Wealthfront lets regular folks invest like the rich

October 20 2010, by Glenn Chapman

kaChing logo. Startup Wealthfront marked its one-year anniversary Tuesday by changing its name from kaChing; sounding the closing bell at the NASDAQ Stock Exchange, and giving small investors access to big-time fund managers with winning records.

Startup Wealthfront has revamped its online service to give middle- and lower-income people in the United States investment tools typically reserved for the rich to make profit on their money.

The startup marked its one-year anniversary Tuesday by changing its name from kaChing; sounding the closing bell at the NASDAQ Stock Exchange, and giving small investors access to big-time fund managers with winning records.

"We can take the expertise that is available to the wealthy and make it available to the mass affluent," Wealthfront chief executive Andrew Rachleff told AFP.

"The average investor deserves better than people selling them products that don't maximize their net worth."

Some 33 million US households fall into a "mass affluent" category of having net worth between 100,000 dollars and 1.5 million dollars.

While wealthy people with millions of dollars to invest have access to sophisticated products, the mass affluent are typically left to park money in mediocre mutual funds, according to Wealthfront.

"There are 33 million of us but we have really crappy selections," Rachleff said. "So the major way is mutual funds that, net of fees, have horrible returns."

A Harris poll commissioned by the Palo Alto, California-based startup found that only six percent of people said investment advisers can consistently outperform the market.

Only three percent of people with investment managers said it could be done.

In contrast, endowment funds at elite Ivy League universities have out performed the market for the past decade, noted Rachleff, who is on the board at the University of Pennsylvania.

"It is possible to consistently out-perform the market and we think it is possible to identify who the managers are that do it," he said.

Wealthfront screens investment managers with techniques used by Ivy League endowments, with about a tenth of the professionals qualifying to be included in the startup's recommendation engine that launched online Tuesday.

Aspiring investors are asked 10 questions to determine how risky or safe they want to play it, and then Wealthfront suggests proven financial advisers adapted to the answers.

Wealthfront then pools resources of similar investors at the website to meet the half-million-dollar or more minimums required by top portfolio managers.

"Our goal is to make it really easy to invest well," Wealthfront co-founder Dan Carroll said as he demonstrated the recommendation engine.

Wealthfront allows money managers to tap into a giant pool of investment money without having to deal with myriad small accounts.

"With Wealthfront, we can easily and cost-effectively access a new segment of investors by taking on accounts well below our historic minimums," said Colin Higgins, president of The Golub Group, an investment management firm with over 600 million dollars under management.

"There's no reason average investors with a net worth of less than one million dollars shouldn't have more options to invest their money."

Wealthfront has 25 approved professional managers and plans to at least double the list to 50.

"The guys who have less than a billion dollars to manage love us," Rachleff said. "The guys with over a billion dollars are frustrated by our transparency because they don't want people to necessarily see all the details."

Wealthfront lets potential investors see exactly how money managers allocate funds, which is not common in the industry.

Each Wealthfront investor has an individual brokerage account, immune from the fate of the startup. Investors pay nothing to use Wealthfront, which shares in a portion of fees charged by money managers.

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