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HOW TECH WEALTH IS TRANSFORMING SAN FRANCISCO INTO ONE OF THE WORLD'S MOST POWERFUL FINANCIAL CENTERS

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Sterling Investment Advisors Ltd.

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"What investing advice am I missing if I choose a 'robo advisor'?"

By Timothy E. Flatley

If you have not yet heard the term "robo advisor," you likely will very soon. That industry is growing at an exponential rate, as millions of young people enter the workforce every year. This increasing supply of new investors has only known a world where the internet practically steers their every move. A number of entrepreneurs have recognized this trend and created businesses to take advantage of the opportunity.

Robo advisors cater to young investors' tech sensibilities by offering automated investment advisory services through a platform presented exclusively online. This system appeals to those who may financially be precluded from receiving professional management. A novice investor also typically lacks the assets necessary to attract the attention of a wealth management firm. Robo advisors have low investment minimums, allowing virtually anyone with savings to open an account providing recommendations.

These accounts create allocations based on algorithms designed to fit their investors' risk profiles. The portfolios generally utilize exchange-traded funds that are rebalanced periodically and can even be programmed to harvest losses in an effort to minimize the year-end tax liability. All of these services are offered at advisory fee rates lower than those most traditional firms are charging—yet another attractive feature to new and experienced investors alike.

However, with the reduced costs come reduced services. Robo advisors do not provide the same level of interaction as a traditional advisor. While typical advisory clients have several phone conversations and in-person meetings with their advisors in a given year, the robo advisor client can expect limited human interaction. The robo advisor-generated portfolio is also tailored to fit your current financial situation and future goals based on questions the websites have created.

As a result, these portfolios will not be customized to the same level traditional advisors can accommodate, by familiarizing themselves with every detail that affects your finances. **Each investor's portfolio needs are unique and require different levels of specificity.** One person may be comfortable establishing a simple diversified portfolio of mutual funds and ETFs, while someone else may have complicating factors such as stock options, large unrealized gains, gifting needs, trusts, restricted stock holdings, etc. The nuances of an investor's profile can often be fully addressed only through several fact-finding discussions, which may be accompanied by a separate financial-planning engagement. **Investors need to decide what level of service and cost is appropriate for their needs, with age being a significant factor.** Young investors are unlikely to need the highly customized service that an older person requires, given the latter's possible substantial savings, college costs and legacy-planning needs (as well as a host of other important concerns).

Strengthened by the influx of tech savvy young investors, robo advisors have carved out a considerable niche, and the large, established investment firms have taken notice and are developing competing products. Before long, investors will have a glut of choices if they decide that the computer-based advisory route fits their needs.

There are two other significant differences between a "computerized" and a "human" investment advising relationship. One of the largest mistakes that is made in investing is selling when markets become volatile. A significant role of the investment advisor is to provide professional guidance in tough markets. Additionally, investment advisors provide a wide range of financial planning consulting that is not offered by the robo advisors.

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