

# ROBO-ADVISOR VS HUMAN FINANCIAL PROFESSIONALS

by Dominic Lucente

## *If an investor chooses a non-human financial advisor, what price could they end up paying?*

Investors have a choice today that they did not have a decade ago. They can seek investing and retirement guidance from a human financial professional or put their invested assets in the hands of a robo-advisor.

What exactly is a robo-advisor? Robo-advisors are a class of financial advisors that provide financial advice or investment management online with moderate to minimal human intervention. They offer digital financial advice based on mathematical rules or algorithms. Signing up walks the user through a series of questions, and based on their responses, creates portfolio choices for the investor.<sup>1</sup>

## **Which begs the question: why would you trust your finances to a robo-advisor?**

Robo-advisors are an attractive option for those just starting out investing. Some robo-advisor accounts offer very low minimums and fees and can be a solution for younger investors who want to “set it and forget it.”<sup>1</sup>

Even so, less than 8% of investors responding to a survey from data analytics firm Hearts & Wallets said they had used a robo-advisor. Out of the \$43 trillion in the North American wealth management market, an estimated \$410 billion is invested with robo-advisors. That number may grow to \$830 billion by 2024.<sup>2</sup>

The inherent problem is robo-advisors lack the human element to ask questions and dig deeper. Investors in all life stages appreciate when a financial professional takes time to understand them and their situation. A software program struggles to gain that understanding, even with input from a questionnaire.

The closer you get to retirement age, the more challenges you may face with a robo-advisor. The software continues to evolve and understand retirement investing. After 50, people have financial concerns far beyond investment yields. Investment management does not equal retirement preparation, estate strategies, or risk management.<sup>2</sup>

Many investors are taking advantage of a hybrid model that has emerged. Per the Hearts & Wallets research study, more than half of investors use robo-advisors only as an extension of their existing wealth manager. Once their balance reaches a certain threshold, investors may transition to working with an actual financial professional.<sup>2</sup>

It appears the traditional approach of working with a human financial professional may be hard to disrupt. The opportunity to draw on experience by having a conversation with a professional who has seen his or her clients go through the whole arc of retirement is essential.

These responses point to uncertainty about the process of financial and retirement strategies. The process is quite worthwhile, quite illuminating, and quite helpful. It is not just about improving “the numbers,” it is also about discovering ways to sustain and enhance your quality of life.

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#### Citations

1. Forbes.com, July 16, 2020
2. BusinessInsider.com, September 10, 2020

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