Rapid Response Transcript – Sarah Levy

“Invest in first principles”

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> **SARAH LEVY:** There's so many subcultures happening within the cryptocurrency space — over 17,000 different digital assets available, and so how do you even know where to start? I was doing day trading in the late ‘90s thinking that was a lot of fun and thinking it was easy to make money, but the truth of the matter is that doesn't always end well.
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> This current super active trading is really just an extension of what Betterment pioneered, right, the democratization of finance.
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> When the markets are rising, everyone thinks they're a winner. And I think, in times of volatility, that's when our investing philosophy withstands the test of time.

BOB SAFIAN: That’s Sarah Levy, CEO of Betterment

The digital investment adviser, known for its somewhat traditional investing philosophy, which just made an intriguing move by buying a crypto-currency platform.

I’m Bob Safian, former editor of Fast Company, founder of The Flux Group, and host of Masters of Scale: Rapid Response

I wanted to talk to Sarah because volatility in the investment markets has quickly escalated — for cryptocurrency and all asset classes.

That has implications for funding new businesses, and for personal portfolios.

Betterment is both hewing to its tried-and-true principles, and branching out into new areas, in a bid to scale not just its assets but its influence.

Sarah, who became CEO in the midst of the pandemic, has an intriguing perspective on how newer digital finance platforms are shifting norms. Her background is as chief operating officer at one of the world’s largest media companies.

The fun she’s having, she says, reflects the potential for impact, even when the day-to-day markets are swirling.

[Theme Music]

SAFIAN: I'm Bob Safian. I'm here with Sarah Levy, the CEO of investment advisory firm Betterment. Sarah's coming to us from the Betterment offices in Manhattan as I ask my questions from my home in Brooklyn. Sarah, thanks for joining us.

LEVY: Thanks for having me, Bob.

SAFIAN: You and I have some friends in common we discovered, which I guess isn't surprising as we've both been in the media world in New York City for a while — you at Viacom as Chief Operating Officer before coming over to Betterment in late 2020. I'm intrigued to ask you about that transition, but first, I want to ask you about a recent acquisition that Betterment announced of a cryptocurrency investing platform called Makara. Am I pronouncing that right? Makara?

LEVY: You got, Makara.

SAFIAN: What prompted this move? Betterment had been one of the investing shops that had been a little reticent about crypto investing.

LEVY: Yeah, fair enough. It maybe requires a little bit of history perhaps to get us to the moment of Makara, but I think the quick answer would be we believe in cryptocurrency, we believe that the asset class is here to stay, and so if we back up and just talk about Betterment and kind of who we are. We are the largest independent digital investment advisor and we fundamentally believe in an investing strategy that is about long-term diversification.

You would think of us as focused more on traditional investing styles, if you will, and so I think to some, the idea of crypto was a little bit innovative and outside our wheelhouse. Our view really is once we believe that an asset class is here to stay, the question is, how do we responsibly recommend that and incorporate that alongside a traditional investment strategy? We came to believe that Makara, which basically billed themselves as a Betterment of crypto, was the way to do that, which was: same lens, diversification, long term, new asset class.

SAFIAN: Sometimes I find myself a little at odds when it comes to crypto, like I certainly see the power and potential of Blockchain and Web 3.0 ideas that are swirling. I see why people have enthusiasm for the ways cryptocurrency can impact global trade and cross-border transactions, a bunch of other things. Investing in the technologies I definitely get. Investing in the currencies myself, sometimes it feels more like speculation than investing. I mean, I've never invested in currencies in general, for instance, but if I understand you right, you sort of dealt with this idea of speculating versus investing by diversifying, by having a platform that goes across different cryptocurrencies?

LEVY: That's exactly right, so if you think about what you can find in the marketplace today, today, almost think of the analogy to self-direct that investing with stocks. If the analogy of what's in the marketplace on some of the leaders today looks and feels a lot more like what happened last year with GameStonks and things going on on Robinhood. We felt that, by and large, the average investor doesn't have enough information to figure out which currency, which technology.

There's so many subcultures happening within the cryptocurrency space, but our view like yours, really, exactly what you said, was that there is a value creation opportunity here in aggregate in the asset class, but betting which is going to be the winner is too hard to do for the average consumer. There are over 17,000 different digital assets available, and so how do you even know where to start? There's a new one every day, so our view was, again, just a like in traditional investing, think about it as a diversified portfolio. Think of it as a long-term hold, and play the overall market. Don't play the individual stories.

SAFIAN: This is why you waited until now until you could find a resource or a platform that could deliver this?

