Op-Ed: Why robots are bad financial advisors

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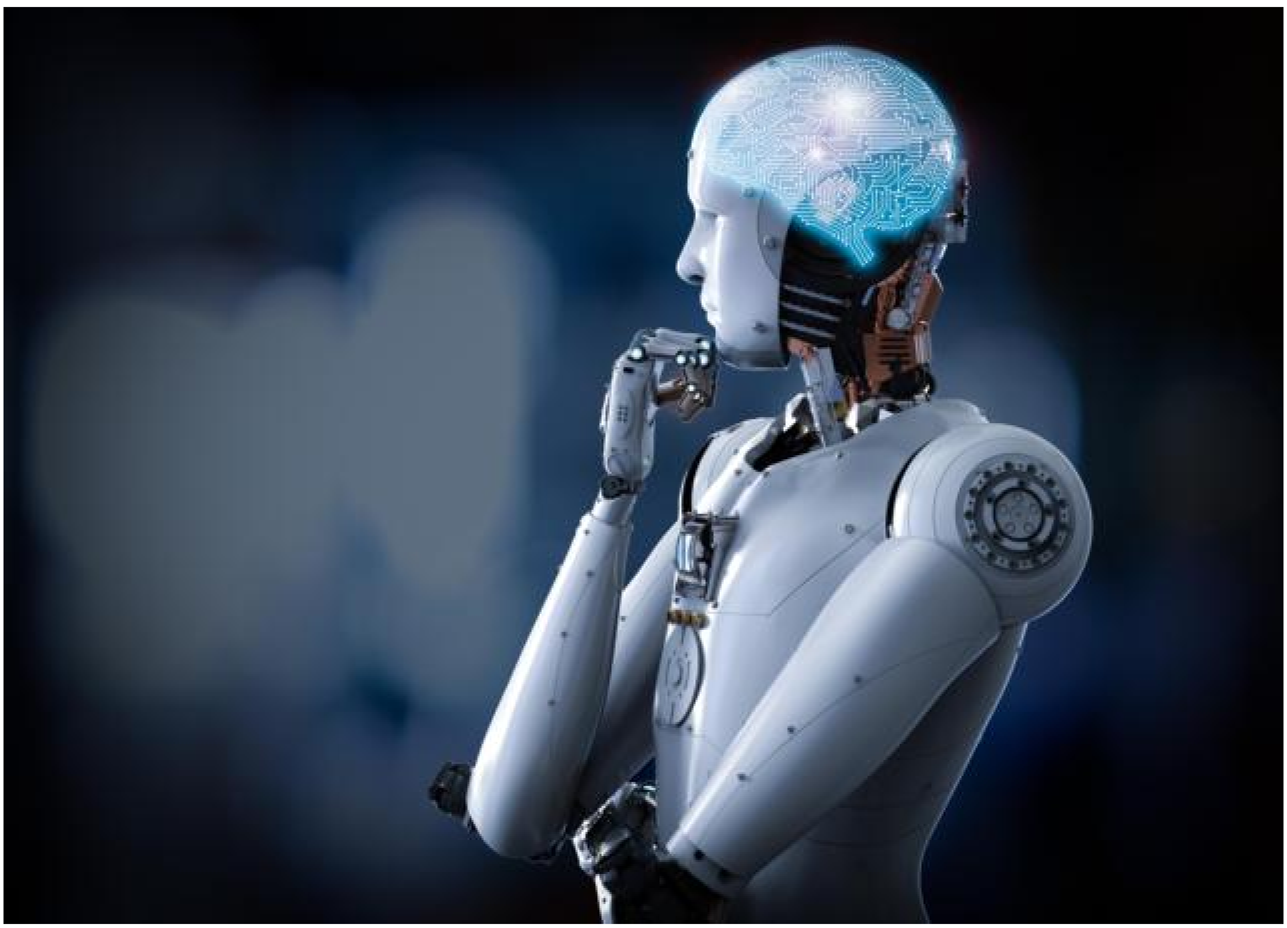

In this age of rapidly advancing technology, more and more investors have opted for "DIY" financial planning and investment Management platforms. And, with the increasing capabilities of trading platforms, retirement calculators, and auto-rebalancers, why wouldn't they? But, as many will learn in the next major market meltdown, there is a human element that is missing with these tools.

