



# Advancing Financial Advice

*Complete Guide to Online Investment Alternatives*

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**Volume Three - January 2013**



## Executive Summary

Corporate Insight continues its exploration of emerging online investment alternatives with Volume Three of *Advancing Financial Advice*, following up on our [second study](#) published last August. In this edition, we expand our coverage group and provide a comprehensive matrix of the 37 startups we track. As with our previous research on the topic, our goal is to offer a clear understanding of what these startups provide and how their products, services, fees and overall business models differ from each other and from the traditional investment industry's offerings.

This study begins with background on why we are seeing such a sudden proliferation of startup online investment alternatives. We then profile 37 firms that are challenging the investment industry's existing model of financial guidance and investment selection. This group provides a range of services, from free algorithm-based investment recommendations, to access to a financial advisor via the Web, to themed "motif" funds.

We have organized our profiles into eight groups based on business model. For each group, we present a matrix that allows for easy comparisons between similar firms. Most firms in this study share three strengths – transparency on fees and performance, lower costs, and modern and user-friendly online platforms. They also tend to share one major weakness – they don't do enough to demonstrate their investment expertise and trustworthiness to prospects. This is a major gap that continues to limit the appeal of these alternatives, at least for the time being.

Since innovation usually comes to large firms via acquisition or replication, the established industry should pay close attention to these newcomers. Trade mimicking, or letting users "follow" and then copy professional money managers in real time, is one innovative approach that self-directed brokerage firms could emulate. This could encourage less experienced investors to trade, an enticing prospect for brokerage firms dependent on transaction fees. Full-service firms could also experiment with delivering guidance via the Web and video chat, rather than making the branch office visit and the occasional phone call the crux of the relationship.

Whether or not individual brokerage firms embrace some combination of these online alternative models, the broader retail investment industry will likely feel their collective impact. Each new competitor struggles with raising awareness and achieving scale, but as a whole, they exert pressure on existing investment industry players to offer greater transparency, lower costs, and more modern and usable online platforms. In the long term, consumer demand for cheaper and more transparent financial solutions shows no sign of abating. As a result, we expect the number of these investing and advice start-ups – and their unique business models – to continue to grow.

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## Introduction

In the past 12 months, we've seen an unprecedented proliferation of startups offering investment solutions through the online channel. We've spoken with several of the founders of these firms to get their thoughts on this development. Collectively, they point to several factors driving this growth.

Fairly or not, these executives view the investment industry as long overdue for disruption. Transaction fees are near historical lows for self-directed firms, but full-service brokerages still often charge in excess of \$100 for a simple stock trade. At the same time, they have raised their account minimums and concentrated their efforts on a small sliver of high net worth investors. Many self-directed firms have tried to step into this gap by offering basic financial guidance and wrap accounts, but few can match the sophisticated money management that full-service firms provide. The result is a mass market that lacks access to sophisticated financial products, tailored advice and hands-on help with investment selection.

Online investment startups also benefit from two major factors – technology and the rise of the ETF. Technological improvements have made it easier to build online platforms. As one entrepreneur put it, “the challenge is now more about achieving scale than it is creating the API.” Many startups use Yodlee’s account aggregation service to scrape account information from external accounts, for example. Meanwhile, the rise of ETFs has also made it significantly easier to offer a low-cost diversified portfolio compared to assembling a portfolio of individual securities or mutual funds.

While entrepreneurs agree on the forces that are spurring innovation, they have brought a broad variety of products and services to market in response. Many do follow similar themes, though; we have classified these 37 firms into eight main product types:

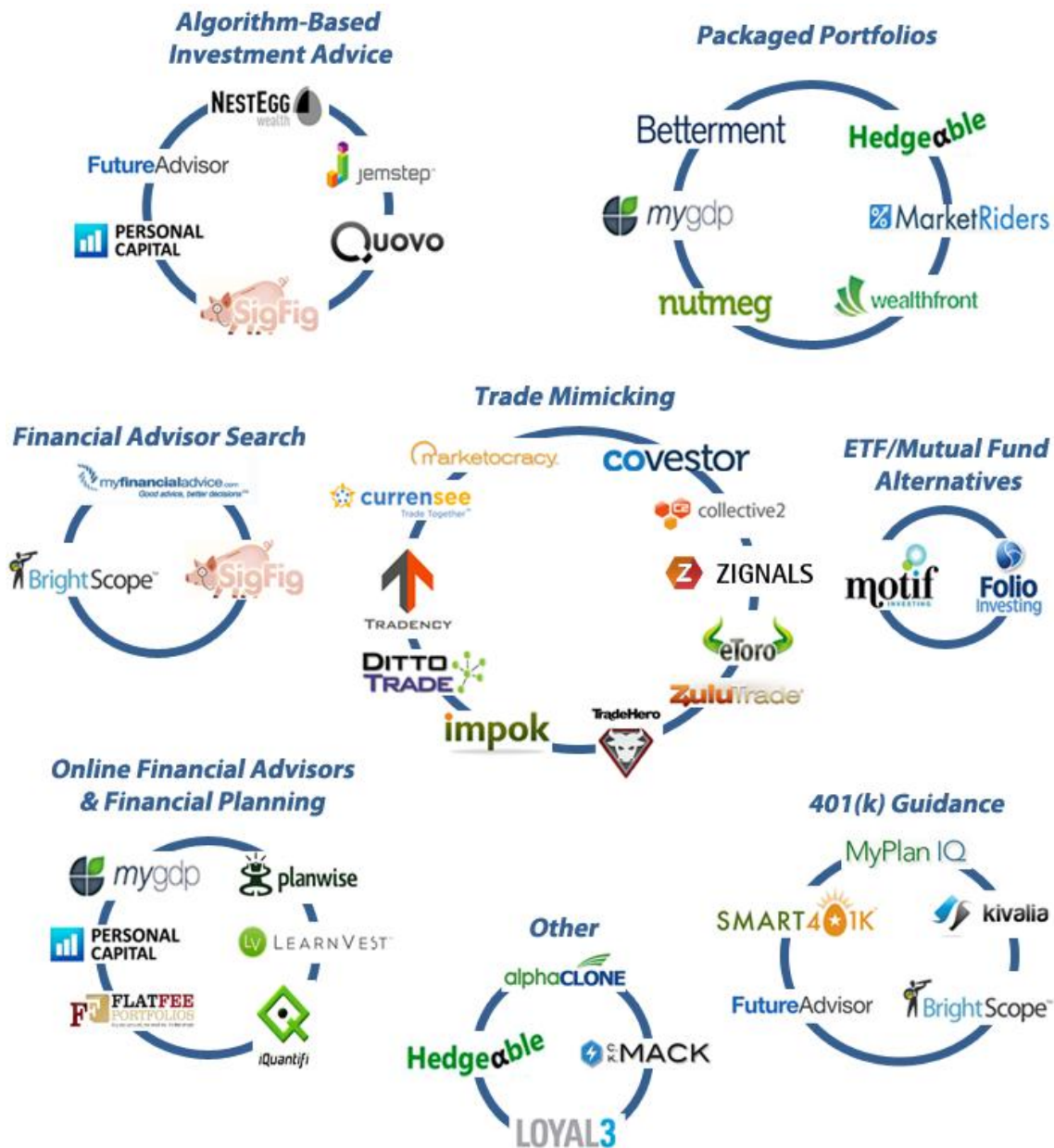
- Algorithm-based investment advice
- Packaged portfolios
- Financial advisors and financial planning
- Online financial advisor search
- Trade-mimicking platforms
- ETF/mutual fund alternatives
- 401(k) guidance
- Other

