With ‘Fidelity Go,’ Fido Goes Robo

By Kerry Pechter *Thu, Jul 28, 2016*

Although Schwab and Vanguard have a head start in this space, “I don’t think Fidelity has lost anything by waiting,” William Boland, an analyst with Aite Group, told RIJ.

Emphasizing features that it believes young Americans look for in a digitized financial service—transparency, simplicity and low cost—Fidelity Investments introduced its “Fidelity Go” hybrid human-and-robo retail managed account platform to the public this week.

Fidelity Go is an “advisory solution for investors seeking a trusted team to manage their money through a simple and efficient digital experience,” according to a Fidelity release. The service is aimed at the growing number of “digital first” investors who function primarily online.

“We’re trying to support the younger investor,” said Rich Compson, the head of Fidelity’s existing $200 retail managed account business, in an interview with *RIJ*.

“The product has a digital interface but in the background, managing the money, we have a portfolio manager [Geode Capital Management] who’s driving all the trading. If the investor wants help beyond the digital experience, we have over 300 registered phone reps available to assist,” he said.

The disarming homepage greeting, minimally-invasive questions and instant sample portfolio generation process is as frictionless and informal as the one that robo-advisors like Future Advisor, SigFig and Betterment use. The introductory webpage offers a brief video (see above) of a young woman with the type of Eurasian features that since the 1990s has served advertisers as a universal representation of a multi-cultural society.

(In a year-long partnership that ended last November, Fidelity’s advisors used some of Betterment’s technology. Fidelity Go does not, however, use Betterment’s process of following up on visitors who start but don’t complete the online sign-up process, according to Fidelity.)

The service, whose minimum investment is $5,000, costs an all-inclusive 35 to 40 basis points a year. It includes the instant construction, based on each client’s stated age, goals, and risk tolerance, of a balanced portfolio made up of low-cost iShare ETFs and Fidelity mutual funds. “We’re pushing an all-in cost focus,” Compson told RIJ. “These investors are focused on transparency, our research shows. Our costs are among the lowest in the industry and state annual fees in simple dollar terms. To get the lowest cost in the marketplace on ETFs, we partnered with BlackRock.”

Different approaches

In the direct-to-consumer digital advisory channel, Fidelity Go will challenge Vanguard’s Personal Advisor hybrid service and Charles Schwab’s automated Intelligent Portfolios. Each service is positioned a bit differently. Vanguard’s service costs only 30 basis points a year, and includes phone and Skype contact with a personal financial advisor and mobile account access. But the minimum initial balance is $50,000. The service is aimed more at Gen X, Y, Boomers and current Vanguard clients than at shallow-pocketed Millennials.

FIDELITY GO’S **online calculator** suggested the following asset allocation for a taxable account for someone born in 1994 who earns $45,000 a year and saves $100 per month:

- 49% domestic stock (iShares Core S&P500, iShares Core S&P Mid-Cap, iShares Core S&P Small Cap)
- 21% foreign stock (Fidelity Global ex US Index)
- 25% bonds Fidelity Municipal Income Fund and Fidelity Limited Term Municipal Income Fund.
- 5% cash

The calculator predicted that, at retirement in 2060, the investor’s portfolio would be worth between $227,000 and about $1.6 million, depending upon market performance during the intervening years.

Schwab’s portfolio construction service, launched in March 2015, is the only one of the three that includes both proprietary and a wide range of outside investment options, but it is pure robo—there’s access to Schwab phone reps but not to advisors. It has a $5,000 minimum and charges nothing—no advisory fees, commissions or account services fees—above the fees on the 20 ETFs available for investment.

Although Schwab and Vanguard arrived first in this market, “I don’t think Fidelity has lost anything by waiting,” William Boland, an analyst with Aite Group, told *RIJ*. As a group, he added, “the self-directed firms have had a head start in that they were initially discount brokerage firms. They’ve always provided technology direct to clients and have an early-mover advantage in that respect. Fidelity has also launched before any of the wirehouses have gotten traction.”

None of the wirehouses—Bank of America Merrill Lynch, Wells Fargo, UBS and Morgan Stanley—has yet launched a robo, Boland said. “UBS has partnered with SigFig, but that’s not in the market yet. How the wirehouses price their robo services relative to full-service brokerage is still to be determined. But they have advantages. Wells Fargo and Merrill Lynch have thousands of bank customers they tap into.”

A two-way street

Boland added that the wirehouses, with their emphasis on full-service wealth management, can be expected to offer a client experience that’s different from that offered by the direct robo providers. “While there’s an industry-wide moved to empower clients to interact digitally, the direct players may give the greatest degree of empowerment,” he said.

The digital channel, it’s worth emphasizing, is a two-way highway whose commercial potential is huge—and perhaps alarming to privacy hawks. It allows marketers to push out messages to clients’ smartphones. Large financial services companies will be able to use internal or acquired “big data” to fashion highly customized, unsolicited thought-leadership and marketing messages and send them to clients who don’t opt out of receiving them.

“We want to maximize the digital platform. We will send messages to talk about how well clients are making progress to their goals. We can push out event-based messages and timely updates on our point of view. When Brexit happened, we pushed out a ‘stay the course’ message. We also have an application with the [Apple] iWatch to do push-notifications.” At a minimum, Fidelity Go investors will receive “regular communications on Fidelity’s perspectives on the market, and educational content including Fidelity Viewpoints,” Fidelity said in its release.

“There will be ‘push,’” Boland told *RIJ*. He added that companies, not only in the financial world but in the broader retail world, “walk a fine line” in terms of how aggressively they can take advantage of the digital two-way street to push new products and services.