

As the name suggests, Rebalance IRA specializes in retirement accounts; their service includes human contact with a dedicated adviser.

SigFig

$10 per month.

None.

Trading costs are free if you keep your money at Fidelity, Charles Schwab, or TD Ameritrade. The company trades for you.

Target-Date
Mutual Funds

Vanguard’s are inexpensive and made up of index funds with average costs of 0.17 percent.

Generally very small, if any.

Sometimes companies stuff target-date funds with their own actively managed mutual funds, which can raise costs.

Various companies

Vanguard

0.3 percent of assets.

$100,000.

This is a pilot program, and it's alone among this group in including full-service financial planning in the price.

(Personal Advisor Services)

Wealthfront

Free for the first $10,000; 0.25 percent after that.

$5,000.

Wealthfront does tax-loss harvesting for customers with more than $100,000. This can add a bit to returns under certain circumstances.

WiseBanyan

None.

None.

WiseBanayn is still in beta, so you have to take a spot in line and wait. It intends to make money by charging for tax-loss harvesting and other premium services.

Costs are annual unless otherwise noted. There are also underlying fees for the funds that every one of these services uses, though they tend to be low since they go into index or similar funds. Trading fees, commissions and related charges are included unless otherwise noted; some companies are able to absorb them. Companies that have a range of fees charge less as you give them more money to manage.

Security is a slightly different question. An event like the Ponzi scheme perpetrated by Bernard L. Madoff is exceedingly rare but never entirely impossible, though thieving financial planners do steal money stored with well-known third-party companies, too. Some faith is necessary with any financial services start-up. At the same time, the power of legacy brand names can allow many financial service companies to collect much more in fees than they deserve.

Betterment charges from 0.15 to 0.35 percent of the money under management annually, while Wealthfront runs the first $10,000 without charge and then takes 0.25 percent annually after that. LearnVest takes a different approach, charging a flat setup fee plus continuing monthly fees for advice about your financial life, though it doesn't make specific investment recommendations.

Vanguard casts no aspersions on either approach, and it may well start a service someday that does exactly what Betterment and Wealthfront do. Though its origins are in helping people who want to make their own investment decisions, it's now reacting to the growing number of calls from people who don't know whether they've saved enough and aren't sure how to start spending what they have saved.

"They are increasingly saying, 'How can you help me in more of an ongoing advisory capacity?' " said Karin Risi, a Vanguard principal in advice services and asset management. "This is a big investment and a big aspirational move to say, 'Yes, we want to help many more clients.' " Vanguard plans to move existing customers who are already paying 0.7 percent annually for their advice into the new, less expensive service before too long.

Betterment's new feature feeds a similar need for additional advice. Jon Stein, the company's 34-year-old founder and chief executive, built a product that he wanted to use. But then he started hearing from customers decades older who needed help taking money out as opposed to putting money away.

To assist them, the company created a feature that calculates (and can automatically distribute) a safe monthly withdrawal. You tell it how long you expect to live and your risk tolerance, though the tool's default assumptions are that you will last until 90, that you want a 99 percent chance of not outliving your money and that inflation will run at a 3 percent annual clip. Then it provides a suggested monthly check that comes from a single Betterment account. For now, the tool can't optimize withdrawals based on the tax advantages of pulling money from, say, a regular individual retirement account versus a Roth I.R.A., but the company will add that in the future.

While many traditional financial planners are crossing their fingers and hoping no all-out price war breaks out, there is already some pricing innovation around the edges. New this month is a service called the XY Planning Network. Michael Kitces, a co-founder, had long observed an intense frustration among his younger financial planning peers who couldn't afford to serve average people in their 20s and 30s without pushing bad investments and inappropriate insurance on them. The network will pair consumers up with planners who are willing to work on a monthly retainer and make money only from the fees they charge their customers. The network is considering teaming up with Betterment to handle investments so its planners can focus on all of the other aspects of their customers' financial lives.

That potential pairing suggests the possibility that all of these services are, in fact, complementary and not competitive, but you wouldn't know it by viewing a hysterical video making the rounds in the industry. Set to spooky music, it warns consumers about robo-advisers and reminds them that "you are a person, not a number; you're an individual, not an algorithm."

Still, Betterment and Wealthfront can have their algorithms help run portfolios, and human advisers at LearnVest and XY Planning Network and the more traditional financial planning and wealth management firms can hold the hands of beginners and help people as their financial lives get more complex. Vanguard will try to do it all without charging very much for the privilege, and other brand-name companies will no doubt jump in with their own efforts.

Not all of these players will survive, but their sheer number will probably bring prices down even further or force established advisers to do more to justify their existing fees. As long as nobody runs off with the money, consumers stand to gain over the long term from all of the people now clamoring to do the best job of helping them out.

Correction: April 15, 2014

The Your Money column on Saturday, about online sites that offer inexpensive investment services, misstated one of the assumptions in a calculator provided by one such site, Betterment. The calculator's default setting assumes that users want a 99 percent chance of not outliving their money, not a 99 percent chance of outliving their money. A chart accompanying the article also misstated, in some editions, the investment minimum for another site, Wealthfront. The minimum is $5,000, not $0.

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