Our research focuses on firms that provide investment products, financial advice or help with investment selection. This does not include other areas of finance, like mobile payments, crowdfunding platforms, investing-related “gamification” sites, firms that focus exclusively on investor education and “wisdom of the crowd” community platforms. For the time being, to focus on new and independent innovators, we also ignore firms that have been acquired by major players, such as [Veritat Advisors](#), which was acquired by LPL Financial in July.

Even with those exclusions, we are left with a broad group of startups and small companies. Our matrix profiles 37 of these firms grouped into eight different product types. Each grouping has a short introduction followed by a description of each firm’s free and paid services, minimums and fees, as well as mobile, social and educational offerings. The matrix is from the perspective of retail investors and does not include enterprise partnerships or institutional services.

Many firms fall into multiple product categories and are thus listed in more than one section. Other firms are still too early in the beta process to be definitively classified or reviewed. Where appropriate, we describe such firms in the relevant product category introductions. We also include international firms.

With those qualifications in mind, our coverage group for this study includes:



## I. Algorithm-Based Investment Advice

Four startups offer free algorithm-based recommendations for improving an investment portfolio based on aggregating users' outside accounts. Several others plan to use account aggregation to offer portfolio advice in the near future. The capabilities of these tools are growing increasingly sophisticated, though the best available automated investment advice is essentially an advanced fund screener. Such advice can also include general guidance on the risks, costs, diversification, asset allocation and/or tax efficiency of the users' portfolio.

Betas to watch – [Nestegg](#) and [Quovo](#)

Firm name	Free Services* <small>*Excludes trial/demo accounts</small>	Paid Services	Minimums & Fees	Mobile, Social* & Investor Education <small>*excluding blogs &amp; Facebook/Twitter accounts</small>
<a href="#">FutureAdvisor</a>	The Basic service gives users access to the firm's read-only financial dashboard and investment advisory resources, including specific recommendations for reducing fees, improving tax efficiency, addressing gaps in asset classes and buy/hold/sell advice for individual holdings. The firm also lists approximately 325 401(k) plans including fee information as well as recommended conservative/moderate/aggressive model portfolios.	The Premium service, currently in private beta, sees FutureAdvisor maintain the client's portfolio and rebalance it as needed.	The Premium service is still in beta and the exact fee has not been finalized. The firm stated that it will be a flat fee not tied to asset level.	None
<a href="#">Jemstep</a>	Jemstep offers a financial dashboard and helps investors identify the best ETF/mutual fund investment options based on their risk tolerance and financial goals. Users assign linked accounts to one of four different financial goals: retirement, college savings, large purchase (e.g., buying a home) or wealth building. The stated goal will affect what Jemstep recommends.	A "fee-based asset allocation product" is "coming soon."	None	None
<a href="#">Personal Capital</a>	Creating an account gives users access to a financial dashboard and an "Investment Checkup" for free financial advice. The Investment Checkup addresses the risks, costs and asset allocation of the client's portfolio. A 401k Fee Analyzer tool also projects 401(k) fees based on factors like annual contributions.	Personal Capital financial advisors offer two solutions: Personal Funds and Personal Strategy. Personal Funds lets clients direct what asset classes they would like the firm to invest in on their behalf. Personal Strategy is a custom, comprehensive portfolio designed by a financial advisor that includes tax minimization planning. The firm also offers other financial services such as check writing, deposit accounts through EverBank and a Personal Capital 401(k) accessible from a <a href="#">separate website</a> .	The minimum for an advised relationship is \$100,000. The fee structure for Personal Strategy and Personal Funds is the same, starting at 0.95% for the first \$250,000.	Offers iPhone, iPad and Android apps.
<a href="#">SigFig</a>	Provides a financial dashboard and investment recommendations. The firm scans the users' funds and ETFs for high-cost and/or poor-performing holdings and suggests specific alternatives. Analysis of fees/commissions and advisor performance are provided as well. The firm may also recommend advisors from its vetted network of FAs, potentially earning SigFig a referral fee.	None	None	Apps for the iPhone, Android and Windows tablets are available. Dedicated apps for Android tablets, Windows phones, Kindle Fire, the Nook and the iPad are "coming soon."

