Robo-Advice: Automated investment advice plus a whole lot more

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Introduction

At Six Park, when we hear the term “robo-advice”, we think of a low-cost, automated investment management service backed by investment experts.

The Free Dictionary defines a robot as a device “capable of performing a variety of often complex human tasks on command or by being programmed in advance” – an idea that’s critical to robo-advice and how it works to help investors grow their wealth in a smarter, simpler, more affordable way.
What is robo-advice?

ASIC’s MoneySmart website defines robo-advice as financial advice delivered online, using algorithms and technology in place of a human financial adviser.

In a nutshell, robo-advice automates a lot of the time-consuming jobs that are critical to good financial management, including portfolio rebalancing, risk assessment and rapidly establishing a low-cost diversified portfolio that doesn’t rely on picking individual stocks or timing the market.

The use of automation plus an element of professional human oversight can help eliminate common mistakes that investors typically make, such as impulsive or emotionally driven decisions. By focusing on asset allocation and keeping costs low, robo-advice is based on a smart way to optimise long-term investment returns.
How does it work?

Robo-advice is an automated online way for you to get funds invested in a smart, low-cost way.

**Step 1 - Q & A**
Robo-advice typically starts with an **online assessment** to establish your personal situation, your goals, your capacity and appetite for risk, and your **investment horizon**. Your answers are used to determine a suggested investment strategy curated by our expert Investment Advisory Committee.

**Step 2 - Get recommendation**
Your **automatically generated** advice will include a proposed asset allocation (%) which provides **investment diversification** across various asset classes (Australian shares, international shares, emerging markets shares, bonds, listed property, infrastructure, global listed property, cash yield, etc.).

**Step 3 - Set up**
Set up your **accounts online** (cash and brokerage account).

**Step 4 - Invest**
Robo-advisors typically use Exchange Traded Funds (ETFs), which are index funds that enable simple, **low-cost investment diversification** using a single ASX-listed fund. ETFs are proving to be one of the most effective and popular investment tools in Australia with about 200 ETFs listed on the ASX managing more than $200 billion of funds at the end of March 2017.

**Step 5 - Peace of mind**
**Online access** to view your portfolio and performance reports. Robo-advisors **periodically rebalance your account**, a clever way to keep you in line with your target asset allocation (and proven to help optimise overall investment performance). No stock picking or market timing. Don’t overpay active fund managers for underperformance.

Just like human financial advisers, not all robo-advisors are created equal, particularly when it comes to the experts who are responsible for setting the asset allocation parameters and making periodic adjustments when needed. Costs, user experience and customer support can also vary from one service to the next.
What are the benefits of robo-advice?

Ultimately, robo-advice is about trying to achieve the best investment returns given your risk profile and investment time horizon, while also demystifying the complex world of investments.

Most robo-advisors rely on the core investment philosophy that managing your asset allocation (diversification) and keeping costs low will produce optimal investment returns versus picking individual stocks, timing the market and paying exorbitant fees to fund managers who tend to underperform the broad market indices. The foundation of robo-advice investing is based on Modern Portfolio Theory, an analysis whose authors won a Nobel Price in Economics.

**Investment diversification**

With the emergence of Exchange Traded Funds, robo-advisors can build you a portfolio of investments spanning various global asset classes at a very low cost. This investment diversification addresses a major problem with many Australian investors; that is, being overly concentrated in a small number of shares/assets, which has been shown to produce poor investment returns over time.

**Low-cost**

By automating many investment management processes, robo-advisors are able to provide investment guidance, management and accessible reporting at a low cost (varies by provider). It’s important that any robo-advisor invest prudently in operations and technology to be able to effectively handle a large number of clients so that costs can remain low.

**Personalised guidance**

Robo-advisors use assessment tools to create and manage a strategy based on your situation (high risk/low risk, short term/long term). They then (should) follow up with you periodically to make sure your investment strategy remains relevant to your personal situation (this can change with arrival of kids, loss of a job, receiving a large bonus!). This follow-up is critical to build transparency and trust in the “robot”.

**Rebalancing**

Your investment portfolio should be periodically rebalanced when necessary, to ensure your asset allocation remains in line with your recommended strategy over time. Periodic portfolio rebalancing is crucial to optimising long-term investment returns.
What are the benefits of robo-advice? (cont.)

