"Financial Security Should Not be a Forced DIY"

For my Parents,

To help the un-helped. It isn't fair that the people who need it the most don't get it.

For the first 18 years of my career in the wealth management industry there was no secret that I was laser focused on building my business around serving clients with large investment portfolios – generally at least $1 million of investable assets. I wasn't unique in this approach.

The entire financial services industry is engineered to most profitably service only the wealthy, the top few percent of the population to be exact.

In fact, most successful advisors would tell you that as they became more successful or more experienced they gradually raise their account minimums to even higher levels. When I first started out in my mid 20s, an exciting new client would have been someone who could invest $100,000 with me. Fast forward 15 years - I had my Certified Financial Planner™ designation and had cofounded my own investment advisory firm.

Fortunately, I didn't have any grey hair but I did have a bunch of experience under my belt. This now meant that I generally wouldn't even meet with a prospective new client unless they were pre-qualified to have at least a $1 million of investable assets.

I don't believe that I was a bad person for following this established business model. Instead, I now know that the business model itself is severely flawed. Flawed from the sense that financial advisors are incentivized to service those who (most often) need your services the least. Conversely, those with smaller portfolios (or no portfolios at all) are left with virtually no professional help. I think in the back of my mind over all those years: I was uneasy with the fact that my very own parents would never have even gotten in the door to get help from a professional advisor like me. Man, could they have used the help, too.

My folks were wonderful parents to my brother, sister and me, but they were never able to get on a solid path to financial security. I never felt like we were poor growing up, but I now know that times were pretty darn tough for them money wise. Later in life, I was reviewing my Dad's social security statement and noticed on his earnings history that in 1991, the year I graduated from high school, he had only made $11,700 for the entire year.

I can't even begin to understand how stressful this must have been on them at a time when their oldest child was headed off to college.

It is a testament to them that they were able to shield us kids from this stress – we never knew at the time how tight money really was. Now, looking back, I can remember my Mom putting my high school letterman's jacket on layaway at the local sporting goods store. I think she would take $10 each week into the store to pay on it. Then, after about 10 weeks when it was paid for, she brought it home to me. I can also remember growing up asking my Dad why he never wanted a new car. He drove a 1979 Volkswagen Rabbit for most of my childhood and he would always answer, "why do I need a new car, there's nothing wrong with this one?"

It isn't fair that you have to qualify to receive it.

There are many services that we all enjoy access to in the 21st century. Most of us appreciate having the ability to hire a qualified contractor to build our houses. We have come to expect that if we need to replace the transmission in our car, we have a number of qualified mechanics to choose from who can easily perform this service.

Most importantly, when we are in need of a serious medical procedure, we generally have easy access to a medical doctor with all of the training required to complete the procedure. Other than the ability to pay for these services, we generally don't associate any of these with having to "qualify" to be a customer or patient of these professionals. Unfortunately, the financial services industry does not work in this manner. A financial services customer must "qualify" by having a relatively large investment portfolio in order to have a professional advisor manage their money for them.

What if when it came time replacing your transmission or delivering your baby you had to "qualify" to have a professional do it for you? But if you didn't qualify, you were given a DIY brochure to study, some complicated tools to use, and a bit of encouragement to spend some time to figure it out for yourself!

The thought of this alone is ludicrous, **but this is exactly the business model that has been in place within the financial services industry**!

The following has been likely uttered millions of times between an advisor and someone needing financial help:

"I'm sorry. Your portfolio isn't large enough for me to manage your investments or to sit down to advise you. Instead, here are some great websites that can educate you on the basics of DIY investing and here are a few other websites that have fancy online retirement calculators. If you will just spend a bit of time researching these things – you too can manage your own nest egg."

In other words - you will spend the rest of your life staring at your "Financial Advisor" in the mirror!

So what is at stake here and why is this such a big problem that must be fixed?

Very few people age 50 and younger will receive any kind of a pension in retirement so this makes getting your own retirement savings right all that more critical. Like it or not, the 401k, or workplace retirement account, has become the most important piece of American's retirement savings. Most people will not inherit millions, win the lottery, or sell a business for millions. The vast majority will need to intelligently save their way to a comfortable retirement.

Today, there are nearly 90 million people in this country who are investing in a 401k or similar employer-sponsored retirement account. We estimate that there are about 5 million of these folks that have large enough portfolios (enough commas) to “qualify” to gain access to a financial advisor. We also estimate that there are another 5 million Americans that actually enjoy and are comfortable managing their own finances. This leaves roughly 80 million Americans in the category of needing financial help, not qualifying for it and not interested or confident in trying to go it all alone.

What will happen in the next 20-40 years if entire generations of American's arrive on retirement's doorstep with a fraction of what is needed to sustain several decades of retirement?