## II. Packaged Portfolios

“Packaged Portfolio” is an admittedly broad term for a group of products that have been described in a variety of ways, from low-cost managed accounts to target date allocations. These solutions see all clients buy into the same portfolio of ETFs, with an allocation based on responses to a questionnaire that determines risk tolerance, financial goals, etc. The portfolio is rebalanced (usually quarterly) by the firm or the user, and the pricing method is either a flat subscription fee or a low asset-based fee. We track five major players in this space – Betterment, Hedgeable, MarketRiders, MyGDP and Wealthfront.

While not covered in the matrix below, one international firm to keep an eye on is London-based [Nutmeg](#). Clients establish financial goals (e.g., retirement, home purchase) and Nutmeg will determine the ideal portfolio and allocation from about a dozen or so ETFs. The firm will rebalance the account as needed and charges a management fee between 0.3% and 1%. Its services are currently only available to U.K. residents.

Firm name	Free Services* <i>*Excludes trial/demo accounts</i>	Paid Services	Minimums & Fees	Mobile, Social* & Investor Education <i>*excluding blogs &amp; Facebook/Twitter accounts</i>
<a href="#">Betterment</a>	None	Client assets are invested in a packaged portfolio with varying asset allocations based on risk tolerance, financial goals, etc. Assets can be organized into separate financial goals (e.g., retirement) with different allocations for each goal. Clients with over \$100,000 in their account are entitled to a portfolio review with the firm’s CEO to see if it needs to be customized based on their needs.	Builder tier: 0.35% fee+\$100 minimum monthly deposit Better tier: 0.25% fee+\$10,000 minimum balance Best tier: 0.15% fee+\$100,000 minimum balance	Offers an iPhone app that is also compatible with the iPad. The firm plans on using some of the money from a recent financing round to improve its mobile offerings.
<a href="#">Hedgeable</a>	The Retirement Free program offers clients ETF and mutual fund portfolio options. The specific allocation is based on clients’ responses to a questionnaire. The allocations are monitored and rebalanced when they stray from the target. Clients only pay brokerage fees.	The Retirement Plus program lets investors choose from 10 different models, such as <i>Target Date Retirement 2026-2035</i> or <i>Multi-Strategy Stock</i> . The firm emphasizes that the allocations within this program are actively risk managed, or hedged, hence the name of the company. The High-Net Worth program offers a selection of 28 different models.	The minimum for Retirement Free is \$5,000 for the ETF option and \$25,000 for the Mutual Fund option. The Retirement Plus Program requires a minimum of \$50,000 and a yearly fee of 0.6%-0.8%. High-Net Worth requires at least \$500,000 and a fee of between 0.5% and 0.7%.	Offers a Knowledge Center that includes four lessons and videos.
<a href="#">MarketRiders</a>	None	MarketRiders’ software offers clients three options. The first is a packaged portfolio of nine ETFs across six asset classes with an asset allocation determined by a questionnaire. The second creates a portfolio from scratch, where users set a custom allocation among 13 potential asset classes. Clients then pick from MarketRiders’ list of recommended ETFs for each asset class to create their portfolio. The third uses one of MarketRiders’ templates as guidance. Once users have chosen an option and created their portfolio, they are responsible for placing the trades with their	MarketRiders’ subscription service costs \$149.95 per year or \$14.95 per month. If the client holds an account at one of four firms that offer commission-free trades on selected ETF/index funds, MarketRiders will customize the recommendations to identify equivalent ETFs in each asset class that minimize trading cost.	The Become A Better Investor section offers educational content for investors including webinars.

Firm name	Free Services* <i>*Excludes trial/demo accounts</i>	Paid Services	Minimums & Fees	Mobile, Social* & Investor Education <i>*excluding blogs &amp; Facebook/Twitter accounts</i>
		brokerage. MarketRiders sends rebalancing alerts as needed. The firm's managed account product has recently been split off as a separate service, <a href="#">RebalanceIRA</a> .		
<a href="#">MyGDP</a>	Offers a free Portfolio Tracker account. Still in beta, this service provides variety of financial tools including a dashboard that aggregates outside accounts.	MyGDP offers managed "Smart Portfolios" for a yearly fee or for a subscription fee (beta) where users can follow buy/sell instructions from the firm. MyGDP also provides financial advisors that can create a customized portfolio with tax-loss harvesting and adjustments such as a value slant, a dividend focus or additional asset classes.	The subscription service, still in beta, costs \$20 a month. Managed Smart Portfolios require at least \$100,000, and working with a financial advisor requires \$500,000. Fees are the same for both and range between 0.4% and 1%, depending on the client's asset level and which strategy they opt for.	Clients who have an advisor receive a free iPad from MyGDP.
<a href="#">Wealthfront</a>	While not an intended service, users can complete the questionnaire and see what portfolio of ETFs the firm recommends before an account is opened.	Wealthfront invests client assets in a portfolio of the same six ETFs, five from Vanguard and one from iPath. The firm buys and sells on behalf of the client in order to maintain the custom asset allocation. Automated tax-loss harvesting is available for non-retirement accounts that meet the minimum balance requirements.	The minimum account size is \$5,000 and the first \$25,000 is managed for free. An advisory fee of 0.25% a year is charged on the portion of an account over \$25,000. Tax-loss harvesting services are free for clients with over \$100k in assets.	None



### III. Financial Advisor Search

Conventional wisdom says that an investor’s relationship with a financial advisor typically begins through a referral from a personal connection. Some startups are challenging that notion by offering tools to let investors search for an advisor based on different criteria. This idea is still in its infancy, but given how much consumers already rely on online search, “shopping” for an advisor is an interesting possibility.