LEVY: Yeah. Well, it literally does not exist in the marketplace. There are some ETFs just getting started or, in the last call in six months that have entered the fray, but most of those ETFs, number one, don't track the actual underlying currencies. They track futures. Number two, they're not diversified, and so there's a lot of leakage in there. You're still betting on individual core wins.

Our view was, how do we bring this long-term approach to an asset class? This was really the first player that we saw in the marketplace who also, incidentally, did it and does it as a registered investment advisor. There's a trust element here and a fiduciary approach that we've always taken and that they were also taking that really struck a chord with us.

SAFIAN: I mentioned earlier your background is not in finance, although I did see that you spent a summer at Goldman Sachs when you were at business school. But rather than stay on that path, you chose to go into the media business at Nickelodeon and then at the parent company, Viacom. Why did you make that choice, media over finance then? Why did you find yourself coming back around to Betterment come 2020?

LEVY: You dug deep to find that little tidbit in my past. Well done. When I came out of college, so now we're back in the history books, but I worked at Disney for a couple years, and I worked in corporate, and really there I was focused on corporate development and strategy and sort of mega dealmaking at the time. One of the theses I wanted to test in my summer of business school was: Was it the dealmaking I loved or was it media I loved?

SAFIAN: Hmm.

LEVY: I had actually a great experience at Goldman, all good things to say, but I was much more passionate about the media projects I worked on relative to other projects I worked on. That led me to believe, "Let me go try my hand at going deeper in the media space," and I loved it. I spent 21 years at Viacom. I guess the end of your question is, then, why the reversal?

So it was a great decade of growth, and I don't know if we laugh now a little bit when we say I lived the cable growth years, but they were some awesome years. Then, the back half of my trajectory there was really more about digital transformation and consolidation and scaling operations and doing things more efficiently. As I came to the end of that journey, I thought, "You know what? I've done what I can do in media. How do I get on the other side of the digital transformation? Is there an industry?"

Candidly, I was pretty open-minded about what industry. I was really just looking for a growth opportunity at a company that was doing something new and innovative. It's way more fun to be on this side of the digital transformation than the other side.

SAFIAN: As I poked you about the earlier days in your career, I was thinking back to the early days in my journalistic career. In my 30s, I was named the editor of Money Magazine, which was the dominant personal finance brand at the time, although it no longer exists. I found myself suddenly giving financial and investing advice to millions of people, and I wasn't exactly an expert investor. I'm curious, how did you prepare yourself for this perch at Betterment to educate yourself? Or are you a super active investor yourself already?

LEVY: Well, so let's separate me from the job a little bit. I would say to you, yes, I have always been personally intrigued by investing, so that is true, and talk about not practicing what I now preach. In my early days out of school before I really knew much, I was doing day trading in the late ‘90s thinking that was a lot of fun and thinking it was easy to make money, but the truth of the matter is that doesn't always end well. I had a day job, and when you can't do it in a focused way as your day job, it's really hard to time the market.

It's interesting how it comes full circle because now I come to the other side here, and I realize I never should have been doing that in the first place, so thank God I didn't keep that up. As I think about the job now of giving people investment advice, the truth is there's a lot more than me behind Betterment. We are a 400-person team. We have investing professionals and experts constructing our portfolios, and then we have great technology that actually enhances those results with tax smart tools and rebalancing and fractional share investment and things that really can only be done with great technology.

SAFIAN: Yeah. I mean, you mentioned your day trading path. And it certainly feels like we're in another era where people are much more actively investing, maybe not solely day trading, but you mentioned stonks and some of the other things that have been going on. It's almost like Betterment's philosophy is I don't want to say out of vogue because the assets are growing, but how do you think about this tech directed, I guess, robo-advising, as it's become known in the marketplace, versus this wave of super active investing that seems to be rolling through the culture?

LEVY: Well, it's funny because in some ways this current super active trading is really just an extension of what I think Betterment and the founder before me, John Stein, pioneered, right, which was the democratization of finance and the idea that digital tools could actually bring guidance and financial access to a group of people that had a lower asset threshold perhaps, or lower investable assets than somebody who could access a financial advisor, right. That was the original robo-idea. And at that point it was more about bringing that access and then setting it and forgetting it. You're better off dollar cost averaging. You're better off starting early, but leave your money in the market, and let the tools and the technology do the rest.

And then I think, as we moved into the mobile era, because honestly that began more as a desktop purchase, right, enter the mobile era, and now there are new tools available, and you can actually be making those choices every day in your pocket on the fly. And that gave rise, I think, to this, self-directed, we'll call it mania, we'll call it gamification. But it was really just an extension of a new platform allowing you to manage your money, more frequently and easily.

