

EVALUATING ROBO ADVISOR OPTIONS

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Affordable Active Alpha | Built to Beat Behavioral Bias | We Empower Investors Through Education

Objectives

Introduce who we are

Walk through the full spectrum of “robo advisors”

Highlight key things to consider when selecting a robo advisor (for individuals and RIAs)

Discuss key trends in the robo landscape and what that means for investors and advisors

Feel free to ask questions at any time!

Rule #1: Always start presentation with a joke

Bank Of America Introduces New \$50 Underdraft Fee

NEWS IN BRIEF

September 9, 2014

VOL 50 ISSUE 36

News · Business · Money · Finance



MOST POPULAR

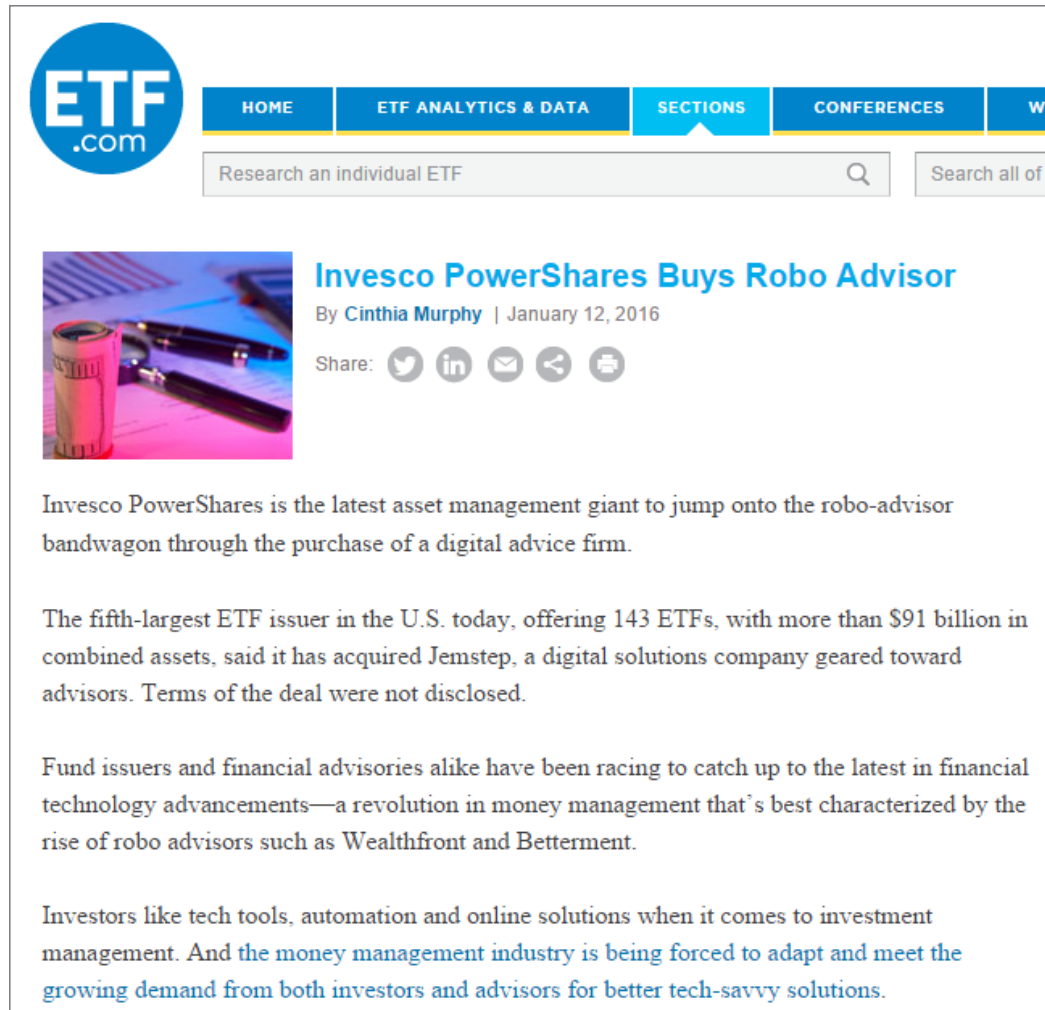
- 1 Signs Of Dinosaur
- 2 Your Horoscopes 2016
- 3 How To Arrange
- 4 Area Dad Stares I Grill In Backyard
- 5 Aw, Fer Crying O

CHARLOTTE, NC—Saying the penalty will cover the costs incurred by the financial institution whenever a customer makes a withdrawal that results in a positive account balance, Bank of America introduced a new \$50 underdraft fee Tuesday on all checking and savings accounts. “Beginning today, we will assess a fee on customers who withdraw less

A humorous reminder to always understand ALL of the costs...



