Welcome to the Fintech One-on-One Podcast, Episode No. 353. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

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Before we get started, I want to talk about the 10th Annual LendIt Fintech USA event. We are so excited to be back in the financial capital of the world, New York City, in person, on May 25th and 26th. It feels like fintech is on fire right now with so much change happening and we'll be distilling all that for you at New York's biggest fintech event of the year. We have our best line-up of keynote speakers ever with leaders from many of the most successful fintechs and incumbent banks. This is shaping up to be our biggest event ever as sponsorship support is off the charts. You know, you need to be there so find out more and register at lendit.com

Peter Renton: Today on the show, I'm delighted to welcome Eric Satz, he is the CEO and Founder of Alto. Now, Alto is a super interesting company, they are a self-directed IRA and if you've ever tried to open a self-directed IRA account you know it can be a very painful process and what Alto is trying to do is make it as painless as possible, trying to bring it into the 21st century with a focus on user experience, bring it all online.

You know, I've been an Alto customer now for over a year and could attest to the fact that it is, by far, the simplest retirement account I've ever opened and we talk about how he's been able to do that, we talk about the different types of investment offerings he has and we talk about the crypto IRA that they have with Coinbase, what are the costs involved. We talk about accredited investors versus non-accredited, we talk about the scale that they are at today and Eric provides his cure for what he would do to really reform the retirement industry and he also provides his vision for the future. It was a fascinating episode, how you enjoy the show.

Welcome to the podcast, Eric!

Eric Satz: Peter, great to be here, thanks for having me in and it's always it's fun to see you again.

Peter: Yes, yes, great to chat again. So, let's get started by giving the listeners a little bit of background about yourself. Tell us about your career before Alto.

Eric: I am someone who has been involved in finance for almost, I guess, my entire adult life and I'm older than most fintech entrepreneurs, I think, you know, north of 50. So, I've been an investment banker, I've been a venture capitalist and I've been a serial entrepreneur up until now. Alto, we started and really the idea formed in 2016, we launched in 2018 and now, as you know, geez, four years later, we're sort of running and gunning also now has 22,000+ customer accounts, north of a billion dollars in assets. People can invest in private equity, venture capital, real estate, personal credit, small business credit, crypto, you name it, we're trying to enable individuals to build diversified portfolios.

Peter: Right, right. We're going to get into all that in a little bit, but before we do, I'd love to hear you describe sort of the founding story because I know it came from a pain point. That's when we chatted before you shared it with me, I'd love you to share with the audience what was it that caused you to create Alto?

Eric: So, in 2013/2014 when I was still playing as a venture capitalist, I had an opportunity to invest alongside the fund that I was co-managing and when I was getting ready to make one of those investments, my IRA statement showed up. I had that proverbial light bulb moment which was, holy smokes, Batman, this is the money I should use to make this long term investment, illiquid investment and I was saying that and I was thinking that because retirement money we shouldn't touch until, you go figure, until we retire, right, plus there's a tax advantaged nature to retirement savings accounts.

And so, I thought this was just a brilliant idea, I had been investing for 20 some odd years, had never even struck me previously and so I didn't know if it was legal to do this. So, I actually went to Google and I typed in "invest IRA in private company" and Google said it was legal so I figured, awesome, let's do it and I called my financial advisor where my retirement account was and I said, hey, I'm going to make this next investment out of my IRA and he said, great. I said, well, I mean, you still have the wire info and the bank info, all that stuff, can you just send it from my IRA instead of from my investment account and he said, no.

Took a couple of steps back and had a re-group and I said, this is legal and he said, I know it is, but we're not going to let you do that here. The long story short is I then had to go back to Google, discovered the self-directed IRA industry and began to make my first self-directed IRA investments in alternative assets and that first investment experience took me about ten weeks to complete. It was utterly painful, obviously, time consuming, I did all the work and at the end of the road, I wrote the custodian a check for me having done all of this work which made no sense to me. Nowhere else in finance does anything look like that and so I just kind of thought to myself, well, clearly, I chose the wrong custodian. (Peter laughs)

So, I end up making a couple of more investments with a couple of different custodians and the experience is the same each time and it was a real head scratcher, this cannot...I mean, this industry seems to be stuck in the 1970s when ERISA was passed, what's going in here. And so, I dug in a little bit and sure enough, there were only really, I don't know, a couple of dozens self-directed IRA custodians, none of which you had ever heard of and yet IRAs were growing faster than 401(k)s, still are, IRAs today are, give or take, $15 Trillion, 401(k)s are, I don't know, $6 to 8 Trillion call it and a very small percentage, less than 2% was getting invested in alternative assets.

