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What's Really Attracting Investors to Robo-Advisors
Younger Investors Assess Four Leading Robo-Advisors

(Rye, NY) – The real drivers that attract investors to "robo"-advisor platforms, how these new entrants satisfy new consumer needs, and competitive recommendations for traditional financial service providers are revealed in a new study by **Hearts & Wallets**, the preeminent financial research platform for consumer savings and investing insights.

The Hearts & Wallets study, ***New Needs, New Competitors, New Solutions***: *Young Investors Speak, Revealing the Real Reasons for the "Robos" Emergence & What to Do Next,* assesses the robo phenomenon through the prism of trend-setting Millennials, ages 21 to 39.The market represents 34.2 million households who make decisions on $2.1 trillion of investable assets. Although small in comparison to total U.S. investable assets of about $41 trillion, younger consumer preferences will have an outsized impact on financial services as firms race to respond to new trends. The qualitative study focuses on four leading new entrants, **Wealthfront, Betterment**, **Personal Capital** and **LearnVest**, establishing a vantage point to understand the first wave of a significant industry change, which now includes robo-advisor platforms of industry stalwarts **Vanguard** and **Charles Schwab** and **TD Ameritrade** opting for open architecture access to robo-advisor platforms for its advisors.

Hearts & Wallets research draws upon the firm's ongoing qualitative, quantitative, market sizing and competitive intelligence analysis. The Hearts & Wallets Investor Quant (IQ) research platform is the deepest and broadest single dataset on retail investor buying patterns and U.S. family finances. Annual data collection from over 5,500 U.S. households fuels the IQ database while consumer focus groups conducted throughout the year identify emerging investor trends to keep Hearts & Wallets clients on the cutting edge of shifts in consumer opinion.

Among the *New Needs, New Competitors, New Solutions* study findings are five key insights:

Key Finding No. 1 – Products Going Direct with Cool Storefronts
Despite the nickname "robo-advisor" and the widespread belief that new entrants will affect traditional advisors, consumers see digital advice platforms like Betterment, Wealthfront and Personal Capital as *both a product and "store" (retail financial provider)*, leading Hearts & Wallets to strategically define them as investment products gone direct with an engaging storefront. LearnVest, recently acquired by **Northwestern Mutual**, is a motivational financial planning platform, seen by young consumers as an entirely new category of support.

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"So-called robo-advisors are actually investment products going direct, with cool storefronts, just like past financial services innovators Charles Schwab and **Fidelity**," Laura Varas, Hearts & Wallets partner and co-founder, said. "They're less a threat to the current businesses of traditional advisors, who for the most part have happily ignored young and middle-aged investors to focus on Baby Boomers. Instead, the new entrants are a substitute for plain vanilla investment products. They're so much more exciting than a single asset class mutual fund or target-date funds structured around an event that younger investors don't even think is going to happen. This is possible because the new entrants are closer to the customer than intermediary-distributed fund families, so they are able to build products that solve real instead of imagined consumer needs."

Consumers view what the robo-advisors do as being different, but more importantly, the way new entrants describe themselves is different. The new entrants are "like the Tesla, the Apple of finances...They're changing it, making it more honest, cleaner," as one study participant said.

Key Finding No. 2 – Diverse Personalities as Matchmaker

The Hearts & Wallets study reveals how younger consumers assess the fit between distinctive robo firm personalities and the growing diversity within the younger investor segment. Accustomed to overwhelming choice in the information age, younger consumers rely much more on brand personality as a tool in selecting a firm that matches their own personality than other generations do. The study found a process of elimination helps consumers winnow their options to a select set of the best personality fits.

"Study participants wanted to answer the important 'who's it for?' question before they could assess the firms," Varas said. "We heard comments like, 'LearnVest is for newbies.' 'Everyone invested with Personal Capital has a lot of money, and I don't.' Younger consumers have been weaned on complexity, and they are excellent comparison shoppers. It's more fun to figure out if I'm the kind of person who uses Wealthfront than to sort through 7,000 mutual funds. Staying neutral seems safe but may not be an effective defense for bigger firms. Neutral is boring, while a true personality fit delights the consumer."

