Rise of Robos Push Advisors to Reposition Practices

By Andrew Greene December 8, 2015

Robo-advice services aren't likely to replace financial advisors anytime soon, but they are forcing some FAs to rethink how they structure their practices and the services they emphasize to clients, according to advisors and industry observers.

These sources say robos are changing how traditional FAs position their businesses. In sum, they tend now to lead with financial planning services which require more of a relationship with clients — and in theory are harder to replicate — than the investing algorithms robos rely on.

But advisors also say they're interested in adding automated services to streamline aspects of asset management and portfolio construction.

The shift in thinking comes as more large-scale financial players like **Schwab**, **Vanguard**, **Bank of America**, **BlackRock** and others offer their own robo-advice platforms. And even if assets held by robo-advisory firms are tiny relative to total assets in the wealth-management space, media coverage seems to have highlighted their potential impact as a competitive threat for many advisors.

Taylor Schulte says he believes automated-advice platforms show just how commoditized most FAs' investment-management offering really are. "In anticipation of robo-advisory firms gaining traction and putting pressure on fees, I have significantly reduced my focus on asset management services and instead lead with financial planning services," the San Diego-based planner writes in an email to FAIQ. "By focusing on things clients can control – like spending, saving fees, taxes, asset location, risk capacity, and more – we can provide significant value above and beyond what a computer algorithm is capable of."

Schulte says he made the change even though he has not seen much, if any, demand from his clients for automated advice services. At the same time he says he has used robo-advisory services for a small number of younger clients with smaller accounts.

Schulte isn't alone. A survey of 500 advisors taken in the first quarter by **Corporate Insight** found that 27% plan to add in the next two years more specialized services like tax and estate planning in response to the rise of robo services while 35% plan to use more client-centric technology.

But the survey also suggests a significant percentage of advisors don't see robo-advisory platforms as complementary to their practices. Just over a quarter said they plan to "educate" clients on the limitations of robo-advisors. And 19% said they aren't planning to do anything

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Sophia Bera

different in response to robos.

Sean McDermott, an analyst with Corporate Insight, thinks the success of big-name robo platforms — Vanguard's and Schwab's have gathered more assets since launching earlier this year than the two leading pure play robo-advisory platforms, **Betterment** and **WealthFront,** can boast after nearly a decade in business — will goad advisors into robo action.

Demographics is also prompting some to embrace robo-advice services, says **Sophia Bera** of Gen Y planning. She uses Betterment's institutional platform to offer financial planning services to younger investors.

Her firm has no account minimum and charges 0.95% on the first $500,000. Of that amount, Bera says Betterment collects 0.25% which covers daily trading costs, rebalancing and tax-loss harvesting.

Bera charges her clients a monthly service fee as well as an initiation fee. She says Betterment gives her clients a better user experience, including easy-to-read account statements.

"Financial planning can't be commoditized, but advice can be," Bera says — meaning broad-strokes investment advice. This view is bolstered by the opinion — shared by other millennials — that active-fund managers can't outperform index products over time.

But **Kashif Ahmed** of **American Private Wealth** in Woburn, Mass., is wary of reaching downmarket to compete with robos.

"You largely get what you pay for," he writes in an email to FAIQ. Robos "may be creating a fear amongst the FA community," he adds, "but I doubt true planners will ever be replaced."

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