The part of the story that gets lost is more money overall has moved to these digital platforms. So whether it's self-directed or whether it's more set it and forget it, either way, the money is leaving large institutions. And so for me, the real question now is, so how do you take a page from some of that self-directed activity and understand what pieces of it you want to adopt? And for us that's really a personalization story, right? How do I now be excellent on mobile, and then how do I move to a place that can engage the customer, if not daily, emotionally, right? And so things like socially responsible investing, we've found as an example of an answer to: how do I connect with my consumer emotionally, because that's what's going to make them make the best choices for themselves?

SAFIAN: And so the philosophy behind Betterment, is it shifting? Is your philosophy to be a little more active than the founder's initial philosophy was?

LEVY: No, I wouldn't say that. I would say we still believe in core principles. Back to first principles, dollar cost averaging. It's better to put it away sooner than later, no matter the amount, right? No amount is too small. Diversification. And there are different moments in the market. Markets are volatile. There are moments in the market where international is better, or tech growth stocks are better. We're not playing those segments slow and steady wins the race. I think what's evolving is this idea of, can you still be diversified, but also be engaged and be emotionally engaged? So for example, you can have passive investing, but you can have activism that goes along with that around climate or around making change at companies. And those two ideas don't have to be at odds anymore. And that's where we think there's an exciting opportunity.

SAFIAN: You came aboard Betterment in the midst of the pandemic, or at least we know that now, late 2020. Did you feel like you were moving into a crisis situation? Did you realize and think "Oh, this is the middle of the pandemic."

LEVY: I mean, I don't think anyone could say, in late 2020 we knew when the pandemic was going to end or when we were going to go back to work. Hindsight is 20/20 on that, but I don't think anybody was in a position, certainly not me, to predict that. One of the reasons I came here, the reason really is, we have an incredible mission and an incredible culture, and even remotely the belief in that mission is what galvanizes this organization. You can imagine bringing on a new CEO when you can't meet her in person.

I didn't have the physical presence with the team, but in odd ways, I actually met more people in some ways, because a room can be more inclusive and open on zoom because you can have 200 people in the room versus the limitations of the four walls. It was certainly a different rhythm, and don't get me wrong, I'm thrilled to be back in the office, but I don't think we thought about it as a crisis. I mean, the best news about it was that the markets were frothy. And in some ways, it's much harder now, like now we're seeing volatility in the markets, and that's the part of the story almost coming back to what you were saying right before about the day trading and all that craze. When the markets are rising, everyone thinks they're a winner, everyone's a winner. And I think, in times of volatility, that's when our investing philosophy withstands the test of time.

SAFIAN: Before the break, we heard Betterment CEO Sarah Levy talk about why she's moved into crypto currency, her own experiences with day trading, and taking the helm in the midst of a pandemic. Now she talks about how she navigates succeeding a founder, why power can breed bad choices, and how Betterment is integrating sustainability into investing in new ways. Plus, her lessons of big companies versus smaller ones, and what she calls "straddling these two worlds."

You mentioned that you followed a founder as a leader, which can have its challenges. How is the company different with you at the helm? I mean, I know he's still the chairman, so he's your boss, but what's different.

LEVY: John, as a founder, had a vision, and he was a pioneer. And so he really broke new ground in a new area. He built a hungry team and chased a lot of different ideas. So he always saw around the next corner and launched the next product. I think what I came in to do was to say, "Okay, product market fit is a part of the conversation," but really there's a time where you move from almost a product-led orientation to a brand-led orientation. And so how do we begin to put the pieces that bolster the product?

So just a tactical example would be customer experience, right? I believe that on the front lines, your customer experience executives, they are meeting your customers, and they are the first impression many customers get of your company. That has to be excellent and delightful. That hadn't been a focus prior to my arrival. The focus really was, "Well, we've got a great investing product, so why wouldn't they want to come to Betterment?" And so I think building muscles surrounding that product and building muscles to scale is really just a different set of skills. That's where I'm building on the foundation that he set.

SAFIAN: As businesses get more sophisticated, sometimes the brand and the product decisions align with each other, or you figure out how to align them with each other. I know you're in the process of rolling out new products for financial wellness, and I'm curious whether that's one of those areas.

LEVY: So that is definitely, I wouldn't call that a pivot, but that's a great example of building on what John began. Dial the clock back, call it five years, and Betterment was looking for a 401k for the employees, and they were unsatisfied with the products in the marketplace.