Key Finding No. 3 – Satisfying Unmet Needs

Younger consumers love that the robos tell them what they are getting and answer the three screaming unmet needs first identified by Hearts & Wallets in 2010:

- tell me what you do
- tell me how you earn money
- tell me how to evaluate you

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"Satisfying these three basic consumer needs is critical not only for robo-advisors but in every business transaction," Brown said. "Hearts & Wallets has been predicting industry disruption because of lack of pricing clarity and consumer confusion with the servicing-pricing spectrum. Robo-advisors are an exciting manifestation and will encourage more pricing transparency and differentiation in how each firm delivers value."

Key Finding No. 4 – Scratching New Itches
In addition to addressing basic needs, robos scratch new itches that consumers didn't even recognize they had. The Hearts & Wallets study uncovers new unmet needs in a framework exercise with financial actions grouped in categories under *plan, support actions, aggregation and monitoring,* and *investment selection advice.* Male and female consumers nationally agree unanimously that they want several actions within the *support* and *aggregation* categories.

Surprisingly, two of today's most common industry calls-to-action – *identify goals* and *choose investments* – provoke intense but mixed reactions. Men generally prefer these actions. Women prefer help in newer *support* categories, like "motivate you to save more."

"Better segmentation approaches can help firms and advisors to understand key younger consumer segments and address the robo invasion," Brown said. "Hearts & Wallets field guides reveal how each segment feels, what they want and how to approach them. The best way is to develop capabilities in more universally liked emerging areas, especially *determining actions*, *motivating* and *aggregating*. In the study, women respond more positively to LearnVest as way to help them save. This perception reflects the personality of LearnVest and its founder, who happens to be a woman. A lot of people will be tracking the LearnVest acquisition."

Key Finding No. 5 – Gamefication to Personalize Products
The study also examines how consumers respond to the robos' use of gamefication to personalize products in meaningful ways.

"The new entrants use design as a competitive weapon," Varas said. "App-like features draw the consumer in. To compete, traditional firms need to recognize younger consumers are connoisseurs of interface and design and build their offerings accordingly."

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Varas continued, "In some ways, the underlying approach of the new entrants to mixing and matching asset classes isn't that different from traditional techniques. But a 2015 target date fund will only ask what year do you want to retire. And most people don't even want to retire! Answering questions about what makes me tick as an investor or as a person transforms the investment selection experience, making it much more distinctive, fun, and personalizes the ultimate solution in meaningful ways."

About the Hearts & Wallets Study

Methodology

New Needs, New Competitors, New Solutions: Young Investors Speak, Revealing the Real Reasons for the Robos "Emergence" & What to Do Next analyzes attitudes and behaviors of young investors from 21 to 39 in New York City, San Francisco and St. Louis with more than $10,000 in investable assets with about half of each group participating in employer retirement plans The study was further segmented into three behavioral savings groups. Part of the ongoing **Explore** nationwide focus group series, the study provides qualitative insights into investor attitudes and motivations that shape future trends. Insights are also based upon the **Hearts & Wallets Investor Quant (IQ) Database.** This syndicated research platform serves as the engine for Hearts & Wallets' qualitative, quantitative, market sizing and competitive intelligence research. It consists of 10,000 sets of consumer feedback on financial services firms annually from 5,500 U.S. households and over 30,000 U.S. households over five years.

About the Hearts & Wallets®

Hearts & Wallets LLC is the preeminent financial research platform for consumer savings and investing insights that inspire innovation, inform choice and modify behavior. Most of the top 10 retail financial services firms, in terms of assets under management and investors served, subscribe to the Hearts & Wallets Investor Quant (IQ) database engine platform with data on 30,000 U.S. households over five years. The firm's integrated research platform combines consumer marketing and strategy frameworks with a deep, practical understanding of how the investment, retirement and banking industries function. Hearts & Wallets grows financial services client businesses by illuminating new, smart ways to truly help American savers and investors. Clients better understand the unmeet needs of distinct population segments, improve their products and services, gain a powerful competitive edge, and ultimately, enhance consumer lives. The company is headed by two of the leading research experts in retirement market trends for the financial services industry, **Chris J. Brown** and **Laura Varas**. Their studies and conferences are must-have resources for retirement industry strategists, product managers and marketing and sales executives. For more information, visit **www.heartsandwallets.com.**

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