Rule #2: Share relevant news developments



The screenshot shows the ETF.com website interface. At the top left is the ETF.com logo. A navigation bar contains links for HOME, ETF ANALYTICS & DATA, SECTIONS, CONFERENCES, and WE. Below the navigation bar is a search bar with the placeholder text "Research an individual ETF" and a magnifying glass icon. To the right of the search bar is another search bar with the placeholder text "Search all of E".

The main article is titled "Invesco PowerShares Buys Robo Advisor" by Cynthia Murphy, dated January 12, 2016. The article includes a share button with icons for Twitter, LinkedIn, Email, Facebook, and Print. The article text is as follows:

Invesco PowerShares is the latest asset management giant to jump onto the robo-advisor bandwagon through the purchase of a digital advice firm.

The fifth-largest ETF issuer in the U.S. today, offering 143 ETFs, with more than \$91 billion in combined assets, said it has acquired Jemstep, a digital solutions company geared toward advisors. Terms of the deal were not disclosed.

Fund issuers and financial advisories alike have been racing to catch up to the latest in financial technology advancements—a revolution in money management that's best characterized by the rise of robo advisors such as Wealthfront and Betterment.

Investors like tech tools, automation and online solutions when it comes to investment management. And the money management industry is being forced to adapt and meet the growing demand from both investors and advisors for better tech-savvy solutions.

Bottom Line Up Front

- 1 When selecting a robo, **brokerage costs and capabilities matter**
- 2 There is **no “one-size fits all”** option for RIAs / Investors
- 3 Programming is getting cheaper. **Don't overspend**



A quick introduction to Alpha Architect

Founded in 2010 by Dr. Wesley R. Gray

Systematic, active manager with ~\$275M in AUM

Long-time user & advocate of Interactive Brokers

Developed white label robo advisor

Free educational tools, books, blog

- ❑ blog.alphaarchitect.com
- ❑ Twitter → @alphaarchitect
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The robo marketplace has exploded



The Motley Fool



Key to understand all in core value proposition and all-in costs.

Five key dimensions of a “robo-advisor”

Trading Costs



What are the “all-in” trading costs?

Active vs. Passive



Trend following? Active Strategies? Hedging?

Fees (all-in)



Underlying? Management? Technology?

User Interface



How does the robo enhance the user experience?

