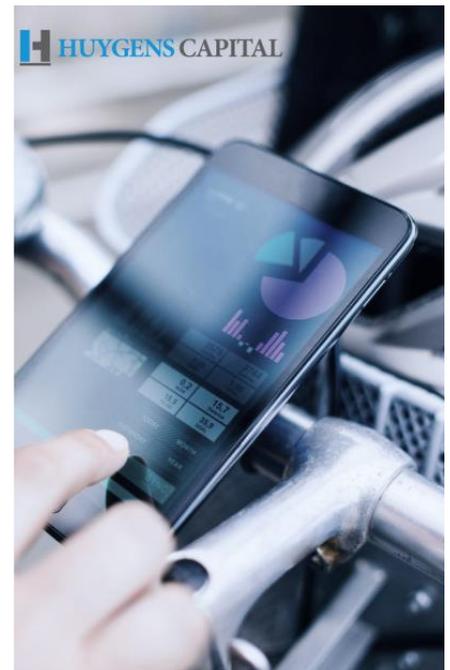


Huygens Capital: Tactical B2C Robo-Advisor



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Site: www.huygenscapital.com

Significant dates: The firm was launched in 2011, but their robo advisor products and website were launched in 2014

Value proposition: Provider of an automated tactical asset manager for individual investors based on a proprietary advanced AI algorithm

The executive team: [Walter Vester](#), Chief Executive Officer and Founder
[Adam Spilka](#), Chief Operating Officer

Huygens is a robo-advisory tool with predefined investment strategies designed for individual investors. It employs AI algorithms to signal when there's a crisis period in the offering, thus introducing active management principles.

Walter Vester, CEO and founder of the platform, has an truly unconventional career path prior to Huygens. He studied computer and systems engineering plus applied physics, and pursued an initial career in signal processing and algorithm design. At that time, he designed a handwriting recognition system using Bayesian probabilities and worked on developed and implemented secure wireless communication algorithms for defense intelligence and special operations applications. Later, deciding to take a break from engineering, he went to business school and switched to general consulting.



He worked at Boston Consulting Group as a generalist consultant, then at AllianceBernstein and Blackstone as a growth equity investment fund analyst and co-portfolio manager. As a hobby, he designed the original Huygens algorithm for managing his own money and then decided to commercialize it.

“For almost a decade [in investment management] I learned a lot of behavioral finance and pattern recognition of how institutional money managers make their decisions, and how that affects the dynamics of the equities market. I used what I learned to design an investment strategy for myself to help me sleep at night.”

Originally, Huygens offered separately managed accounts, hedge-fund-type strategies using the regime indicator, and then evolved that into a robo-advisor. More recently, they've introduced short volatility strategies with a related tactical indicator, so now it's a multi-strategy investment-management platform.

We spoke with Walter about the system specifics, challenges, and plans. He shared his insights into why they feel comfortable being small and don't look at any alternative assets.

Sleep at night while investing

The main focus of the company is providing differentiated strategies and peace of mind. Walter says that during a crisis the typical robo-advisor rebalances client portfolios by selling the best performing assets in them and buying the worst performing ones, which means during the volatility event, rebalancing actually enhances their volatility. Huygens employs another approach. They built a system that is designed to identify and signal when one of those crisis periods is happening.

“Rather than rotate you further into the asset class that's selling off, it is designed to get you out and wait until the selling stops. When our signal indicates that the worst is past, it is designed to rotate you back in, so that you can catch most of the recovery.”

Huygens provides a portfolio of low-volatility, large-cap and small-cap stocks. For a more conservative strategy, they add 10-year treasuries. The portfolio also includes low volatility, large cap stocks, via a smart beta ETF.

Huygens' algorithm

The AI algorithm executes each trading day after market close. Trading is done only if the trigger is actuated, however. For example, for all of 2017 the signal stayed in offense, while in February 2018 the system switched to defense. During a high-volatility period, they could trade several times in a couple of months. On average, it works out to about 16 or 17 times a year.

They do something very similar with rebalancing. The check happens daily with a drift threshold at 10%.

Walter argues against individual retail investors owning individual stocks. The Huygens strategies are designed around to have big capacity while delivering good performance at an efficient cost, while trading individual stocks can dramatically increase costs and reduce overall performance. He says Huygens is focused on index investing.

