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Wealthfront vs. Betterment vs. Vanguard vs. FutureAdvisor vs. SigFig

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What I learned trying 11 services over 10 months

Index investing

I've been a fan and evangelist of passively managed index investing ever since reading John Bogle's *Common Sense on Mutual Funds*.

"When there are multiple solutions to a problem, choose the simplest one." - John Bogle

For the past ten years I've been investing primarily in Vanguard's passively managed index ETFs. My individual choices were representative of the larger retail market, as Vanguard's low fees and index message have captured market share.

Next generation

Learning of the existence of software based investment advisors was a revelation for me. Keeping your portfolio correctly balanced, reinvested, and in the lowest fee funds can be a lot of work, especially if your holdings are split between multiple brokerages and accounts.

Having a computer manage this administrative work is not just easier, it can increase returns.

About a year ago I set out to try and research some of the different providers of automated investment managers.

My criteria

If I was going to move some of my accounts away from Vanguard I wanted a solution that would:

1. Keep advisory fees very low
2. Be transparent about the approach and methodology

3. Leverage technology for efficiencies, but not to employ active management
4. Be a delight to use (unlike most bank/brokerage/personal finance services)

Evaluating the field

In all I tried or researched 11 different services over about 10 months.

There were a number of services that I ruled out pretty quickly.

- Hedgeable - They don't tell you specifically what they are investing in and have significantly higher fees
- MarketRiders - Passive approach and low fees, but they do not actually rebalance and reinvest for you (though they have recently launched an automated program, a fee for which is not advertised)
- Asset Builder - Advisor fees are higher than competitors' fees unless you have more than 4 million dollars. The underlying ETFs they use also have higher expense ratios
- Covestor - Very high fees, actively managed
- PJMINT - Very high fees, little portfolio transparency
- Personal Capital Corp - Beautiful customer interface, but very high fees, active management, and a design/interface focus on short term returns

The incumbent

Vanguard

Pros

- Fantastic low fee index ETFs and mutual funds that trade commission free
- Automated dividend reinvestment
- Some limited online tools to analyze your total portfolio (including external accounts) against the broad market (for example - "your small cap holdings are weighted 14% more heavily than the entire market")

Cons

- Interface feels very clunky compared to competitors
- Transferring funds and sweeps between accounts seems to take twice as long as other financial services

- Rebalancing and adding or moving money is a relatively manual process; I’ve been managing nine Vanguard accounts for myself and family members, so these small details require a fair amount of time in each account
- I receive tons of duplicative physical mail for holdings in the Vanguard accounts I manage. I am signed up for email delivery of all materials, and have made multiple efforts to ask Vanguard to send less mail, but the deluge persists

The contenders

SigFig

Pros

- A promising service that has a beautiful interface and lots of great visualization
- Two distinct options, free analysis and advice, and automated rebalancing at select brokerages for $10 a month

Cons

- Despite the great design and graphics, SigFig feels like a traditional brokerage with the focus on short term returns; constant emails about daily or 7 day returns were annoying
- Too much screen real estate devoted to short term returns/news

Future Advisor

Pros

- Fairly enjoyable interface
- Ability to view all investments held elsewhere
- Similar to SigFig: offers two distinct options, free analysis and advice, and automated rebalancing at select brokerages
- Automated tax-loss harvesting
- Can optimize your existing holdings (as opposed to liquidation and reinvestment in a set portfolio)

Cons

- FutureAdvisor changed its model a few times in the past year and the fee for a managed account is now 0.5% (higher than its closest competitors)
- I contacted support with questions on a few occasions and did not always receive a reply
- Annoying emails about short term returns
- Not as transparent regarding portfolio methodology

The finalists

Wealthfront

Pros

- Great design and interface
- Different portfolios for taxable vs IRA accounts
- First $10K is managed free
- Automated tax-loss harvesting (potentially useful for some investors)
- Appears to have the most assets under management of my contenders
- Low fee (0.25%)
- Total transparency on portfolio

Cons

- For accounts over $100K the fee is not the lowest possible
- $5k account minimum
- Have to create an account to see their internal interface

Betterment

Pros

- Great design and interface
- Low fees (0.35 - 0.15% depending on account size)
- Invests in fractional shares
- Appears to have the second most assets under management and most customers of my contenders
- Total transparency on portfolio methodology
- No minimum initial deposit
- Underlying philosophy of optimizing for automation, long term focus, and behavioral finance

Cons

- No automated tax loss harvesting
- Little portfolio distinction between taxable and IRA accounts
- No REITS (though most cheap REIT ETFs have recently been strongly correlated with domestic equities)

My verdict - Betterment wins

I like aspects of the analysis and advice service with FutureAdvisor and SigFig, but their automated offering doesn’t seem as carefully refined as Wealthfront and Betterment.

Vanguard is the cheapest option with regard to fees, but they don't offer the automated efficiencies, and their customer experience is relatively unpleasant.

I think Wealthfront and Betterment are both fantastic services for my investing needs. There are some differences between the two, and a lot has been written on Quora and elsewhere about these distinctions.

I chose Betterment primarily for its heavy focus on behavioral finance. Its very clear from the user interface and blog posts that Betterment spends a great deal of time thinking about not just optimizing portfolios but also investor behavior.

Parting thoughts

Though I think Betterment is the best fit for the majority of my investing goals, I’m excited by the continuing development of many services in the total online investment advisor market. Technology is enabling fantastic innovation for retail investors, and along with the many variations on crowd-funding and P2P lending, helping to transform and flatten finance.

Update 2-11-2014

In the interest of full disclosure, since I published this post, I've been engaged by Betterment as a consultant. All of the above content was originally written from the perspective of an independent consumer, and I did begin to move my savings to Betterment several months before any employment discussions with Betterment. So while my admiration for Betterment's product certainly played a role in my current engagement, the engagement played no role in the above assessment.