Neal Leavitt
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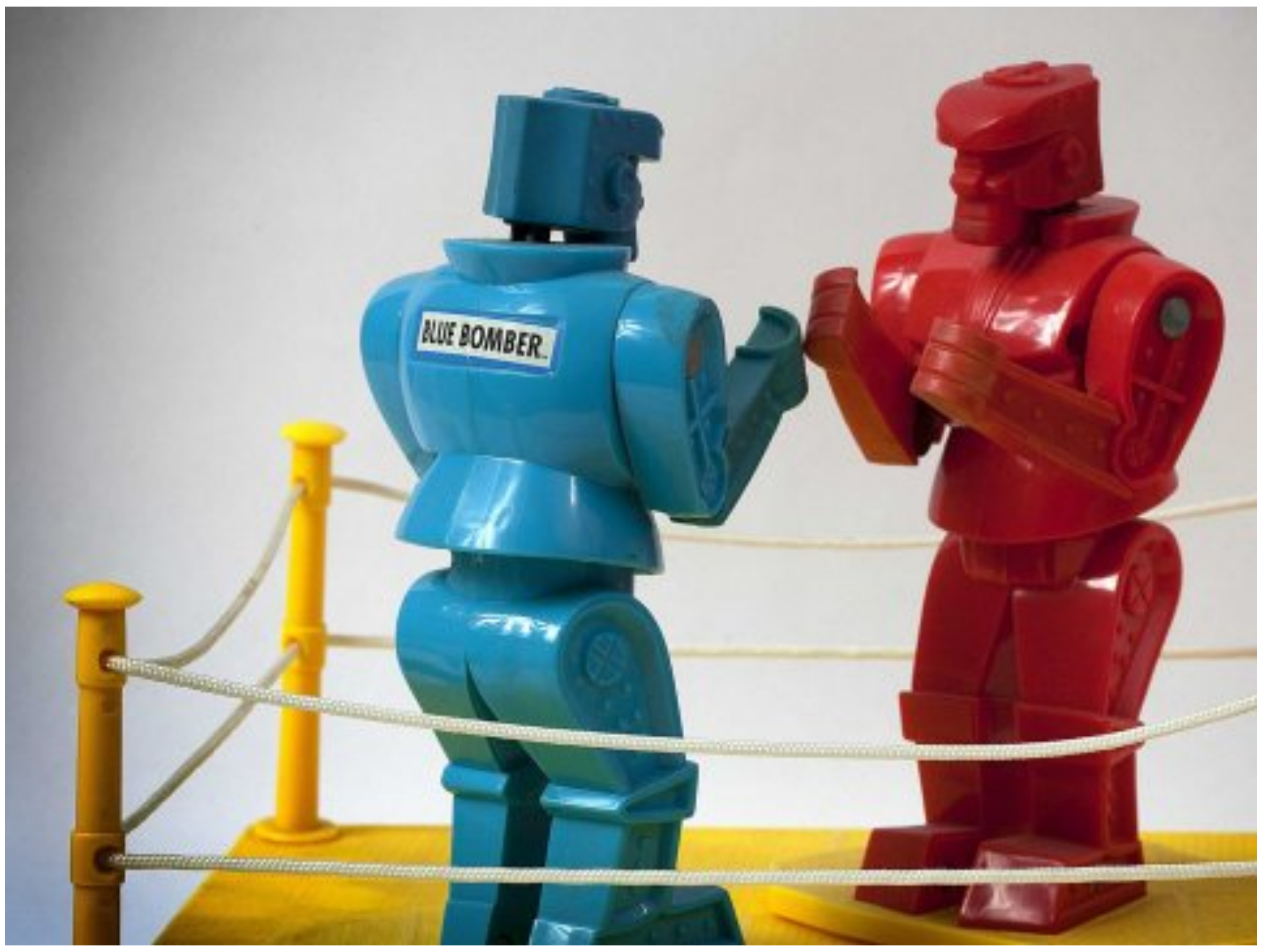
Will Robo-Advisors Invade the Financial World?

by Neal Leavitt

While it's not likely that R2-D2 is going to sit down with you at home and help construct your portfolio, reinvest your dividends and even harvest your tax losses, the use of robo-advisors is nonetheless growing in popularity.

To clear up any confusion, robo-advisors don't remotely resemble the iconic *Star Wars* character; they're not going to shout 'exterminate, exterminate' like the Daleks in *Doctor Who* should they advise to sell off a stock or two. In fact, they have no physical presence at all - robo-advisors are online management sites that manage investments through unique algorithms. They typically charge 0.25-0.3% annually of assets under management; warm-blooded advisors take about 1%, except for stockbrokers, who are paid by sales commissions.



Rob Berger, writing in *Forbes*, encapsulated how robo-advisors work:

Once money is transferred to a new account and a stock/bond allocation is selected, the service can then tackle everything from rebalancing to dividend reinvestment.

"These services don't offer much flexibility," noted Berger. "The ETFs and asset allocation, for example, are determined by the advisor. What they lack in flexibility, however, they make up with the ease of using their service."

Robo-advisors still only control a tiny fraction of total assets under management. *Investopedia* estimates that while traditional advisors have about $5 trillion under management, robo-advisors manage only $14 billion. *Investopedia* noted that "whereas millennials are more likely to follow trends and try robo-advising, wealthier investors are more likely to prefer face-to-face meetings with wealth managers over the automated nature of online platforms."

And *Investopedia* noted that the investment algorithms used by most robo-advisors are based on modern portfolio theory that tends to favor long-term investment strategies even though a short-term strategy might be viable at times.

But many experts say that algorithm-driven investments will be mainstream in a couple of years. Uday Singh, a

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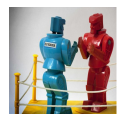
Will Robo-Advisors Invade the Financial World?

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partner at management consulting firm A.T. Kearney, co-authored a study this year that revealed consumers will rapidly adapt robo-advisors, with these companies projected to manage about $2 trillion of U.S. investments by 2020.

“There’s an opportunity to do an Uber of another industry and there’s every reason to believe that adoption will be exponential,” said Singh.

Even large mutual fund companies are recognizing the popularity of robo-advisors. Charles Schwab has introduced its own automated investment tool and Fidelity recently partnered with Betterment (the New York City company currently manages about $3 billion and has 118,000 customers) and offers the robo-advisor’s tools to investment advisors using Fidelity’s platform.

Business Insider recommended using a robo-advisor if you want to set and forget your investments; feel comfortable working online and aren’t investing a lot of money; the publication suggested using an investment advisor if you want to be actively involved in your investments, are more of a strategic risk-taker, and are investing a large amount of money.

While the industry has a ways to go before it really competes with traditional advisors, robo-advisors are a big plus as they’ve introduced innovative investing tools and are bringing costs down for consumers.

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