“The low-vol index is a core of our portfolio. However, there are other interesting indexes that I have been doing research on to add to our portfolios. So, smart beta indices and the momentum index can be interesting when combined with our strategy.”

Customer suitability assessment approach and strategies

Customer suitability assessment is also proprietary at Huygens, and consists of a carefully considered set of five-questions. There are three strategies you can sign up for: conservative, moderate, and aggressive.

“We thought about ... the key things that we need to know about a client to rank them. It's really four attributes. What's their age? What's their asset base? What's their risk tolerance? And what is their time frame to need the money? We created a matrix that shows which strategy to recommend based on the answers.”

Users are not allowed to switch to a different strategy unless they answer the questions again. That's because Huygens is a registered investment advisor, so they have a fiduciary responsibility to their clients, unlike the majority of other robo-advisors, which are only broker-dealers. This means Huygens offers its services without getting a fee share from the ETFs.

“Other robo advisors allow you to day trade your account in a way that's counter to your best interests. Our algorithm is designed to maximize the risk-adjusted return for our clients, and to do it in a way that is responsible for them.”

The technical side of Huygens

Walter personally developed and now maintains Huygens' platform in his own development lab. Client onboarding and account custody is provided by **Motif Advisors and Pershing**.

“Our sophistication is our strategy design and our proprietary way of assessing our customers. Everything that we use for reporting, account access, and management is provided to us by our custodian partners. It's all white labeled.”

The algorithms themselves were written in **MATLAB, because** this is a well-known platform for statistics and machine learning applications, and it has been Walter's favorite programming environment for as long as he has been a programmer. The website platform is on **Squarespace** and combines significant custom JavaScript, HTML, and CSS with their standard design templates.

Huygens has a small team. Walter takes up development and some sales, and boosts the social media presence. Adam Spilka, COO, runs the day-to-day operations. Craig Holliday is director of marketing and sales.

Building customer awareness

The core of the business is to help people learn the benefits of the Huygens approach and enable them to easily open separately managed accounts at Huygens.

“I'd like to focus on a smaller target market that focuses on a more discriminating customer – one that understands we offer a premium and highly differentiated product.”

While building customer awareness, they make it possible for customers to subscribe to their trading signal and trade their own accounts based on that. That is how people can

familiarize themselves with the system and convert to clients. Overall, the company is at the very early stages, so they very much need a marketing boost.

Occasional challenges

Walter confesses that they still have a small client base and a few million dollars under management. They raised a million dollars of seed working capital between 2012 and 2014, and have since been focused on letting the track record mature. However, before 2018 it was difficult to catch the opportunity to market the system's performance, and that's an issue.

"We need to wait for a period of meaningful volatility where we can illustrate the signal. There have been small pockets of volatility and our system has worked exactly the way it's supposed to, but the pocket of volatility went away before we could really demonstrate any performance benefit from it."

Among the biggest challenges, he lists positioning and demonstrating their value relative to an S&P 500. Editor's note: that volatility finally arrived in Q4 2018, and Huygens features that period prominently in their website.

Nevertheless, the company has many plans for the future. Walter mentions that they have a new product in the pipeline that is meant to become a more comprehensive but still tactical solution.

"Imagine a portfolio that's got some passive, some tactical, all in one. That's what we're rolling out next." Editor's note: this product was recently launched, in May 2018.

Walter says he is preparing to do another equity financing round in 2019 [Editor's note: He has secured a lead investor and is currently building out the round]. Also, they're attempting to increase their social media presence. Huygens will continue to grow their short volatility strategies because those are hedge-fund-fee structured and can very much help with the revenue. In 2019, though, they plan to focus on growing the client base.

Takeaways

As we can see, Huygens' platform has rather an interesting technical part to dive into. It enables active management and peace of mind rolled into one, which is unusual. Still, the team is at the very early stages of growth and needs support on the marketing side, positioning, and user experience. I hope Huygens overcome their struggles and materialize their promising plans.



Written by *Vasyl Soloshchuk*, CEO and co-owner at [INSART](#), FinTech engineering company. Vasyl is also the author of [WealthTech Club](#), which conducts research into Fortune and Startup Robo-advisor and Wealth Management companies in terms of the technology ecosystem.