And so, I kind of thought to myself, you know what, if we can do for this self-directed IRA industry the same thing that Turbo Tax did for self-filing, not only can we build a really big business, but we can also change the fate of retirement in America and so that's what we're really on a mission to do.

Peter: Great. Let's talk about that for a second before we dig in. It's been written about a lot, the retirement crisis, because the vast majority of people of retirement age have ridiculously underfunded retirement accounts, what do you think can be done there?

Eric: There are really two controls. One is save and invest more and the other is you generate more returns from the money that you do invest. On the former, what I would say is we'd like to be part of this conversation and change, it is mind boggling to me that we differentiate the amount of money someone can save for a retirement based on whether or not they're lucky enough to work for an employer who's offering them a 401(k) by which I mean, if you have access to a 401(k), you can basically save and invest $20,000 a year on a tax advantaged basis.

If you don't have that employer and you're doing a traditional IRA, you can only save $6,000. If you're self-employed or if you're working for a small company where the owner is particularly, I don't want to say benevolent, but really cares about your future and the work that you do for their business then you can have access to a SEP IRA and with the SEP IRA you can save up to 25% of what you earn up to $59,000, whichever is greater, 25% or I think $59,000. So, why is it $59,000 in the case of a SEP IRA, $20,000 in the case of a 401(k), $6,000 in the case of a traditional IRA, why don't we just tell everybody, you know what, if you're going to save and invest for a retirement, you can save up to $60,000 a year so that's the first thing. Let's give people the ability to save and invest more on a long term basis with the tax advances that we currently offer.

The second piece is the public markets aren't what they used to be, right, we used to have between 8,000/9,000 public companies, today, we've got less than 4,000 public companies, only 400 matter and the entire market, the entire investing market is dominated by mutual funds, index funds, ETFs which means it's impossible to outperform the market.

Peter: Right.

Eric: And so, alright, if you can't outperform the market, how do you do better. For me, anyway, the answer was alternative assets and it enables true portfolio diversification. I think it's really hard to look in a personal financial trade pub or magazine or newspaper and not read about the end of 60/40 by which the journalist or author means 60% public company stocks/40% public company bonds and I do believe that those days are over. It's something we've been talking about at Alto for a long time, but diversification then comes in the form of these alternative asset classes that we mentioned at the beginning, real estate, private equity, venture capital, credit, private credit, artwork, cultural assets today, whether they're Michael Jordan sneakers or antique automobiles or Rolex watches, whatever the case may be and, of course, crypto.

And so, we're really about assisting people in their efforts to diversify their portfolio, reduce volatility overall and if anyone's wondering what I mean by volatility, if all you are is invested in the public markets today, today is March 16th, how have the last three months been for you and the public markets along with everybody else, right. Well, if instead some of those assets were invested in alternative asset categories, your volatility would be way lower than it currently is and your expected returns would be higher and that's what we're trying to do with alternative assets.

Peter: Okay. So, what is it about IRA investments that make it so complicated because I mean, I've had similar experience to you, even just opening up a regular IRA account is really complicated, let alone going to the alternatives. What do you do differently that no one has done before?

Eric: Alto has a holding on subsidiary called Alto Trust Co. Alto Trust Co. is the custodian for these self-directed IRA investments and we serve in a custodial capacity because it is a regulatory requirement that everybody investing with a retirement account have a custodian. Why is that a requirement? Because the stakes are kind of high when you think about the fact that all these accounts are tax advantaged. In the case of a Roth IRA, you've already paid your tax and so this account gets to grow tax-free until you retire. In the case of traditionals and SEPs, you're talking about deferring tax for your working life, right, so there's a lot of money at stake and the government, the IRS wants to know that someone is sort of looking out for its interest to make sure that money is not, shall we say, going around the barn backwards.

They're also looking for, in many respects, your interest in terms of making sure no one's trying to pull a fast one with respect to a potential investment opportunity when you're talking about investment cash that you want for the long term and so that's why a custodian is required. The reason it has been difficult is because when you are self-directing your account, you're stepping into the shoes of the fiduciary for yourself, okay. And so, if you have an existing relationship and this is what happened with me, you know, I had an existing relationship with a financial advisor at a large broker/dealer platform and because we have this fiduciary relationship they don't want to be held responsible for the investments that I am making on my own.

Peter: Right.

Eric: And so, they left that category to sort of grow up in a way that it took the name self-directed IRA industry that's why there were only a couple of dozen players, if you will, most of whom nobody has ever heard of. Now, I actually don't think directed IRA is a good name, I really like Alternative IRA as a name and I say that because you can have a self-directed IRA account within Fidelity so long as you choose from their list of acceptable investments.

Peter: Right.

Eric: What we do at Alto is we allow to invest in the things that you know, the things that you believe in, the things you want to invest in proactively, regardless of whether or not some other unknown investment committee is telling you it's okay.

