A SIMPLER WAY TO INVEST

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On last week's "Behind the Markets" podcast, we spoke with Tom Desmond, the CFO of Ally Invest, a digital securities broker and wealth management firm. Desmond founded the online discount broker TradeKing, which was acquired by Ally Bank in 2016. TradeKing was rebranded as Ally Invest, and now Desmond's team is competing in the discount brokerage space as well as managed portfolios and digital advisory services—the "robo-advisor" world.

For those unfamiliar with Ally Bank, one of its specialties is auto loans (it was spun out of General Motors), but it has bigger aspirations to be known as a full-scale financial services firm—what we might call a financial supermarket. Ally Bank is a fully digital bank with no branches, and it uses the digital cost profile to offer 2% rates for savings products, a rate it says is much higher than standard bank offerings.

Desmond's team at TradeKing raised capital in 2005 and launched the business in 2006; it was one of the growth darlings of the industry, showing growth right into the run-up of the crisis. The company's clients went from trading 40 times a year before the crisis to 13–14 times a year because they were paralyzed by fear and volatility.

Trading activity has since climbed back; clients are now trading 18–20 times a year, which Desmond said is higher than other online brokers. The contraction in business also forced Desmond's team to retool the business for the next wave of growth.

Ally Invest Managed Portfolios competes with other robo-platforms. Approximately 55% of its customers are millennials, higher than the 45% of millennials on Ally Invest's standard brokerage platform.

Desmond pointed out that millennials came into their formative years in the investing world during the financial crisis and are the generation that remains most affected by the crisis. Desmond said baby boomers mentally moved on from the financial crisis, but millennials have not because they are still very heavily allocated to savings products and have fewer investing products.

Desmond said that the average customer on the online brokerage platform held about 25% of his or her assets in cash. That number declined over the past few years because of robust markets, and it declined to about 17% in September—but it has since ticked higher, to 18%.

Desmond sees behaviors being more focused on the long term in the client base for managed portfolios, and clients have not rotated much between the 40/60 equity/fixed income models and the 60/40 more growth-oriented models.

While different client demographics have different goals, something that is common among groups is anxiety associated with investing. Desmond mentioned that Ally Invest finds two-thirds of Americans are scared of the investment process and markets, with 50% scared they will make a mistake, 25% scared they will run out of money and 30% who don't trust their financial advisor.

An interesting insight across demographics is how millennials and baby boomers are investing across the FAANG stocks —Facebook, Apple, Amazon, Netflix and Google. Over the last four quarters at Ally Invest, Amazon has been the highest-traded stock on the platform, and that is true across generations. But millennials trade these stocks about 25% more heavily than baby boomers, while generating 8% of platform trading overall.

Consumerization Focus

Desmond wants a solution that is as easy to use as getting an Uber or as convenient and effective as a Peloton workout. Ally Invest wants to customize the experience to fit the modern lifestyle and get more personalized for its clients. It will be interesting to watch the various offerings and how they compete in the digital space.

Listen below to our full conversation with Tom Desmond.

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