So as a good founder and company does, he said, "Great, well, there isn't one out there, so let's build one ourselves." So, okay, great initiative, but the “however” of that was, it was harder than they realized to build a record keeper.

So I enter the scene, and they had this product that had actually been incredibly well built and developed, but then hadn't put the sales and operations around it to scale it and build it.

So one of the things I did when I came in was sort of dust off all the products and say, "Where do we want to put more investment, and where do we want to put less investment?" And this to me was a diamond in the rough, a perfect product-market fit for small and medium sized businesses, but didn't yet have a sales and operational organization around it to scale.

So we started to invest there, and then, enter the great resignation and this time of movement for employees, and we started to talk to customers and small businesses. And what we kept hearing was, "I need a way to differentiate for my employees, and benefits is a way I can do that. And we started really listening to the customers about pain points.

And one, for example, was student loans. They said, "You know what? One of the major reasons, the largest reason, that employees don't participate in their corporate 401k plan is because they have student loan debt." So we said, "Okay, well, let's take that on board. Let's think about how we can unite these ideas and take this from a great 401k to a more holistic financial wellness package that could help small businesses differentiate in the fight for talent." So that's where our heads are now, so yes, we are in the process of rolling that out.

SAFIAN: And I guess sort of expanding the notion of what your product is from just 401k to something broader like financial wellness opens up both access for you to new markets and, I guess, points towards new kinds of products?

LEVY: I would add it also connects back to our core business. So if you start with our mission, making people's lives better, that is an incredibly aspirational idea. And so, how do we do that on the retail side? We do that by offering a delightfully simple platform to save and build wealth. That is fundamentally what our core product does.

When you think about retirement and financial independence, the 401k, and the employer's ability to help an employee on that financial independence journey ties beautifully into that kind of ultimate mission. So once you come on board through your employer, then you have access to all the great tools of the retail product, and you can look at your financial health holistically. That's a big idea.

SAFIAN: You said something when we talked yesterday that smaller companies are so much more fun. Can you unpack that a little? I mean, what's more fun about Betterment than working at Viacom? You must have had fun at Viacom. You were there a long time. Is it about being CEO and having more control, or what makes it fun?

LEVY: Well, I think you're right. I did have a good time at Viacom. I wouldn't have stayed 21 years if we weren't having a good time. But I think what's fun here is that innovation and sort of the pace of change brings an energy to it that you can't quite capture in a bigger company.

We are not saddled with legacy businesses here that prevent us from chasing new dreams. And I think, to me, that's really what's exciting. As a large company, as a public company, you have incredible constraints born of your own success, and born of your core business. You're sort of straddling these two worlds, the business you built and that's generating a lot of cash and the place you want to go to.

Here, we've built it from the ground up, and so there is no idea that's too small, and there's no idea that's getting in the way of the past, and it's all kind of looking forward. So that's me.

But, yes, look, I'm not going to deny that it's fun to be in charge. So maybe I've got less red tape in this role than I did in my old role, so there's got to be a part of that there too.

SAFIAN: And are there things when you come in that you're like, from your experience at the bigger, more mature company, that you're like, "Oh my gosh, why aren't we doing this? We got to put this in place," things that are obvious lessons that maybe people who are at earlier stage businesses might be missing?

LEVY: Well, I think communication is a really big one because the bigger you get bringing everyone along, so whether that's top down communication or bottoms-up communication, creating the right — and I hate the word — process, and nobody wants to hear that, but honestly, creating the right process to get information to where it needs to be.

And so I think we can bring some of that muscle and then try to avoid some of the pitfalls of too much process. So there's a tension there that I think is healthy and evolving, let's say.

SAFIAN: Yeah. Some colleagues of mine have noted that women executives only seem to get CEO opportunities in the most challenging situations. They don't often get the plum CEO jobs. I'm not suggesting that Betterment isn't a plum perch. That's not what I'm saying. But I'm curious, your move from media to finance, was it at all because the opportunities were more open to you in a startup-like situation?

LEVY: I don't think so. I don't think I thought of this as either being a woman or ... My career choice was more about, I was reporting to the CEO at Viacom. He wasn't going anywhere. He's still there. There wasn't, sort of, a next move. And I had spent two decades there, so it really for me was about the learning opportunity, which was, I came here to do some great work and to learn and to mentor. That had really run its course, and I felt like I had a next act.