Peter: Right, okay. So then, what have you done that's different to everybody else.

Eric: So, we employed technology (laughs), thank you for asking the question. We built a platform which essentially enables Alto to function in both the hub and spoke capacity for the supply and demand of these alternative asset opportunities. The supply side includes our investment platform partners, companies like AngelList and Republic, Wefunder, Masterworks, like there's 70+ investment platform partners or any company or fund that's raising money independently of one of those platforms.

So, we enable the seamless transaction executions with these platform partners and also the Alto platform does the heavy lifting, the hard work that I had to do by myself way back in sort of 2013/2014 when I first had the experience by digitizing and automating the transaction closing process and all that happens on the Alto platform. So, we've really tried to put in place a technology that can serve millions of people rather than just tens of thousands. By doing that, we can make this a really affordable practice for maybe not everyone, but most people.

Peter: Right, right, got it. So, you first got on my radar when actually Lending Club first reached out to me telling me they were closing down their platform, their investment platform and I have IRA investments with Lending Club and they said we're going over to Alto IRA. I've seen your name around, but actually I haven't really done a due diligence on you guys, but you know, discovered that then we chatted and seeing obviously the movement from Lending Club happened, I moved all my IRAs to you guys and it was a really great experience. I obviously started up IRAs at Lending Club that were quite painful to set up and even to this day, like still obviously money comes into my Lending Club account and I move it over to Alto and it's like three clicks and boom, it's there in a couple of days

Eric: That's good to hear.

Peter: Yes, I think it's going well, but maybe you could tell us a little bit about how that deal first came together with Lending Club.

Eric: They called us. (laughs)

Peter: Okay.

Eric: They, as a business, a business customer and many of their clients were experiencing sub-optimal relationships with the existing custodial providers and knowing that they were exiting the business, they wanted to make sure that their customers would have new investment opportunities and they also wanted to know that the platform they would be working with was really cost-effective. We've been a low-cost provider in the space really since we entered and that's by design because we're using technology instead of people and paper in order to process activity.

You know, you asked me the question about what are we doing differently, that was the same thing that the Lending Club executives were attracted to because we do have these connections to all these investment platform partners which means as money comes from Lending Club to you Peter, the Lending Club investor, you now have an opportunity to reinvest in ways that otherwise weren't available. And for that exact reason probably when Prosper saw that Lending Club was moving the IRA platform essentially over to Alto they also reached out and said, hey, can we do that too.

And so now, whether you're a Lending Club or just an Alto IRA investor or you're an investor who's not yet using his or her IRA to make investments in a platform like Prosper is of interest to you, you can come to Alto, open your account. One of the things that a lot of people don't know, by the way, is there are no tax consequences to having multiple IRA accounts and you can have money in multiple IRA accounts. So, let's say you have an IRA at Fidelity and you want to invest in alternative assets, you open an Alto IRA and then you just transfer cash from Fidelity to Alto and you're free to invest in what you want. That's really what's driving us.

Peter: Right. So then, like I've invested in through your companies, Masterworks, I have pieces of six different artworks, I've done FarmTogether and how many, five or six there as well so I love the different alternatives that you offer, but how do you decide like what investment opportunities to add to your platform.

Eric: This is still where we aren't doing a great job and there's both a legal reason and just a sort of growth stage emerging company reason to it. From a legal or regulatory standpoint, we can't tell you what we think good investments are, we're not allowed to. We're not a broker/dealer and we're not a registered investment advisor, we're a software company and we connects Points A to B to C to D to E there, but what we can do better is provide you both with educational material directly as well as links to others who can say hey, if you're interested in investing in a private company, we think the diligence process can look like this, right.

The other thing that we want to do is enable you to reach out and communicate with other people who are making alternative asset investments so that you can benefit from their experience, really build community into the Alto platform. So, those are two things that we can do on that front. The other thing that we have done is we've filed our new member application so that we can be a broker/dealer which we expect to, if all goes well. Anytime you go through a regulatory governmental process who really knows with respect to timeline, but I think we'll have broker/dealer license before the end of the year. Once that happens, we'll be able to introduce you to specific investment opportunities, we can't do that just yet.

Peter: Right, got you., okay. So then, I noticed on your platform a lot of options are only for accredited investors, but there are some non-accredited, who do you have, what's the split between a credited and a non-accredited as far as your investor base goes?

Eric: Yeah. Right, now it's still largely accredited, I would say it's probably 85/15.

Peter: Okay, okay, that's fair enough. So then, you've got the crypto IRA that I believe you offer it with Coinbase, I also have one of those. I think that's not accredited, right, that's just regular.

