

# Deconstructing Robo

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Wall Street is abuzz with a plethora of new digital “Robo” solutions for the investing public. The aim of these new high-tech offerings is to eliminate the middleman and drive down cost with the ultimate objective of controlling the investment assets. Robo has significant appeal to Millennials who are just beginning to accumulate their own net worth. Robo solutions offer increased mobile access and “go anywhere” solutions; a millennial dream. But let’s take this discussion a bit deeper and ask ourselves what the Robo solution truly adds, and if this “revolutionary” new trend really is revolutionary.

Accessibility: as one who’s worked in the industry for over thirty five years, information accessibility, specifically digital accessibility is increasingly important. New, easy-to-use, visually appealing tools that offer instant access to your financial picture and the ability to model financial scenarios is absolutely an upside benefit of these new Robo offerings. It’s not simply limited to Robo, it’s driving the entire industry to improve its web presence and I see this as a significant enhancement to the overall client experience.

Performance: there’s an inference that by bringing improved technology to the investment business we will somehow improve performance. I doubt it. This industry employs some of the brightest people in the world and has for many decades. To think that suddenly an automated Robo option will outperform investment models that have been studied and implemented over the last 50 years is simply wishful thinking. The new interface may look slicker, but in my opinion the benefit ends there. The one exception where it may significantly improve performance is for those who have lacked any kind of guidance in the past because of limited resources and accessibility to a full service advisor.

Driving down costs: Yes and no. Since the deregulation of commissions 25 years ago the cost of transactions has essentially fallen to zero. You can trade online at a discount broker for pennies on the dollar yet the business of full-service advice has grown exponentially. In fact, every one of the major discount firms like Charles Schwab, Fidelity and Vanguard have all moved towards full-service advisory models, not away from it. What is the message here? Sound investment advice is critical and individual financial situations are unique, something that is extremely difficult to address with an automated Robo solution.

Confronting your biggest enemy: You! Numerous studies have been undertaken illustrating the difference between the performance of mutual funds and the actual performance of client accounts invested in those same funds. The variance is stark and the reason is emotion. Individuals are wired to sell when times are bad and to buy when times are good. Professional investors overcome this tendency and look for opportunities to invest when times are bad and to reduce exposure when times are good. As human beings we also wrestle with something called “recency bias”, the tendency to buy what’s recently worked and shy away from those areas that have not. If you are controlling your own financial picture through a Robo solution there will be no one to talk to during difficult times, no one to bring rational thought during emotional periods and no one to help work through a reasonable investment solution or recognize basic gaffes in investment strategy. Money is an important topic and it becomes increasingly important as the amount of our net worth increases. We can do your own taxes for \$50 through TurboTax, or download a will or trust document over the Internet, but as the level of our savings increase, the complexity of our financial picture also increases, and the option to do something for less becomes less viable. Yes, this may sound like a defensive reaction penned by a full service advisor but I would suggest that almost every high net worth individual depends upon personalized investment, tax and legal services. There’s a message in that.

In summary, the advent of Robo advisory is here to stay, and with it will come a number of benefits for those unable to access a full service advisor. It will also act as a driver for full-service advisory firms like ours to step up our game. I predict that within 12 months every full-service advisory firm will offer a Robo solution in conjunction with a number of existing investment solutions. The cost of full-service advisory can only be judged by the results and the benefits that you receive. Life is a series of milestones: the birth of a child and the financing of the child’s growth and education, marriage, health-related challenges and of course retirement and ultimately death and estate related issues. All of these phases bring unique challenges that are difficult to address through an automated solution, and while I acknowledge the current buzz, ultimately I predict that the impact of Robo advice will be more evolutionary than revolutionary.

Best regards,

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