

## Fidelity and Betterment: From Collaborators to Competitors

By Kerry Pechter     Mon, Nov 30, 2015

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*Fidelity Investments is testing 'Fidelity Go,' a robo-advice portal aimed at Millennials, and building a digital interface between its affiliated advisors and its clearing service to replace the interface that Betterment Institutional provided until recently.*

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As you may have read elsewhere, Betterment Institutional is on its way out as the digital platform for Fidelity-affiliated registered investment advisors. “We have decided not to re-new our agreement with Betterment Institutional. We will wind-down the strategic alliance by the end of the year,” said Fidelity spokesperson Erica Birke in an email to *RIJ* this week.

“This strategic alliance was a practice management referral agreement for RIA clients of Fidelity Clearing & Custody, so the primary shift is that we will no longer actively promote and support the alliance. Fidelity clients that have formed a relationship with Betterment can continue to work with Betterment, and Fidelity will continue to support their needs.”

Given the fact that Betterment’s own online direct-to-consumer RIA business offers only exchange-traded funds from Vanguard (not Fidelity or iShares) to its 120,000 clients, the split between Fidelity and Betterment probably shouldn’t shock anybody.

In fact, giant Fidelity now competes with tiny Betterment in the direct digital advisory channel. Fidelity is currently testing a robo-advisory service called Fidelity Go. According to a disclosure [document](#), Fidelity Go is a “discretionary investment management service designed for individual investors with accounts as small as \$5,000. Clients of the Service are currently limited to employees of Fidelity (or select contractors providing services to Fidelity)” and Geode Capital Management, the third-party investment advisor that’s working with Fidelity on this.

Millennials—that’s the target market—who sign up for Fidelity Go will have their money invested for them in low-cost passively managed Fidelity ETFs or BlackRock iShares. Depending on the investors’ expressed risk appetites (or aversions) and investment goals, their money will go into portfolios containing between 20% and 85% equities. When the service goes live next year, Fidelity intends to charge an as-yet undisclosed asset-based fee.

## **An explanatory aside**

These events are part of an evolution rather than a revolution, and would have been impossible ten or 12 years ago. Back then, most Millennials were still in school, and didn't have any money to invest. Direct-sold fund companies like Vanguard and Fidelity were subsidizing small account holders, because fees on small accounts didn't cover the cost of call centers or prospectus mailings.

Since then, there have been a couple of game-changing (but foreseen by some) demographic and technological changes. The first Millennials graduated from college and started earning money. The smartphone became modern humankind's chosen universal interface with the world. The cost of computing fell dramatically. People acclimated to digital delivery of all their financial communications.

The advisor world also went digital. Traditional advisors began outsourcing their investment selection and account management chores to third-party platforms. It slowly became acceptable to admit—or even to brag—that cool-headed algorithms, and not human advisors, were creating asset allocations. The robo-advisors, being new and small, were nimbler than the established financial services firms in exploiting these changes.

Most importantly, the leaders of robo-advice firms came from the digital world, not the financial world. It was natural for them to transplant the simplified, disarming on-boarding process of an Uber or Airbnb to the financial services world. At a typical robo site, the visitor is invited to “Sign Up! Get the First Month Free!” with an irreverent informality that wouldn't come naturally to members of the old guard. The simple-to-navigate robo websites are arguably better suited to their “do-it-for-me” investors than to the do-it-yourself audience that Fidelity, Vanguard and established discount trading platforms have long catered to.

But even this triumph of transcendence over the coldness of computer interfaces was not invented by the robo-advice startups. A full 30 years ago, purchasers of Macintosh computers turned on their little taupe soon-to-be doorstops and were greeted by a cheerful chime and a screen that read, “Hello,” in computer-generated lowercase longhand. In terms of usability, the Macintosh did to the PC what robo-advice websites are currently doing to the traditional online financial interface: Humanizing it.

## **Back to Fidelity and Betterment**

In addition to building its own robo-advice platform, Fidelity is also building an RIA portal

that will do what Betterment Institutional has done for the past year: Provide Fidelity's affiliated advisors with a digital service that could integrate client data into Fidelity's clearing service.

"[The Betterment] agreement was forged as part of Fidelity Clearing & Custody's larger practice management and consulting offering. It came at a time when many of Fidelity's RIA clients and prospects had been following the digital advisor evolution and growth with great interest, and were coming to Fidelity for help in better understanding the landscape and learning about the options available to them," Birke wrote in the recent email to *RIJ*.

"The alliance fit within our strategy to offer one-to-one engagement with our RIA clients and prospects, helping to educate them, assess opportunities and activate a strategy to drive growth. Fidelity is now building its own version of such a digital service. We determined that most of our clients are looking for a solution that is deeply integrated into our clearing and custody platform, customizable, and allows the investment advisor flexibility in investment decision-making and product selection.

"We are moving forward with a vision that meets those needs. We'll announce our full technology strategy early next year, including our plans around digital advice, with timelines around key deliverables. The deliverables will happen over the course of 2016-2017. Like any technology build, different components will launch at different stages."

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