In general, we have identified two models here, both based on the potential for generating referral fees. The first is a standalone search engine of either vetted advisors or all registered advisors drawing from publicly available information. The second model is to incorporate a searchable vetted listing of financial advisors into the core online product that help users identify advisors and for advisors to identify potential clients. Among the entrepreneurs we’ve spoken with, several plan on adding an advisor search functionality to their website.

Most full-service brokerage firms already offer tools on their website to let users search for advisors employed by the firm. Notably, Ameriprise lets users search [through their LinkedIn account](#).

Firm name	Free Services* <i>*Excludes trial/demo accounts</i>	Paid Services	Minimums & Fees	Mobile, Social* & Investor Education <i>*excluding blogs &amp; Facebook/Twitter accounts</i>
<a href="#">BrightScope</a>	BrightScope provides a searchable directory of 770,000 financial advisors and 45,000 financial advisory firms. Users can search by name, state, area of expertise, compensation structure (e.g., asset-based or fixed fee), current employer, A.U.M and/or client type (e.g., individuals, pensions, corporations, etc.). Advisor profile pages include publically available information such as licenses and employment history. Users can compare advisors side-by-side, and if an advisor has signed up for the network users may find other information such as their fee structure, membership in associations and social media profiles. Users can also look up a listing of 45,000 401(k)/403b/457 and proprietary 401(k) rankings.	None	None	Users can post questions in an online forum that may be answered by financial advisors. Users can also sync their LinkedIn account with their BrightScope account
<a href="#">MyFinancial Advice</a>	MyFinancialAdvisors offers users a searchable vetted network of financial advisors. Users can search by name, state or by a specific concern they have, e.g. “Should I take a second mortgage or a home equity line?” The website provides profiles for advisors including their fees and certifications. Once an advisor is identified, Users can request a free consultation over the phone or by email. This listing includes professionals specializing in the areas of investing, financial planning, taxes, insurance, mortgage and lending, and employee benefits.	None	None	None
<a href="#">SigFig</a>	Provides a financial dashboard and investment recommendations. The firm scans the users’ funds and ETFs for high-cost and/or poor-performing holdings and suggests specific alternatives. Analysis of fees/commissions and advisor performance are provided as well. Based on this analysis, the firm may recommend advisors from its vetted network of FAs, potentially earning SigFig a referral fee.	None	None	Apps for the iPhone, Android and Windows tablets are available. Dedicated apps for Android tablets, Windows phones, Kindle Fire, the Nook and the iPad are “coming soon.”

## IV. Online Financial Advisors & Financial Planning

Many of the firms in this paper offer some form of interaction with an advisor. Most of those firms are not included in this category, however, as that relationship boils down to the investor speaking with an advisor over the phone to determine the selection and timing of the core product. Only three firms offer more advanced services, and we don't yet see an online version of the traditional full-service advisor. That said, if these online relationships prove viable, comprehensive online advisory services may become feasible over time. This group also includes startups that specialize in financial planning without the input of an advisor, attempting to replicate that aspect of a financial advisor's value proposition.

[iQuantifi's](#) service, still in beta, aggregates outside accounts and offers automated financial planning advice towards achieving financial goals.

Firm name	Free Services* <i>*Excludes trial/demo accounts</i>	Paid Services	Minimums & Fees	Mobile, Social* & Investor Education <i>*excluding blogs &amp; Facebook/Twitter accounts</i>
<a href="#">Flat Fee Portfolios</a>	None	Investors work with a CFP in one of two product tiers based on assets. The Emerging Investors Program (<\$250,000) offers modified Passive ETF and Active portfolios with annual client reviews. For a portfolio over \$250,000, clients have access to the Passive (utilizing Dimensional Funds and ETFs), Active, Tactical and Alternative portfolios with semi-annual client reviews. The CFP is also available to provide investment planning services, though such services are considered separate engagements and must be agreed upon in advance.	There are no account minimums, but the firm does not "recommend this program be utilized for accounts under \$100,000." The advisory fee for accounts under \$250,000 is \$129 per month. For accounts with over \$250,000 the fee is \$199 per month. With \$1,000,000, the fee is 0.24% of assets. The hourly rate for investment planning services is "based on the scope and complexity of the project and ranges from \$150 per hour to \$200 per hour."	The firm offers an Investor Resource Center with some educational content, including a fee calculator
<a href="#">LearnVest</a>	A variety of free online resources for women are available, including a "bootcamp" educational email series and the My Money Center financial dashboard that aggregates outside accounts and helps users stay on budget.	LearnVest offers three tiers of financial planning through a CFP that include access to online courses and different levels of email and phone support. The three tiers are a budgeting program, a 5-year financial plan and a portfolio builder subscription that assesses the client's portfolio, risk tolerance, asset allocation, etc. – though the advisor gives no security-specific recommendations.	The Budget Starter= \$89/year The 5-Year Planner= \$349/year The Portfolio Builder= \$599/year	Offers an iPhone app and a comprehensive Knowledge Center that covers major personal finance topics and includes quizzes, calculators and videos. Users can also post on LV's online forum that covers a range of topics, from budgeting and saving to motherhood.
<a href="#">MyGDP</a>	Offers a free Portfolio Tracker account. Still in beta, this service provides variety of financial tools including a dashboard that aggregates outside accounts.	MyGDP offers managed "Smart Portfolios" for a yearly fee or for a subscription fee (beta) where users can follow buy/sell instructions from the firm. Alternatively, MyGDP financial advisors can create a customized portfolio with tax-loss harvesting and adjustments such as a value slant, a dividend focus or additional asset classes.	The subscription service, still in beta, costs \$20 a month. Managed Smart Portfolios require at least \$100,000 and working with a financial advisor requires \$500,000. Fees are the same for both and range between 0.4% and 1%, depending on the client's asset level and which strategy they opt for.	Clients who have an advisor receive a free iPad from MyGDP.