Eric: Cryptocurrencies are traded as property and so you do not have to be an accredited investor in order to participate in those markets. And so, if you look at our total customer base and we've got about 22,000+ funded accounts with more than a billion dollars at this point, about 50% of those accounts are crypto IRA accounts and growing rapidly so that's where we're attracting more non-accredited investors to the Alto platform right now.

Peter: Right, right. And then can you talk about the costs involved to invest, just give us ….I know, there are different levels of things with different investments have different costs, but what are we talking about?

Eric: So, on the crypto side it's incredibly straightforward and you can say it in half a sentence, 1%, that's it. So, 1% of the buy, 1% of the sell, that's the fee period, end of story. On what we refer to as the standard IRA side, there are two different account types. One is $100 a year and that's where you're investing solely with our platform partners. The other account type is $250 a year and that's where you both get access to our platform partners and you get to bring your own deals that aren't necessarily associated with any of our partners. It doesn't matter how many investments you make in either of those scenarios to have the account, it's either $100 or $250. And then, there's a transaction fee so on the integrated platform partner side, transaction fees are anywhere from $10 to $50, it's not anywhere from, it's actually one or the other, it's either $10 or $50 and then if you have a $250 account when you do your own deal, it's a $75 fee, but, otherwise, $10 or $50.

Peter: And that's when you can do kind of what you were doing before where you said, right, there's a private company I'd like to invest my IRA in the equity of this product company, that's the deal that you can bring to Alto today, is that correct?

Eric: That is correct.

Peter: Okay, great. So then, I'd like to kind of get your perspective….we're running out of time, but I want to talk about alternative assets because people say you should have some money in alternatives, but the IRA space makes it very hard like for a 401(k), for example, you know, we have a list of, I don't know, there's mainly Vanguard accounts I think like 30 to choose from and there's nothing alternative in there.

Eric: Right.

Peter: You know, I'd like to be able to have something as an option there, but…so I guess the question is, what do we need to do to have these kinds of alternative investments go mainstream?

Eric: So, one of two things can happen. One is that we take a less paternalistic stance as regulators and loosen restrictions with respect to 401(k) investing, I don't see that happening anytime soon. The DOL, the Department of Labor, just came out with a statement saying that they were really going to scrutinize 401(k) providers who offer crypto investing.

Peter: Right, I saw that.

Eric: Right. If you ask me, especially in this world of highly competitive employment seekers, the last nine to 12 months have been named the period of Great Resignation, right. It seems to me a better way to do this from a benefit standpoint for new and potential employees is to offer SEP IRAs instead of 401(k)s. And from an employer perspective it says hey, I care about you and it says that because I, the employer, am going to put the money in your retirement account, you don't have to and secondly, you can put more in.

Peter: Right, right.

Eric: So, and it comes without the overhead and unnecessary compliance burden of 401(k)s and Ariza but that's just me, Peter, and you know…..

Peter: Okay. Why don't we close with, you know, what's your vision for Alto and maybe for the future of retirement investing, in general.

Eric: So, my vision for Alto is that we challenge the Fidelitys and Schwabs of the world, you know, in the next ten years come 2030. I'd like to say we're building a company for 2030 not 2020 and I say that, by the way, with the greatest amount of respect and admiration for what the folks at Fidelity have built and the folks at Schwab.

I'd like to tell a story about Charles Schwab and when he really created Schwab and discount brokerage didn't exist and no one knew that they can invest in stocks themselves and Schwab came along and said, yes, you can, we're going to help you, we're going to help educate you, we're going to show you how it can be done, you don't have to have a high-powered broker, you don't have to be a high-net-worth individual and this is the really funny part, we're only going to charge you $49.99.

Peter: (laughs) Which was a bargain, right, that was a bargain.

Eric: That was a bargain, that was a total bargain and that was discount brokerage then.

Peter: Yeah.

Eric: And I'd like to think that we're doing for alternative IRA investing what Charles Schwab did for public stock market investing. And so, that's our goal, we want to be the best on the planet, there's no reason to do it otherwise.

Peter: It's a great goal and a great mission. I think we do need more money in retirement accounts, there's no question about that, we need those accounts to grow at a faster rate. Good luck on your mission, Eric, thanks for coming on the show.

Eric: Peter, thanks for having me.

Peter: You know, I'm a huge fan of alternative investments, it's really how I started in the fintech space investing in Lending Club loans and I have now got a decent chunk of our net worth in alternatives because I believe one provides diversification away from the stock market and the bond market and really a lot of these things are pretty uncorrelated with even, I'd say, with economic activity, it's pretty uncorrelated, some of these investments are.

And so, I think every investor, and this is not investment advice, please don't take it as such, this is my personal opinion that I think having a diversified portfolio with stocks, bonds and alternatives is something that most investors should partake in and with Alto IRA you can now make it part of your retirement portfolio and I think that's a great thing.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

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