Robo-advisor

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Robo-advisors are a class of financial adviser that provide financial advice or portfolio management online with minimal human intervention.[1] They provide digital financial advice based on mathematical rules or algorithms. These algorithms are executed by software and thus financial advice do not require a human advisor. The software utilizes its algorithms to automatically allocate, manage and optimize clients' assets.

Robo-advisors emerged in 2008[2] with greater acceleration in the United States and other countries after 2011. Today there are over 100 robo-advisory services.[3][4] Investment management robo-advice is considered a breakthrough in formerly exclusive wealth management services, bringing them to a broader audience with lower cost compared to traditional human advice.[5] Robo-advisors typically allocate the customer property on the basis of their individual investment, risk preferences, and desired target return. While robo-advisors have the capability of allocating client assets in many investment products such as stocks, bonds, futures, commodities, real estate, the funds are often directed towards ETF portfolios.[3] Clients can choose between offerings with passive asset allocation techniques or active asset management styles.[3]

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Definition

Legally, the term "financial advisor" applies to any entity giving advice about securities. Most robo-advisor services are instead limited to providing portfolio management (i.e. allocating investments among asset classes) without addressing issues such as estate and retirement planning and cash-flow management, which are also the domain of financial planning.

Other designations for these financial technology companies include "automated investment advisor", "automated investment management", "online investment advisor" and "digital investment advisor." Early robo-advisors include Betterment, Wealthfront, Schwab, Vanguard, and TradeKing. In Canada, Bmo smartfolio and Wealthsimple are examples of early players.[6]

Background

While robo-advisors are most common in the United States, they are also present in Europe,[3] Australia,[7] India,[8], Canada[9], and Asia[10]

The tools they employ to manage client portfolios differ little from the portfolio management software already widely used in the profession. The main difference is in distribution channel. Until recently, portfolio management was almost exclusively conducted through human advisors and sold in a bundle with other services. Now, consumers have direct access to portfolio management tools, in the same way that they obtained access to brokerage houses like Charles Schwab and stock trading services with the advent of the Internet.[11] Robo-advisors are extending into newer business avenues. In June 2016, robo-advisor Wealthfront announced a partnership with the State of Nevada to offer a 529 college savings plan. This development comes during overall growth in the college savings marketplace.[12]

The customer acquisition costs and time constraints faced by traditional human advisors have left many middle-class investors underadvised or unable to obtain portfolio management services because of the minimums imposed on investable assets.[13] The average financial planner has a minimum investment amount of \$50,000,[14] while minimum investment amounts for robo-advisors start as low as \$500.[15] In addition to having lower minimums on investable assets compared to traditional human advisors, robo-advisors charge fees ranging from 0.2% to 1.0% of Assets Under Management[16] while traditional financial planners charged average fees of 1.35% of Assets Under Management according to a survey conducted by AdvisoryHQ News.[14]

In the United States, robo-advisors must be registered investment advisors, which are regulated by the Securities and Exchange Commission. In the United Kingdom they are regulated by the Financial Conduct Authority.

Total assets under management

Collectively, robo-advisors directly managed about $19 billion as of December 2014, according to a study by Corporate Insight.[17]As of August 2015, Charles Schwab, Wealthfront and Betterment lead the pack in gathering assets regarding robo-advisors.[18] In July 2016, Betterment's assets under management surpassed $5 billion, the first robo-advisor to do so.[19]

As of February 2017 the assets under management of the leading robo-advisors are reported to be as follows:[20][21]

Assets Under Management (AUM in million U.S. dollars)

Company	Country	AUM
Vanguard	U.S.	47,000
Charles Schwab	U.S.	10,200
Betterment	U.S.	7,360
Wealthfront	U.S.	5,010
Personal Capital	U.S.	3,600
FutureAdvisor	U.S.	808
Nutmeg	Great Britain	751
AssetBuilder	U.S.	671
Wealthsimple	Canada	574
Financial Guard	U.S.	454
Rebalance IRA	U.S.	403
Scalable Capital	Germany	280
Treasurist	Thailand	10

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