Firm name	Free Services* <i>*Excludes trial/demo accounts</i>	Paid Services	Minimums & Fees	Mobile, Social* & Investor Education <i>*excluding blogs &amp; Facebook/Twitter accounts</i>
<a href="#">Personal Capital</a>	Creating an account gives users access to a financial dashboard and an “Investment Checkup” for free financial advice. The Investment Checkup addresses the risks, costs and asset allocation of the client’s portfolio. A 401k Fee Analyzer tool also projects 401(k) fees based on factors like annual contributions.	Personal Capital financial advisors offer two solutions: Personal Funds and Personal Strategy. Personal Funds lets clients direct what asset classes they would like the firm to invest in on their behalf. Personal Strategy is a custom, comprehensive portfolio designed by a financial advisor that includes tax minimization planning. The firm also offers other financial services such as check writing, deposit accounts through EverBank and a Personal Capital 401(k) accessible from a <a href="#">separate website</a> .	The minimum for an advised relationship is \$100,000. The fee structure for Personal Strategy and Personal Funds is the same, starting at 0.95% for the first \$250,000.	Offers iPhone and iPad apps, with Android apps currently in beta.
<a href="#">Planwise</a>	Planwise is a tool that helps users with financial planning. Users first input their current financial situation, including such factors as bank balance, monthly income and monthly expenses. Users then enter financial goals (e.g., buying a home or a car) and see how it affects their projected net income, bank account balance and/or total debt. The tool also suggests relevant financial products.	None	None	Offers an iPad app.

## V. ETF/Mutual Fund Alternatives

Folio Investing and Motif Investing offer an enticing alternative to mutual funds/ETFs where investors actually own all of the underlying securities. For example, once a client has purchased a Large-Cap Blend Folio or an International Bonds Motif, they can buy/sell either the individual stocks in the basket or all of the shares at once. Users also have the option to “create their own” fund at both of these firms. Compared to a mutual fund or ETF, this approach gives investors greater flexibility and can help reduce tax liabilities.

Firm name	Free Services* <small>*Excludes trial/demo accounts</small>	Paid Services	Minimums & Fees	Mobile, Social* & Investor Education <small>*excluding blogs &amp; Facebook/Twitter accounts</small>
<a href="#">Folio Investing</a>	<a href="#">Watch Accounts</a> offer virtual stock trading using the same trading screens and tools that Folio Investing funded account holders use.	Folio’s stock, ETF and mutual fund brokerage services include access to their proprietary alternative to mutual funds, Folios. A Folio is a collection of stocks, funds and/or ETFs that can be bought, sold, rebalanced or customized in a single transaction. 160 “Ready-to-Go Folios” designed to follow a specific investment objective (e.g., BRIC Folio, Small-Cap Value Folio) are available. Ready-to-Go Folios are updated and/or rebalanced periodically and clients are notified by email when this occurs.	The Unlimited Plan is \$29 a month or \$290 a year, and includes free “window trading” and \$3 real-time trading. Window trades at Folio see the firm match trades internally before sending the remaining orders to market twice a day at 11am and 2pm. The Basic plan charges \$15 per quarter if fewer than 3 trades are placed, \$4 per window trade and \$10 for real-time trades. Investing in a Folio entails no extra cost.	None
<a href="#">Motif Investing</a>	None	Motifs are a proprietary alternative to mutual funds/ETFs. Users own all of up to 30 stocks in a motif, each designed around a “theme.” For example, those who believe tablets are the future of computing can invest in the Tablet Takeover motif. On a quarterly or yearly basis, benchmark motifs are reviewed and the stocks, segments and weights are adjusted as needed.	There is no minimum to open an account, but the minimum for a purchasing a Motif is \$250. Buying or selling a motif costs \$9.95. Once the motif is purchased users can opt to buy or sell shares of the stocks in the motif at their own discretion for \$4.95 per stock.	Users can post on an online forum, interact with other members and can rate/comment on individual Motifs

## VI. 401(k) Guidance

As more and more Americans near retirement, several startups have begun to offer 401(k) advice. Three firms provide free services where users can look up a 401(k) plan on file and receive a recommended conservative/moderate/aggressive model portfolio based on the available fund investments. Two provide more personalized subscription-fee services tailored to the individual's personal situation, one through a CFP (Smart401k) and one via software (MyPlanIQ).