In addition to a smart way to get the optimal performance out of your investments, robo-advice also provides for an exceptional user experience.

The latest developments in digital technology enable more efficient processing of activities that used to be handled by rooms full of humans (at a cost to you) and also enables you to see the your investments online (laptop, tablet, phone). This helps build trust that you know what’s going on with your investments and what you are paying in fees. Total transparency.

Easy set-up and investments held in your name

Online set-up avoids unnecessary paperwork and gets you set up and invested quickly. Your cash account and all investments are typically held in your name with robo-advisors, so you have easy access to your assets and ability to withdraw funds or sell assets if desired.

Simple and transparent

Robo-advisors streamline and simplify the investment management process, which should make for simpler and transparent pricing, and provide you with online access to view your holdings and performance that’s easy to understand. This creates trust that your interests are the #1 priority for any robo-advisor.
The global robo-advice market

AITE estimates that robo-advisors were managing $60 billion of assets in the United States in 2015. But this figure is growing exponentially – BI Intelligence forecasts that robo-advisors will manage $8 trillion (or about 10 per cent) of global assets by 2020. This is not unreasonable given recent announcements by JP Morgan, Goldman Sachs and other major global financial institutions of their intent to launch their own robo-advisor solutions.

Figure 1 - Forecast Global Assets Under Management by Robo-Advisors
(Source: BI Intelligence)
Who is robo-advice suited for?

Robo-advice is well suited for:

• Any investor looking for a simpler, low-cost way to invest via a innovative, online service.

• Self-managed super fund (SMSF) trustees as well as non-SMSF investors who want a well constructed investment set-up based on a diversified, professionally managed portfolio of ASX-listed ETFs, which can comprise a portion, or all, of their investment strategy.

• Early savers and people in wealth accumulation phase (typically aged from 25-55) whose investment requirements (for the funds managed on a robo-advice platform) are fairly simple and whose time horizon is medium to long term (5 years+).

Robo-advice is probably not suitable for:

• Anyone who wants to pick their own stocks and try to time the market (when to buy and sell on a regular basis)

• Anyone happy with their current investment management set-up (advisor, fees, investments, reporting, transparency), in terms of value for money and acceptable investment returns.

• Anyone with complex investment or wealth management requirements could use robo-advice for a portion of their investment management, but should seek advice from professionals with expertise in tax, accounting, estate planning and legal matters when needed during their wealth management life cycle.
What to look out for when selecting a robo-advisor

Before selecting a robo-advice service, make sure to consider the following:

- **Investment performance**
  Performance of an automated investment service is driven largely by the inputs and assumptions in the “robot”. Check on the return performance of the various portfolios of the service and compare with what you are currently receiving from your provider.

- **The people behind the “robot”**
  You need to trust that although the service is automated, the people behind the “robot” have the qualifications, track record and asset management experience to manage your hard earned money. Slick technology does not guarantee performance, so check the track record of the team making important decisions behind the scenes.

- **Ownership of assets**
  Most robo-advisors enable cash accounts and investments to be held in the clients’ names. This is important for two reasons: 1) easier and more transparent investment performance reporting, and 2) since many robo-advisors have not been in operation for a long period of time, it’s important to know that if yours ceases operations, your assets are safely held in your name, not in a pool with other assets that might be hard to retrieve in such a situation.

- **Transparency**
  During your assessment, account set-up and ongoing account management experience, if you don’t know what you’re getting or why, then back off quickly. The process should be easy to understand and transparent.

- **Follow-up**
  Be wary if there is no evidence that the service will keep in touch to make sure that the automated advice remains relevant as your life and investment needs change.
About Six Park

Six Park is an automated investment service backed and managed by Australia’s preeminent investment experts.

While most robo-advisors are user-friendly and easy to use, Six Park is different from other services in three significant ways:

• Unparalleled investment management experience and unaligned with a bank
• Strong portfolio performance
• Lower costs than other robo-advice services

The combination of sophisticated technology, low cost and the human asset management overlay is why we refer to Six Park as “Robo Plus”.

Six Park’s Robo Plus provides an unrivalled value-for-money and investment return profile when compared with any other investment service in Australia.