Here are the top 4 reasons that robots are bad financial advisors:

1. **They neglect the emotional side of investing**

The misconception about financial planning or investment management is that it's all about math, charts, and logic. While these things are part of investing, they don't encompass the whole story. In fact, I'd be so bold as to say that proper logic is only about half the battle in investing. The other half deals with something totally opposite of good data; emotions.

It may surprise the DIY investor but many of the conversations had by the human advisor and client consist of emotional topics. And, to say that emotion plays a role in financial planning is an understatement. It's all about emotion.

Emotion is what drives our financial goals. It is the motivator behind why we save, why we endeavor to leave more to the next generation, and why we want to take care of our spouses. When a person reflects on the journey of their working years, all the challenges that came along with it, and all of the sacrifices that were made to get to the point where retirement is now an option, it becomes emotional. Emotion is at the center of financial planning.

2. **A robot cannot relate during a volatile market**

If a robo-advisor is suggesting the same strategy as a human advisor, both may experience volatile periods of time, but a robot cannot sit on the same side of the table as you and go through the journey with you. They can't share a story to give you perspective. They can't show you empathy. They can only offer the cold, hard, facts.

In fact, the most seasoned advisors will likely prepare their clients for volatile times in a proactive way as a strategy to prepare clients emotionally. That way, when volatility shows up, the clients will be more likely to remain calm and not sell off as a result of sheer panic. In fact, some of the most valuable advice given to clients during market corrections is to remain invested and avoid selling. This feat can be difficult even for an advisor with a long-standing relationship with the client. How will the DIY client take the pre-packaged, automatically triggered message of the robo-advisor?

A seasoned advisor should not only make prudent recommendations, but he/she should communicate those recommendations in a way that informs and also gives confidence. In hard times, a good advisor should provide emotional support by relating to the client. After all, most advisors certainly have personal investments as well. As clients are experiencing volatility, a human advisor is probably experiencing similar results in his /her own portfolio. Perhaps, this may help provide additional comfort to clients during hard times in the market.

3. **Robots can't correct bad input**

Many robo platforms are built on a simple system. You input the data and that data generates output. But, what if the individual answering the initial questionnaire doesn't know how to properly answer the questions? I've encountered several times where someone presented themselves as either more aggressive or more conservative on paper, but after a meaningful conversation, different goals and objectives came to light.

For example, almost everyone wants maximum growth. But, not everyone wants maximum volatility. And, almost everyone wants safety, but not everyone wants to sacrifice upside potential for that safety.

A robot cannot discern the difference. A robot can't listen to your tone, can't read your body language, and can't redirect you, if necessary. And, bad or incorrect input could lead to mismatched or poor outcomes.

4. **A robot can't take care of your family**

In many cases, when a DIY investor is married, their spouse has little to no understanding of how to manage the family's assets. And, if the DIY investor becomes deceased, the surviving spouse would not only be left with the emotional challenges of losing a loved one, but also with the grueling task of completing death claim forms, retitling assets, and taking over the management of the investment portfolio.

If the surviving spouse has no interest or ability to manage the portfolio, or if they are not comfortable utilizing a DIY platform, they would also be charged with the task of searching for, interviewing, and choosing a new advisor to work with. For someone with little to no investment knowledge, this may prove to be difficult and overwhelming.

Bottom Line

When things go as expected, DIY investing on a robo platform seems like a no-brainer. However, if you've been around long enough, you know that life, like the stock market, is all about managing the unexpected. Some individuals are capable of managing the unexpected by themselves or with the assistance of a robo platform. However, for others, the pros of a robo-advisor may not outweigh the cons during times of life change or market volatility. Either way, before you choose a robo-advisor as the strategy for you, it's important to understand the potential downfalls as well.

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