Firm name	Free Services* <i>*Excludes trial/demo accounts</i>	Paid Services	Minimums & Fees	Mobile, Social* & Investor Education <i>*excluding blogs &amp; Facebook/Twitter accounts</i>
<a href="#">BrightScope</a>	BrightScope provides a searchable directory of financial advisors and financial advisory firms. Users can also look up a listing of 45,000 401(k)/403(b)/457 plans for information on net plan assets, average account balance, etc. BrightScope provides proprietary rankings for each 401(k) for factors such as fee level and participation rate.	None	None	Users can post questions in an online forum that may be answered by financial advisors. Users can also sync their LinkedIn account with their BrightScope account
<a href="#">Kivalia</a>	Users can find plan information as well as what Kivalia has identified as the ideal conservative, moderate and aggressive allocations using the available funds. Users can "follow" a plan and receive email and website-based notifications when the model portfolio is rebalanced or changed. Users also have the option to look up stocks, funds and ETFs for information on performance, returns, risk, style, etc.	None	None	None
<a href="#">FutureAdvisor</a>	The Basic service gives users access to the firm's read-only financial dashboard and investment advisory resources, including specific recommendations for reducing fees, improving tax efficiency, addressing gaps in asset classes and buy/hold/sell advice for individual holdings. Also lists approximately 325 401(k) plans including fee information as well as recommended conservative/moderate/aggressive model portfolios.	The Premium service, currently in private beta, sees FutureAdvisor maintain the portfolio and rebalance it as needed.	The Premium service is still in beta and the exact fee has not been finalized. The firm stated that it will be a flat fee not tied to asset level.	None
<a href="#">MyPlanIQ</a>	MyPlanIQ is a web-based application that generates allocation strategies for range of investment plans such as 401(k)s, IRAs and brokerage accounts. These recommendations are either strategic/tactical model portfolios or customized strategies incorporating factors such as risk profile or the number of years until retirement. Subscribing to the Equal Weighting Strategic Asset Allocation is the only free option, however. A variety of additional resources is available, including educational articles, a newsletter as well as data and analysis for the market, asset classes and funds.	Three different paid tiers are offered, all of which include rebalancing notifications via email and the online dashboard. The basic plan offers the Tactical Asset Allocation or Strategic Asset Allocation – Optimal (described as "strategic allocations derived from long term asset trends and their correlation"). Expert and Pro tiers give clients access to 18 different advanced strategies, such as the Goldman Sachs Global Tactical Asset Allocation or the High Yield Bond Alpha. These tiers also include the option to create a unique plan with	Basic costs \$99.95 per year or \$9.95 per month monthly. Expert costs \$299.95 a year or \$29.95/month. Pro costs \$499.95/year or \$49.95/month	Users can comment on and/or rate security, fund or plan-specific pages. A separate Communities tab provides access to online discussion boards covering various retirement and investing topics.

Firm name	Free Services* <i>*Excludes trial/demo accounts</i>	Paid Services	Minimums & Fees	Mobile, Social* & Investor Education <i>*excluding blogs &amp; Facebook/Twitter accounts</i>
		candidate funds of the client’s choosing. A Pro user gets a higher quota of such create-your-own plans.		
<a href="#">Smart401k</a>	None	Offers a subscription service whereby clients receive personalized, fund-specific 401(k) recommendations as well as the support of advisors available by phone, email or chat. Updated recommendations are sent at the beginning of each quarter by email as needed. Smart401k advisors must meet the following requirements: a bachelor’s degree, a minimum of two years of financial industry experience, Series 65 Registration and the Certified Financial Planner (CFP) or Chartered Financial Analyst (CFA) designation (or be working toward at least one of them).	A quarterly plan costs \$59. A discounted annual plan costs \$199.95.	Offers an online education center with a variety of resources including six calculators and a basic asset allocation tool.

## VII. Trade Mimicking

Rather than directly investing assets with a money manager, a trade-mimicking platform gives investors the ability to “follow” a money manager by copying that manager’s portfolio and each trade they make on an ongoing basis. This is done in one of two ways. The first is an auto-trade functionality whereby each time the manager makes a trade, the firm executes the same trade for all of his or her followers. The second is an alert-based system, where the firm notifies the investor by email or mobile alert each time the manager trades; the user is responsible for executing trades.

Subtle differences exist between the firms that offer this service. Some firms are broker-dealers themselves, while other require users to open accounts at participating brokerages. Some firms put forward a select group of vetted managers, while others let users mimic anyone on the network, be it a stranger or an investing-savvy friend or relative. Many of these trade-mimicking firms also focus on the forex market. While not included in this matrix, readers should also be aware of firms like [Tradency](#) that partner with brokerages (in this case forex brokers) to provide them with trade mimicking technology.

Trade mimicking firms tend to be transparent on fees and the performance of the managers, although it is sometimes back-tested or hypothetical. Not all firms are transparent on the A.U.M. and/or the number of followers of the professionals on their network, however. You won’t find John Paulson or David Einhorn on one of these platforms anytime soon, but if this model proves viable it would make this type of investment much more accessible for the average investor.

Trade mimicking features are in the works at a few other firms, including Valencia, Spain-based [impok](#). For more information on impok, read our interview with CEO David Moreno in the [Fall 2012 edition of our \*Consulting Insights\*](#) newsletter.

Firm name	Free Services* <i>*Excludes trial/demo accounts</i>	Paid Services	Minimums & Fees	Mobile, Social* & Investor Education <i>*excluding blogs, Facebook/Twitter accounts, or tutorials</i>
<a href="#">Covestor</a>	None	Over 160 managers are available on Covestor’s platform. Investing with a manager recreates his/her portfolio and all trades going forward. With a Covestor Wealth Account the firm will determine the selection and timing of the models of the “best-in-breed managers” based on the client’s investment objectives.	Opening an account requires \$10,000. Manager minimums and fees range from 0.5% a year (conservative) to 2% (aggressive). The minimum for a Wealth Account is \$50,000 with fees between 1.5%-2.5%.	None
<a href="#">Currensee</a>	Membership in the social network is free and includes analytics that aggregate the forex trades of the network by sentiment and volume.	Identifies and vets qualified forex traders and promotes them as “Trade Leaders” based on their performance in the firm’s social network. Users pick one or more of the approximately 20 Trade Leaders and allocate funds to them. Every time the leader trades, Currensee automatically executes that trade in the user’s account.	A 2% annualized service fee is charged monthly, based on average capital in the account. Users also pay a 20% success fee (based on the high water mark of the account) on the net profits generated by the trades of each Trade Leader. Accounts are opened at participating brokerages (FXDD, ILQ and Citifx) with a	Currensee offers a proprietary social network, but signing up requires linking a forex account. Once users “friend” each other they can examine trades and positions in real-time, chat and collaborate. With the Tweet My Trades feature enabled,

