Wealthfront angles for upmarket clients

By Editorial Staff *Thu, Jun 22, 2017*

The robo-advice firm has launched Advanced Indexing, a service that holds individual stocks to reduce costs and enhance 'tax-loss harvesting.' There are two levels of service, for clients with at least $500,000 or more clients with at least $1 million.

Even as wirehouses and wealth management firms consider using digital automation to serve smaller-balance clients, Wealthfront, one of the first robo-advice firms, has added services exclusively for clients who bring $500,000 or more in taxable assets.

Wealthfront describes the service, called “Advanced Indexing,” as an improvement on “smart beta.” It is part of Wealthfront’s PassivePlus suite, which includes daily tax-loss harvesting and stock-level tax-loss harvesting known as Direct Indexing. The services cost a combined 0.25% annual expense ratio.

In a release, Wealthfront gave credit for Advanced Indexing to its chief investment officer, Burton Malkiel, Ph.D. (author of the evergreen investment bible, “A Random Walk Down Wall Street”) and its vice president of research director, Jakub Jurek. Wealthfront also said it licenses PassivePlus from CSSC Investment Advisory Services, Inc. of Troy, Michigan.

Former trader Daniel Carroll founded in 2008 as KaChing, a website where professional investors managed virtual portfolios on KaChing and thousands of amateurs logged on to watch and mimic the trades in their own portfolios.

In 2009, KaChing began offering subscribers the ability to set up brokerage accounts that automatically mirrored the trades of professional money managers. The company changed its name to Wealthfront in 2010, after venture capitalist Andy Rachleff joined as CEO. Malkiel joined as CIO in November 2012. Wealthfront says it has $6 billion under management.

Advanced Indexing adds a level of sophistication to Wealthfront’s regular managed account offering. Where the basic service aims for a 50-50 equity-fixed income split using ETFs, Advanced Indexing divides the equity half into 30% individual stocks and 20% broad market equity ETFs, according to a white paper on Wealthfront’s website.

The weights of the individual securities are determined through a smart-beta or factor strategy, which uses five factors that affect future returns: value, momentum, dividend yield, market beta and volatility. The use of individual securities instead of ETFs lowers management expenses and raises the return on the equity portion of the account by about one%, Wealthfront claims.

There are two portfolio levels of Advanced Indexing. The first level involves holding 500 individual domestic stocks and has a minimum after-tax investment of $500,000. A higher level involves holding 1,000 individual domestic stocks and has a minimum after-tax investment of $1 million. The combined portfolio is subject to Wealthfront’s 0.25% advisory fee.

Advanced Indexing is bundled with Direct Indexing, a stock level tax-loss harvesting service that Wealthfront launched in 2013. It is available on accounts with balances of $100,000 or more. By using individual U.S. equity securities instead of total stock market ETFs, it lowers the portfolio's expense ratio and enables more tax loss harvesting, which offsets its higher trading costs.

CSSC says on its website that "as of May 4, 2010, [we] patented decision-assistance technologies and methodologies that enable us to deal with the mass of information needed to comparatively evaluate such an expanded universe of choices. With it, we should be able to select any number of performance parameters, and separately weight each one, in order to score and rank the entire universe of available choices in a manner specific to each client's individual needs.

"Through use of this unique, new decision-assistance technology, we would enable consumers to determine for themselves which financial products and investment choices are truly best for them (fully objective, transparent and uninfluenced by the marketing hype, advertising claims, behind the scenes deals and relationships, and without any of the sales pressures, all too common within the traditional financial services marketplace)."