# Robo Advisors Have Arrived, but Life Often Calls for a Human Touch

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**AFTER YEARS OF DEVELOPMENT** numerous robo advisors have entered the world of investment management. Still, many investors may not fully understand exactly what robos do, or how they do it.

A robo advisor is a digital platform that uses advanced algorithms (based on various financial models and assumptions) to select and manage investments. To keep costs relatively low, portfolios are typically composed of exchange-traded funds (ETFs) and mutual funds that track market indexes. The recommended allocations, available strategies and various other features can differ significantly from one service to another.

To start the process, the investor fills out a standard online questionnaire designed to determine his or her risk tolerance and investment objectives. The software builds a portfolio with a mix of assets that align with the client's stated short- and long-term financial goals, such as saving for a home purchase, a child's college expenses, or retirement.

Robo advisors may be programmed to automatically place trades, generate reports, re-balance portfolios and perform other asset management tasks. Some hybrid services allow clients to periodically consult with a human advisor.

This kind of technology may be especially appealing to younger investors who are more comfortable with managing their lives on electronic devices — and who may not have as much at stake. Robos typically have low account minimums, which may help investors with minimal assets to get started.

However, some risks may not be fully understood. Robo advisors have yet to be tested by an economic downturn or times of extreme market volatility, when panicked and/or inexperienced investors may be more likely to abandon their investment strategies without a familiar voice to guide them through the storm.

A financial advisor can provide personalized, face-to-face guidance to clients as they accumulate wealth and their needs become more complex. To put it simply, there are still some critical things that people can do better than computers.

### 1. GET TO KNOW THEIR CLIENTS

The true value of a financial advisor may lie in emotional intelligence and interaction. When personal relationships are formed, advisors gain insight into each client's unique financial picture, including their priorities, pressing concerns, and psychological tendencies.

When challenges arise, a financial advisor can step in to help clients overcome impulses and biases that could prevent them from achieving their objectives.

A robo advisor may not ask the right questions or gather enough information to accurately assess the investor's needs and appetite for risk. In fact, an investor's psychological risk tolerance can be difficult to assess. Some people who describe their personality a certain way on a questionnaire may act differently under real-life conditions.

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### 2. OFFER MORE CHOICES AND COMPREHENSIVE SERVICE

Robo advisors can manage investment assets for less than the fees normally charged by personal financial advisors. But robo services are typically limited to portfolio management, and their reliance on ETFs and mutual funds means that investors may not have access to individual stocks and bonds, or to some types of alternative investments and strategies. A financial advisor typically has a wider range of asset classes to choose from and may be able to build a broader investment portfolio — or a more focused one — depending on the client's goals and risk profile.

Some financial advisors may utilize a digital platform for investment management purposes. Even so, a full-service practice can help meet additional financial needs and provide customized advice that is much wider in scope. Recommendations might incorporate debt management, insurance protection, college funding, gifting, tax strategies, wealth transfer, Social Security claiming options, and retirement income planning.

### 3. PROVIDE ACCOUNTABILITY AND PERSPECTIVE

What happens when an investor veers off track and is not making sufficient progress toward his or her stated financial goals? While it may be easy to ignore the recommendations of a robo advisor, it might be more difficult to disregard a trusted advisor. The prospect of regular checkups with a real person who cares about a client's future might inspire more realistic decisions about spending and saving.

A financial advisor typically can keep clients better informed by discussing the financial issues that matter to them, which may help give them more confidence in their decisions.

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Finally, one strength of a financial advisor is the ability to listen and lend emotional support through life’s transitions, some of which may call for a shift in financial strategies. Having a dedicated person to call in difficult times could help ensure that short-term issues don’t derail an effective long-term strategy.

Of course, there is no assurance that working with a financial advisor will improve investment results. All investing involves risk, including the potential loss of principal, and there is no guarantee that any investment strategy will be successful.

As with any investment account, investors who use a robo advisor should understand the specific services that may or may not be included (such as rebalancing and tax-loss harvesting) and how and when these services will be performed. Investors should also be aware of all costs associated with the services (including third parties).

*Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

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Rich Morrow is a partner in HBK CPAs & Consultants, and a principal and senior financial advisor with HBKS® Wealth Advisors. As both a CPA and Certified Financial Planner™, he offers his clients tax-wise financial planning and investing strategies.

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