The SEC and FINRA Get It Right

The U.S. Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA) recently released a joint investor alert about automated investment companies—and the investment industry's primary regulators got it right.

The alert highlighted that investing tools have limitations, and people need to be keenly aware of where they are putting their money. This is not a recent issue—new investing tools have been introduced for decades. But now something different is happening. Faster, cheaper computing has allowed for rapid innovation with personal investing—making it easier for all consumers to invest in low-cost, diversified portfolios.

The joint alert is one of the first publications from either the SEC or FINRA that recognizes the category of automated investing, which we created when we launched in May 2010.

What is automated investing?

If you're new to Betterment, we are the leader of the automated investing revolution. We use smart technology to manage and optimize your investment portfolio. The result is more transparency, more access to your money, and less stress. Best of all, we have brought to everyone a level of investing sophistication that was once only available to the super wealthy.

Since we welcomed our first customer in 2010, we have grown in size to nearly 100,000 customers and today manage more than $2.3 billion of their money. It's validation that consumers want and are using the kind of investment automation we provide.

As with every new and popular technology, there is a period of consumer education and trust building. The joint alert recognizes many of the benefits of automated investing, including low costs, ease of use, and broad access. The alert also rightly points out important limitations of some automated investing services of which consumers should be mindful.

While there are several tech-based investment companies out there that are considered automated investment services—or robo-advisors—no other service is quite like Betterment.

Our technology is different than any other company's. When we built our smarter technology five years ago, we worked from the ground up, creating a vertically integrated system where we handled both the advice and brokerage portions of investing. By handling both aspects, we mitigated many unnecessary fees and functional inefficiencies that exist at other investment management firms.

We are, in fact, the largest major automated investing service to be structured in such a cost-efficient way, and we pass those savings on to our customers.

Betterment is different than other investment managers

Betterment's advice is free of conflicts: We don't operate our own funds, advise a cash asset that we earn returns on ourselves, or receive compensation from any of our fund providers. There are no middle-men or incentive structures at Betterment that add extra friction or costs for trading. Our investment selection process is transparent, and we strive to always use the lowest total cost of ownership and most tax-efficient funds available. Our management fees are straightforward, based on a percentage of a customer's balance.

Betterment allows investors to customize multiple goals, each with personalized allocation for their needs: The joint bulletin highlights an issue we love to talk about—personalized investment advice—mentioning in several places that automated investment tools are limited in the degree to which they accommodate individual circumstances. Every customer who signs up for an account at Betterment can personalize multiple goals with an allocation of stocks and bonds that is modeled exactly for his or her age, time horizon, and goal type. If you have any questions about the SEC's guidance and the extent of our advice, we always make our advice methodology transparent and readily available for every investor to read.

Betterment's underlying assumptions are always updated to current data points: Advice is not a static event; it requires constant assessment and reassessment. We use technology to continuously update our advice to investors based on their balance and how they are saving so that it continues to incorporate each individual's current realities accurately. We also update our risk-free interest rate forecasts quarterly, using data provided by the U.S. Department of the Treasury. The underlying algorithms are tested, modeled, and constantly monitored. This means our savings advice and outlook are always tracking to the most current figures.

As automated investing grows as an industry, there will be more companies vying for consumers' attention. We are happy that the SEC has recognized what we have believed all along, and we support the SEC's efforts to educate consumers. Betterment is setting the standard for what automated investing should be: transparent, personalized, without conflicts of interest, and aligned with customers. Everyone should have access to low-cost and smart investing advice—Betterment is providing exactly that. It's 'Investing Made Better.'