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			minimum of \$3,000.	Currensee automatically sends a tweet on the trader's behalf when they execute an order.
<a href="#">Collective2</a>	Collective2 is a marketplace for investment strategies. Users can set up a simulated brokerage account at no cost and subscribing (receiving buy/sell alerts via phone or email) to some strategies is free.	Most subscriptions to follow an investment strategy require a monthly fee. Users can also elect to AutoTrade an investing strategy with one of 13 Collective2-compatible brokers. AutoTrade supports stocks, options, futures and forex.	Subscription fees depend on the manager. The fee for auto trading is \$1.99 per futures contract bought or sold, \$0.50 per forex \$10,000 buy/sell, and a flat monthly technology fee of \$67 for stocks/options trading. If individuals would like to create their own trading strategy to offer to other users, they must pay a semi-annual listing fee starting at \$98 as well as a 30% cut of subscription revenue.	Users can review/rate strategies and can interact with other registered users on the network. An online forum is also provided.
<a href="#">Ditto Trade</a>	Ditto Trade is a discount online brokerage that lets users mirror the trades of other customers who have elected to become "Lead Traders" (the listing of such traders is provided on a <a href="#">separate website</a> ). Individuals can opt to charge users a fee to follow them. Ditto Trade clients can either auto-trade or follow the Lead Trader and receive alerts. If users do not wish to follow a trade leader "full throttle" (replicating every trade) they can utilize a watch list feature that only focuses on certain stocks.	Ditto Trade's brokerage services offer stock, ETF and options trading. Three different trading platforms are available, including a downloadable active trader platform, DT <sup>2</sup> .	Stocks/ETFs cost \$6.95 per trade with no account minimum. For options trading, the firm charges \$6.95 per trade, plus 75 cents per contract. The DT <sup>2</sup> platform costs \$25 a month if the user does not place at least 25 trades a month. Users may have to pay a fee charged by the manager they are following. Ditto Trade does not impose any fees on Trade Leaders or collect a portion of any revenue they may earn.	Offers iPhone and Android apps.
<a href="#">eToroUSA</a> (Part of Cyprus-based <a href="#">eToro</a> )	Free practice accounts are available.	eToro only supports currency trading in the United States. Two trading platforms are available – WebTrader (basic) and MT4 (advanced). The OpenBook feature lets users allocate a portion of their account balance to automatically copying the trades of a fellow user.	The minimum investment is \$250. The firm states that their revenues come from the spreads and that they do not charge any commissions or fees on trades. Spread information can be found <a href="#">here</a> , and lower spreads are offered for MT4 users.	Offers Android and iPhone apps. The investor community offers public/private chat and discussion feeds. eToro's Trading Academy provides some educational content, with webinars and eCourses planned for the future.
<a href="#">Marketocracy</a>	Marketocracy Data Services (MDS), as the firm describes it, is a "farm system for investors in much the same way that major league baseball teams have farm systems for baseball players." Basic MDS membership is free and lets users run simulated trading accounts.	MDS offers Premium Research and M100 Platinum Research memberships through a partnership with ValueForum. These provide access to more advanced tools and insights from the M100 analysts, or the top 100 ranked investors on the MDS. Marketocracy Capital Management (MCM) offers separately managed accounts and as well as the <a href="#">Masters 100 mutual fund</a> . SMAs are managed by the firm drawing from the models of the approximately 20 "Masters," or individuals the firm has hand-picked based on their long-term performance in the MDS.	Separately managed accounts require a minimum initial investment of \$100,000, with an advisory fee ranging from 1%-1.5% based on A.U.M. Fees and minimums for Premium Research and M100 Platinum Research memberships could not be determined at this time.	Premium Research and M100 Platinum Research memberships give clients access to a private investor forum.



Firm name	Free Services* <i>*Excludes trial/demo accounts</i>	Paid Services	Minimums & Fees	Mobile, Social* & Investor Education <i>*excluding blogs, Facebook/Twitter accounts, or tutorials</i>
<a href="#">TradeHero (Singapore)</a>	TradeHero is a free mobile stock market simulation app. Users place virtual trades across 14 stock exchanges and compete in TradeHero leaderboards.	Users can pay a subscription fee to follow top-ranked traders, who the firm calls “Heroes.” Users receive push notifications whenever a Hero they are following makes a trade or makes a comment on a stock. Following also gives users access to the Hero’s current open positions as well as a Market Digest email that details the Hero’s trades and commentary over a weekly or monthly period.	Following a Hero costs \$1.99 per month. Half of the revenues go to the Hero, and half goes to TradeHero.	TradeHero is currently only available for the iPhone and iPad. An Android app is coming soon. Users can also compete with friends from Facebook or connections on LinkedIn.
<a href="#">Signals (Ireland)</a>	A free account includes a variety of tools and resources, such as stock alerts, screeners, charts, market data, watchlists and the Portfolio Manager dashboard. Users can import their portfolio and trades into the Portfolio Review dashboard using a CSV wizard.	Users can create a wide variety of investment strategies that fellow users can subscribe to. Subscribers have alerts (which the firm dubs “signals”) sent to them any time the manager makes a trade. Users can also preview a subscription before subscribing. Previews provide access to strategy’s metrics and a weekly email with delayed signals from the prior week.	Users set subscription costs, and sales are split 50:50 with Signals.	Signals’ community aspect lets users to share strategies and charts with one another. Via the NewsStreams feature users can follow RSS and Twitter feeds mentioning stocks in their stock list. This feature also offers the ability to track specific stocks and/or individuals.
<a href="#">ZuluTrade</a>	Zulutrade lets users mimic the forex trades of Signal Providers on their network. Anyone, including professional traders, can sign up to be a Signal Provider at Zulutrade. Signal Providers are evaluated based on the proprietary ZuluRank algorithm based on a range of factors, from the drawdown of each trade to the sharp ratio. Users can set the parameters for how they will follow the Signal Provider.	None	Clients must use or open an account at a participating broker. Zulutrade does not charge any fees, as the firm makes money off commissions from the brokers, which it splits with Strategy Providers. Minimums depend on which broker the client uses.	Offers iPhone, iPad and Android apps as well as an online forum. Users can also connect a Facebook and/or Twitter account so that each time a trade is closed on ZuluTrade it will automatically post to their social media account.