There are some estimates that point to a 10 trillion deficit in what American's will need and what they are on pace to actually attain. We can all envision the repercussions of this massive deficit both socially and economically.

So after 18 years putting all of my skills and advice work to help those who had already "made it" financially, I reached a point in my career where I felt that it was time to help the un-helped. It was time to put my skills to work helping people that the financial services industry has always turned a blind eye to. People that needed the help the most. People just like my Mom and Dad.

So on a cold Sunday night in February 2013, two colleagues and I gathered in one of our basements to begin discussions on how we could have a part in righting this wrong.

Could we build a technology tool to correct the flawed business model that has persisted in financial services? Could we build a company that, at scale, delivered all of the incredibly valuable advice and services that we had been delivering to our high-net-worth clients at our other brick-n-mortar wealth management firm? Could we build something that changes how financial services are delivered and to WHOM they are delivered?

In the basement, we talked about trying to replicate all of the wonderful services that we had been providing to our wealthy clients but delivered in a digital manner through web applications. Perfectly repeatable, priced fairly, and most importantly -- available to everyone.

This long-term vision still persists at blooom but we saw an opportunity to make an early and quicker impact with people who never wanted to be their own money manager by building a solution to fix the 10s of millions of mis-invested 401ks.

There had never been another company that had been able to build the proprietary technology that would be necessary to automate the process of analyzing, building, and re-allocating our client's 401ks. There are a handful of other companies that are doing this for clients and accounts outside of the employer-sponsored retirement plan space – but none in this huge 90-million-person market. We now understand why.

Automating the investment process for portfolios that can be held at one financial institution has very low barriers to entry. There has been "off-the-shelf" technology that has existed for upwards of 10 years that can automate things like the construction of a portfolio allocation, rebalancing a portfolio, and even tax-loss harvesting. But nothing existed to perform this kind of automation when it comes to the 401k space -- where accounts are spread out over dozens and dozens of different financial institutions.

Until now.

In blooom's early days we laid out three principles that we will never compromise on:

1. **No more jargon**. No complicated pie charts and indecipherable graphs that require a PhD in Finance to interpret. People have become so reluctant to engage with financial services firms because most of them speak a language that is complex and intimidating to most people outside of the financial industry. We are working very hard to build blooom to provide financial services in a radically simple manner.
2. **Transparent and Fair Pricing**. I believe that basis points, or "bips" pricing was engineered by the financial industry to mask the actual cost of services. Most people outside of the industry do not understand basis points pricing so we should price our services in a simple, flat fee manner. The simpler the better. We aspire to have a major role in bringing more transparency to financial services. Moreover, pricing should be so affordable that it will be possible for everyone (hopefully) to afford. Pricing should never be a barrier to entry to access financial services. Ever. But please don't misinterpret this – we are NOT competing on price. I have always believed that companies that are built solely around being the cheapest are usually the companies providing the least amount of value to their clients and customers. Cheap is good when it comes to things like the price of gas – cheap is NOT good when it comes to bridge construction and financial advice.
3. **Stability and Values**. After the financial crisis of 2008-2009 most people do not trust Wall Street. The same perspective could be said of Silicon Valley start-ups (for most people outside of Silicon Valley, the view is that most of them are just trying to build a company as quickly as possible and seek a hugely profitable exit). Companies entering the financial service space should demonstrate a true aim for stability, long-term focus and adherence to values. Sort of like the old adage: Slow and steady wins the race. After all, that's what we're counseling our clients.

This struggle for financial access for all continually eats away at me. In 2012, my Dad, only 63 years old, passed away after a yearlong battle with cancer. My Dad, who sacrificed so much for us kids never got even one single day of retirement. He worked right up until he was too sick to go into work and then, just a few weeks later, he was gone. You know what inspires me to build blooom – my Dad. There are very few days that go by where I don't think to myself – what if something like blooom had been around when my Dad was just starting off in his career. What if he and my Mom would have been able to get professional financial help. Maybe, just maybe – he might have been able to retire at age 60 – leaving a few precious years that he and my Mom could have enjoyed retirement together. More trips, more time with their grandkids (my girls), maybe even a few bucket list items that my Dad rarely talked about but I know he thought about.

Myself and everyone else who works their tails off at blooom's office each day absolutely knows that we are building something that has the ability to do for our clients what didn't exist for my Mom and Dad. Trust me, this is motivation on whole different level.

But that's not my only benchmark. In 30 years, I wonder if my two daughters will be proud of what their Dad had a role in building. More so than at any other time in my life, I am confident that the answer will be yes.

-Chris Costello, CEO of blooom

https://www.blooom.com/about/