Coming to Betterment, I think was more kind of luck and kismet than anything else. I met some people. I really liked them. I was inspired by the mission. And I saw a brand that I felt had incredible DNA and core ideas, but that was just waiting to be made famous, and that was an exciting challenge.

SAFIAN: The media business has been rocked lately by Jeff Zucker's departure from CNN over his failure to disclose a personal relationship as required by company policy. And the media businesses have had at least their fair share of disappointment around these kinds of workplace issues in terms of executive behavior. Do you think that's something that is more acute at media businesses than in other businesses?

LEVY: Look, I think power can breed bad choices, and so I think that could be true in any industry. But I think in media in particular, the sort of glamor and the attractiveness and the nature of the power dynamic in media is perhaps even more pronounced with people wanting to get their big shot.

And so, I think maybe that puts people on an unequal playing field that breeds unfortunate behavior. I don't know, is it more or less than in finance? I don't know. I think it's more high profile because there are famous people involved.

SAFIAN: Hm. Yeah. It's just a part of, unfortunately, a business culture that we're still working our way through to better sides of.

You mentioned socially responsible investing earlier, and I wanted to ask you a little bit more about that. It's a realm that's been growing in all kinds of ways, and there are some critiques sometimes about the vagueness of definitions of socially responsible investing, and I'm curious how you guys resolve that or deal with that. Is a company like Amazon socially responsible because it sets ambitious carbon neutral goals, or is it not because their footprint today is large or because of their activity with unions? It's so hard to define this area, and I know this is something you feel like you can get your customers to be more engaged through. How do you manage that part of what the definition is for them?

LEVY: I think we see it as an evolution. We entered the socially responsible investing space in the fall of 2020, and our view was, don't make perfection be the enemy of good. Our thought was, if we can begin to play in this space, the first threshold question for an investor is, am I going to have to trade off financial performance in the pursuit of my values? Whether that is climate, whether that is about social equality, however you as an individual want to engage. And I think the first threshold question for us was: let's answer that question no. Let's find a way to allow you not to have to make that force that trade off, so point one.

Point two is, we thought about it, and you're right, there's greenwashing, there's uneven definitions, and I think that continues to be true, but our view was, we don't make our own products. What we do on behalf of our clients is we look for the best available products in the marketplace. And the product that is the best today may not be the same product that's the best tomorrow, and the good news is, we're not pushing any particular product, we'll go get you a better one, whether better is cheaper, whether better is more carbon-neutral, we are always striving to improve.

We did a partnership, for example, with Engine No. 1 where we incorporated the vote ETF into our portfolios. And we did that because they came to market with a really fabulous product. Their product didn't say, "I'm going to exclude companies who are, quote, bad, let's say, for the environment," in this example. Rather, they said, "If we can accumulate a position in companies that aren't doing as much good as we'd like them to, we can then be activists on the behalf of our shareholders, and we can push those, quote, bad companies to do well or to do good. I think, to me, that's an exciting new vector that I think will probably become more prominent as we move forward, which is this idea of, how do you harness collective assets to drive better outcomes?

SAFIAN: Yeah, it's a very different way of looking at socially responsible investing, which was always about, "Oh, I'm not going to put my money into something that makes me uneasy," as opposed to saying, "No, that's where I should go to push them into a better direction."

LEVY: Exactly, exactly. That's where I see a lot of excitement and a lot of engagement. And then, what we've been able to do is actually talk to our customers, sending out surveys and saying to them, "What do you care about? Tell me what you care about and let us vote on your behalf. Let us go find the issues that resonate with you."

And that creates, again, an engaged user, a sticky user. It's attracted, actually, a different kind of user. So typically, finance, you say it tilts more male, we're seeing in these socially responsible investing eras, we're seeing more women come to the platform, we're seeing more diversity come to the platform, so it's been a really great journey, but we're not there yet and we want to be part of the solution. That's what's exciting.

SAFIAN: What's at stake for Betterment right now?

LEVY: We have an opportunity to transform, I'll come back to our financial wellness conversation because this is where I get really excited, to transform the expect of employees of their employers and to set a new baseline standard for what is expected of small businesses in terms of helping their employees on their life journey, and I think that's a really aspirational idea that goes well beyond retirement.

I think it'll be interesting to see where the world of finance takes us, what happens to crypto, how the hybrid workforce changes our relationship with companies and the duration of stay that employees have with their employers. I think we can be a part of all of that. We sit at the intersection of money and life, and I think that's a really cool place to be.

SAFIAN: Well, that's terrific, Sarah. Thank you for sharing with us and for taking the time. I really appreciate it. It's been great.

LEVY: Thanks, Bob.