## VIII. Other

This final category highlights three unique services that don't quite fit into our other categories. AlphaClone offers products based on mining data contained in SEC forms, Hedgeable provides a "free" managed account and Loyal3 offers a unique customer stock ownership service.

[C.K. Mack](#), still in beta, plans to offer an online platform to invest in rented real estate and enable investors to receive rent cash flow. The firm claims that individuals will be able to invest as little as \$25. This service will initially be available to accredited and institutional investors only. Once the firm gets SEC approval, it will be available to all investors.

Firm name	Free Services* <small>*Excludes trial/demo accounts</small>	Paid Services	Minimums & Fees	Mobile, Social* & Investor Education <small>*excluding blogs &amp; Facebook/Twitter accounts</small>
<a href="#">AlphaClone</a>	AlphaClone is part of the emerging niche industry dedicated to mining the data available in the SEC's <a href="#">Form 13F</a> , which requires all large institutional investors to disclose their holdings on a quarterly basis. AlphaClone turns these legal documents into investment insights, such as Warren Buffet's top 10 holdings and their returns. Guest memberships to AlphaClone's research service grant users' access to performance data for groups of managers and the top three holdings of individual managers.	Two paid research tiers are offered: Basic memberships and Full memberships with more sophisticated research capabilities (the list is too long for this matrix; <a href="#">follow this link</a> for more information). The firm offers Core Strategies accounts created and managed by AlphaClone and the in-house research team. The firm also offers an <a href="#">ETF</a> based on copying the holdings of the highest-ranked of hedge funds and institutional investors.	Basic membership costs \$14.95 a month and Full costs \$99.95 a month. AlphaClone Core Strategies require a minimum of \$100,000 and clients are charged from 1.5% for under \$250,000 to 1% for over \$1,000,000.	None
<a href="#">Hedgeable</a>	The Retirement Free program offers clients ETF and mutual fund portfolio options. The specific allocation is based on clients' responses to a questionnaire. The allocations are monitored and rebalanced when they stray from the target. Clients only pay brokerage fees.	The Retirement Plus program lets investors choose from 10 different models, such as <i>Target Date Retirement 2026-2035</i> or <i>Multi-Strategy Stock</i> . The firm emphasizes that the allocations within this program are actively risk managed, or hedged, hence the name of the company. The High-Net Worth program offers a selection of 28 different models.	The minimum for Retirement Free is \$5,000 for the ETF option and \$25,000 for the Mutual Fund option. The Retirement Plus Program requires a minimum of \$50,000 and a yearly fee of 0.6%-0.8%. High-Net Worth requires at least \$500,000 and a fee of between 0.5% and 0.7%.	Offers a Knowledge Center that includes four lessons and videos.
<a href="#">Loyal3</a>	Loyal3's Customer Stock Ownership Plan (CSOP) lets customers invest in a publicly traded company's stock via embedding Loyal3's platform on the company website or Facebook page. They also offer an IPO product that enables companies to sell their IPO stock directly to customers from their Facebook page or website. It's "free" in the sense that the participating company pays all the associated fees that would otherwise discourage small investments. The incentive for companies to participate is the assumption that customers who own stock have higher rates of spending, referrals and retention.	None	The company claims that CSOP requires only a \$10 minimum investment in fractional shares. Regarding minimums for IPO stocks, the company states that the participant is guaranteed "at least \$200 unless the IPO is terminated."	None

## Investment Firms Must Face the Online Challenge

This study has focused on 37 firms that offer an alternative to the more traditional models of financial advice and investment selection. If there's one key takeaway across all product types, it's this: emerging firms offer lower costs, more transparency on fees and performance, and more modern and usable online platforms than most established investment firms.

These startups are not without significant weaknesses, though. Highest among those is a credibility gap. Many firms do little to prove their investment expertise and trustworthiness. They devote insufficient website real estate to establishing the credentials of the people behind their products. So long as prospects are not presented with a compelling case for the firm's trustworthiness, it will be hard for these startups to win significant investable assets in today's turbulent markets. Other recurring weaknesses include superficial investor questionnaires and the absence of robust mobile platforms.

Individual startups will inevitably fail. Collectively, however, these newcomers put pressure on incumbents for increased transparency, lower costs and more modern and usable websites. It will take time for investors to grow comfortable handing significant assets to these firms, especially to an advisor or portfolio manager they've never met in person. But ultimately, we think these firms will present an increasing challenge to the traditional investment industry.

Rather than focus on the specific strengths and weaknesses of these new competitors, established investment firms should focus on the innovative ideas they present. Take the ETF market, currently dominated by BlackRock, StateStreet and Vanguard. A brokerage firm could distinguish itself by emulating Folio Investing and Motif Investing, providing an ETF alternative where users own all of the underlying securities in the basket. The greater flexibility and the potential tax benefits of this approach could help the firm differentiate itself from others.

Imagine how disruptive it would be if one of the major discount brokerages offered trade mimicking and let clients "follow" professional money managers or fellow customers. With experts to track, less experienced investors could be more willing to get off the sidelines, an enticing prospect to those brokerages that rely on transaction fees for a significant amount of their revenue.

Startups will continue to bring innovative ideas to the investing marketplace. Investment firms would be wise to learn from them and emulate the most appealing of their service offerings.

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