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Wealthfront Lands $20M for Wealth Management Software
By Scott Denne
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Wealthfront Inc., one of many startups eyeing the $12 trillion wealth-management market, has raised $20 million in its second round of funding to expand its marketing efforts.

Wealthfront determines a customer's risk tolerance and automatically builds an investment portfolio around it. There are many other startups, including Betterment LLC, Motif Investing Inc . and Personal Capital Corp., that are going after the same market.

"You're seeing a lot of new entrants in wealth management because there are three industries that have yet to be disrupted by the Internet--finance, health care and education," said Andy Rachleff, Wealthfront's chief executive.

Index Ventures led the latest financing, with participation from Social+Capital Partnership and Greylock Partners. Existing investor DAG Ventures also participated along with numerous individuals. The valuation was not disclosed.

Everyone in the wealth-management space can be divided along two axes, Mr. Rachleff said. One is the level of sophistication of the company's service, and the other is who the company is targeting--people who want to manage their own investments, or people who want to delegate.

Wealthfront, with its automated portfolios of exchange-traded funds, is for those who want to delegate it to someone else. The company's mission, he said, is to bring sophisticated services like Modern Portfolio Theory and Tax-Loss Harvesting to investors with as little as $5,000. "All these things you can expect when you have a $5 million account from Goldman [Sachs & Co.] and Morgan [Stanley]."

Wealthfront charges customers an annual fee of 0.25% on all assets over $10,000.

The Palo Alto, Calif.-based company, which launched its service just over a year ago, currently has more than $170 million in assets under management, an amount that has grown by more than two-thirds since the start of the year, Mr. Rachleff said.

"We think we can really make a dent in this market," Mr. Rachleff said. "It's not going to be a dent for a while given it's a $12 trillion market."
It gathered its early users by targeting young people working in technology because they were more likely to be focused on the company's interface, rather than its (then nonexistent) assets under management.

So far, some public relations work has been its only marketing, but that's going to change with this round. "We didn't want to market it until we knew we had something really great," Mr. Rachleff said.

It's not the only one of its peers to begin to focus on marketing. Betterment, which has a similar automated allocation model, recently hired Mike Ma, who was formerly Vanguard Group's head of retail advertising and prospect marketing, to be its chief growth officer.