**For RIAs:
White label?**

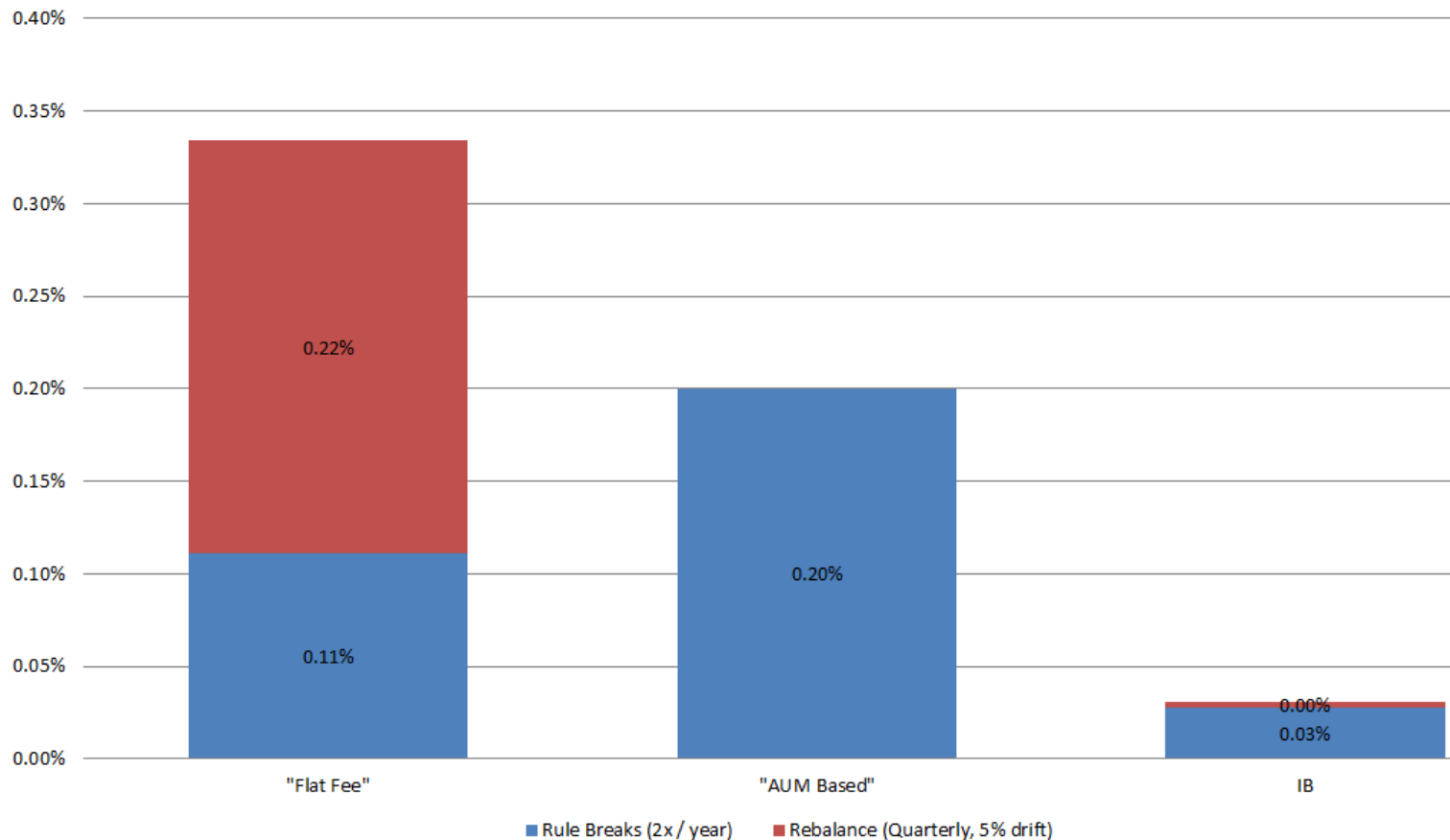


For RIAs only: Can this technology be white-labeled?



Trading costs matter!

Trading Cost Comparison (% of AUM)



- 7 ETF portfolio, equal weight
- Risk management applied to each ETF
- \$100k total account size, \$25 / share
- Rule "triggers" 2x (7 x 2 = 14 trades)
- Flat Fee = \$7.95 / trade
- AUM Based = 20bps total AUM / year
- Rebalanced quarterly, 5% drift (each asset)

Case study: robo advisors emerging on IB platform



“Matchmaker” for managers & investors

White label IB App

Mgmt Fees: 0.3%-1.5%

Brokerage Fees: Low

For investors & advisors




Private Wealth Mgmt, for active investors

White label IB App

Mgmt Fees: 0.25%

Brokerage Fees: None

For investors



White label robo platform for Advisors

White label IB App + Portal + Portfolio Mgmt

\$100-\$200 / month (AUM dependent)

Brokerage Fees: Low

For advisors

Where are the robots going: trends for the future

Trading Costs



Pricing pressure will push trading fees downward. Passive BDs will get “creative” while active strategies migrate towards IB.

Active vs. Passive



Actively managed strategies will incorporate / develop robo offerings

Management Fees



Management fees for passive strategies will push lower. Active mgmt fees will reside in underlying assets and / or risk management

User Interface



User experience continues to improve as programming costs decline

For RIAs: White label?



RIAs will incorporate some aspect of robo advising in their practices (ignore at your own peril)



Recap – the bottom line

- 1 When selecting a robo, **capabilities and brokerage costs matter**
- 2 There is **no “one-size fits all”** option for RIAs / Investors
- 3 Programming is getting cheaper. **Don't overspend**



Where you can learn more

Email pat@alphaarchitect.com with specific questions / requests for more info

TradingFront (white label robo platform at IB, launch March, 2016) → www.tradingfront.com

Alpha Architect Advisor (PWM for active clients) → www.alphaarchitect.com/robo

Covestor (matchmaker for emerging managers) → www.covestor.com



Questions?

www.alphaarchitect.com/contact

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CONTACT US

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First Name *

Last Name *

Email *

Contact Number *

Description of Request *

Feel free to contact us on our site:
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QUESTIONS?

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