



How do financial advisors stay relevant in the age of automation?

Julian Koski, Co-Founder And Chief Investment Officer, New Age Alpha

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The changes to the investing landscape in the last twenty years have been astounding. From online retail trading to ETFs and quantitative asset management firms, the market is a very different place now. Increasingly, automation is what defines the investment management business, and many investors have switched to low-cost “robo advisors” that make use of algorithms that automatically manage portfolios.

Some robo advisors, such as [Betterment](#), have made a marked impact on the industry by allowing investors to inexpensively gain access to managed portfolios of passive investment products and even guide them through asset management in retirement.

How can traditional financial advisors discover new opportunities to add value when robo advisors' algorithms perform the same job functions?

What are the advantages of robo advisors?

There are many benefits to automation. From a behavioral perspective, removing the human element of analysis often helps the management of a portfolio because it prevents our natural biases that can cause us to make foolish decisions. For that reason, even the legendary Richard Thaler – the father of behavioral finance – [has been credited](#) with the proliferation of automated investment strategies. But more importantly, the automation process exploits the single biggest advantage computers have over us mere mortals: the ability to process large quantities of information very quickly. With this very valuable resource, it seems foolish not to ask the algorithms to do the heavy lifting for us.

The problems with automation are even more basic. Not only is there not much room for personalization beyond what the client chooses to input, but the automation process inherently forfeits any possibility of producing significant alpha. A robo advisor that allocates any meaningful portion of a client’s portfolio to a variety of ETFs is not so subtly acknowledging that out-performance is not the goal. The goal is merely to get exposure to assets that should perform in line with expectations as quickly and cheaply as possible.

Investment biases and the fight for alpha

This might cause some frustration for the traditional advisor as low-cost competitors gradually steal away clients. The answer may lie in the way advisors communicate with clients. Specifically, it is important to let the clients know the assumptions that robo advisors are making about the market are probably incorrect. Most robo advisors take an undeniably passive approach to portfolio building, believing alpha is not possible and that clients should be happy matching market performance. This is foolish. Although alpha may be harder to find these days, it certainly still exists. In fact, the more money that flows into passive investments, the more alpha opportunities there will be.

An investment product that takes advantage of the benefits of automation (such as the removal of biases) while retaining the prospect of generating alpha is what the advisor needs today. Robo advisors won't consider many quantitatively-based products; traditional advisors find the product that best suits their client's needs.

Automation may be a growing trend, and the toolkits that computers have provided us with have tremendous benefits. However, this growth doesn't have to mean that advisors are obsolete. It should challenge advisors to embrace new ways of looking at investments and to not give up on alpha.

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