Web startups analyze investment choices

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Silicon Valley, birthplace of personal finance and investment heavyweights like Intuit, Financial Engines and Mint, is percolating with new startups that help people manage their money and portfolios online.

Wealthfront, a low-fee online financial advisor service headquartered in downtown Palo Alto, Calif., is targeting 25-to-35 year olds who will soon be looking for a place to put their money from the many public stock offerings expected from tech startups this year.

Andy Rachleff, president and chief executive officer of Wealthfront, says he expects people to open $10,000 or $20,000 accounts to start, putting more money in as they liquidate their IPO holdings.

"We're signing up a lot of people who are working at companies who are about to or recently have gone public," said Rachleff, who co-founded Benchmark Capital and who lectures in entrepreneurship at Stanford University.

Another service, Jemstep, is a free online investment advisor based in Los Altos, Calif., that launched in October. It's mainly for people who don't want to move their money out of their brokerage, but who want an independent opinion about the quality of the funds they are in.

Jemstep recommends top performers from more than 20,000 mutual and exchange-traded funds using a patented ranking engine that provides "objective and unbiased" analysis, said Simon Roy, Jemstep's executive vice president.

Provide a few details about yourself, and it downloads your portfolio from your broker, analyzes your investments and recommends better-performing ones in the same class. It will rank and rate your current holdings in 401(k)s and 529 college funds, but as yet won't automatically give recommendations limited to the funds available in those accounts.

Ken Ross, who runs ExpertCEO.com, an online networking service for senior executives, said he heard about Jemstep from Roy, with whom he once worked at another company. Ross used it to consolidate all his investments in one place and see how they rank against Jemstep's choices.

"When you look at your portfolio, it'll say: You should look at substituting better funds than this one that have same objective," Ross said.

When given information on a reporter's IRA, Jemstep instantly spotted one under-performing fund and recommended a better one, with extensive data on the comparative performance and costs of the two funds. Other choices were also listed. Roy said Jemstep does not accept any fees or compensation from any fund managers or families, instead earning money from advertising and referrals, and later, possibly subscriptions.

Wealthfront launched its online service in December, betting that young engineers and tech workers will prefer a transparent online experience that costs less to the care and handling of a personal financial advisor.

"We know the technical community around here typically doesn't trust financial advisors because of their fees and lack of transparency," said Rachleff.

Wealthfront offers an uncomplicated online front end to the massive software and data streams major brokerages use to make investment decisions for clients.

After users fill out an online form that determines their risk tolerance, Wealthfront produces a portfolio of exchange-traded funds, ranging from bonds to stocks and real estate investment trusts. Second and third choices are also displayed.

Investments are held at Interactive Brokers, which charges 0.35 cents a share. "On a $25,000 account, you pay less than $2 to buy all of these securities," Rachleff said. Wealthfront charges no fee for the first $25,000 and 0.25 percent of any investment above that.

Say a 32-year-old has $500,000 to invest from savings, CDs, mutual funds, a 401(k) and public stock, along with some options, and a moderate tolerance for risk.

When presented with such a sample, Wealthfront pulled up portfolio of exchange-traded funds, with about a third in a U.S. stock fund, a fifth in bonds and smaller amounts in foreign stocks, emerging markets, natural resources and real estate funds. Most of the choices were Vanguard funds. A link labeled "why?" retrieved an explanation for the choice and the names of the two runner-ups.

All fees are listed in a separate tab. Rachleff stressed that Wealthfront receives no fees from the funds it recommends. Like Jemstep, it has a fiduciary responsibility to its customers.

"We expose all that goes into it, and we charge for it commensurate to the amount of value we are providing," Rachleff said.

Wealthfront manages personal accounts and 401(k) rollovers, but not 401(k)s.

With services like Jemstep and Wealthfront providing expert investment advice, the traditional - that is, human - advisor might be a little nervous about the future.

Jemstep's Roy said "the good ones" have nothing to fear from Jemstep. He adds that he's a big fan of registered investment and financial advisors, whom he notes have a fiduciary responsibility to their clients.

Rachleff believes that even good advisors could be replaced someday the way online services like Expedia replaced travel agents.

"If you called a travel agent in 1996-7 and said, "There's this company says they can replace you with an Internet site," they would have laughed at you," he said. "The problem is, if you could radically lower the cost of a flight, young people couldn't care less about having to book a flight."

Julie Schatz of Investor's Capital Management in Menlo Park, Calif., says the financial planning advice she gives clients, such as going over tax returns or analyzing the consequences of a Roth conversion, can often be even more valuable than the portfolio management services.

"Do I think financial advisors will go the way of travel agents? Never say never, but this is a high-touch business. And as long as there are financial planners who look at their clients' big picture to incorporate planning advice with investment management, I think there is room for all of us," she said.