As robo-advisors continue to gather venture funding and exposure, they are stepping up efforts to lure Generation X and Y investors away from financial advisors who would rather talk than tweet.

Three robo-advisers, Wealthfront, Betterment and Learnvest gained impressive ground in 2014 as the total capital raised for this nascent industry approached a quarter of a billion dollars. Meanwhile, financial bloggers, passive index consultants, data aggregation marketers – even academics – continued to weigh in on the core question posed by this emerging new technology: Is it time to add the job title “financial advisor” to the same list of obsolete occupations that includes “alchemists,” “lamplighters,” and “switchboard operators”?

Grant Easterbrook, a senior researcher at Corporate Insights, thinks if not now, that time may be just around the corner. He spent some two years researching developments in the robo-advice industry and concluded that financial advisors will suffer the consequences if they don’t improve their game when competing against robo-advisers. “There’s a big shift taking place as we go from boomers to Gen X and Y investors,” he said recently in an ETF.com post. “It will be harder for traditional wealth management firms to connect with them.” An InvestmentNews headline summarized the battle between advice-giving humans and algorithms in cyberspace this way: “Attack of the Robo-Advisers: Man versus Machine. For financial advisers, the battle lines are being drawn right now.”

Robo-advisors are online investment companies that provide a menu of portfolio recommendations to customers who fill out a form that evaluates their risk tolerance and return objectives. The customer also gains access to a variety of tools for investment analysis and financial planning. A variety of ongoing educational programs such as webinar presentations and periodic e-mails are also available.

IN THE RING

Some of the frequently cited benefits of robo-advisors over financial advisors include:

- Low minimum investments
- Lower fees
- Greater fee transparency
- Better on-line user experience
- More convenience
- Takes less time
- Better web sites
ALGORITHMS AND ADVICE

Traditional financial advisors have their defenders, too. After all, an algorithm can’t take a client out to a decent lunch for a discussion about managed futures and tax loss harvesting. These defenders of tradition tend to fit into two categories:

• Fighters who recommend that financial advisors emphasize their unique expertise and capabilities while highlighting the robo-adviser’s product and planning limitations

• Transitioners who believe that investors will gradually throw off their robo-advisor training wheels when they are ready to transition their portfolio to a serious flesh and blood advisor. Frederick P. Gabriel Jr. at Investment News wrote recently, “The truth is that robo-advisers are more likely to be an adviser’s friend than foe. After they may serve as pushers to get investors hooked on the value of financial advice, robo-advisers may actually train clients to be more comfortable with adviser-assisted technology for the delivery of advice.”

At some point, when a critical asset mass is reached and estate planning responsibilities begin to stretch across the generations from the Millennial perspective, every investment portfolio will require a higher degree of sophisticated oversight.

While there are compelling reasons to construct portfolios online; low cost, transparent fees and attractive user interfaces notwithstanding – the level of risk will become increasingly unacceptable as portfolio variables rise exponentially over time. Financial advisors who seize the initiative to firm up their product offerings – especially in the non-robo-advised alternative investment area – and learn about and use new technology applications with their clients may see the robo-advisor persona change from machine-age “Terminator” to kindly caretaker of assets destined for their more expert hands.

IS ROBO-ADVICE JUST ANOTHER FORM OF “DOING-IT-YOURSELF?”

Forrester Research and Cerulli have tracked the ebb and flow of financial advice preferences over the years. These preferences generally fit into three categories:

1. Delegators, who essentially say, “Do what you think best with my money.”

2. Validators, who like to participate in decision-making.

3. Self-Directeds, who are basically “Do-It-Yourselfers,” and like the intellectual challenge and cost-efficiencies of trading and investing for their own accounts.

When Validators and Delegators are combined, fully 72% of the investor marketplace has already expressed their preference for at least some measure of financial advice in crafting their portfolios decisions.

Here are six ways today’s financial advisors can position themselves today to attract a greater share of assets from investors who outgrow their online portfolio starter kits tomorrow:

1. **Emphasize your access to alternative investments** While robo-advisors may offer ease, convenience, cost-efficiency, and a lot of products, they don’t offer a lot of asset classes. Passive, index-based investments
are required for portfolio construction to stay on track. Actively managed mutual funds, which represent the single largest investment category, are left out of the robo-advice model. The vast range of alternative asset classes, from precious metals and real estate to managed futures and hedge funds, are also left out. Looking at the menu of robo-advice offerings is a little like asking “what flavor of vanilla do you prefer? Plain? French? Or the one with the little vanilla bean specks?”

2. **Point out that advantages of robo-advice are still being tested** Before the “Terminator,” there was “Frankenstein.” Peter Mangan of Shareholder Services Group recently said it is way too early for human advisors to exit the battlefield. “The landscape is littered with failed robo-advisors,” said Mangan. “Have any lasted longer than their venture capital?” he asked. “In the financial advisor world, you deal with real clients, real money and real problems, which a black box simply can’t evaluate on its own.” Much of the hype about robo-advice, in fact, is coming from the passively managed, index-based part of the investment industry, not actual technology experts.

3. **Engage with Generation X and Y and (surprise!) they will respond right back** The image of Generation X and Y members permanently huddled over gaming consoles and keyboards for hours at a time sometimes seems burned into the American psyche. The idea that Millennials prefer social media over meeting socially is a false generalization. According to research into the communications preferences of Generation X and Y conducted by West Midland Family Center, Generation X and Y:
   - Like personal attention
   - Are open to new ideas
   - Will seek out expertise when looking for guidance

4. **Sharpen your technology skills and apply them during client reviews** Integrating online portfolio construction tools to craft index-based solutions for entry-level clients may be desirable for any advisor. As these clients add assets over time, they will likely require help with more complex financial and estate planning needs. Account management tools like Equity Institutional’s eVantage program can enable financial advisors to incorporate simple and sophisticated technology into their client review process. By also coupling low-cost, and sometimes free, screen-sharing teleconference capabilities (the most well-known of these being WebEx and GoToMeeting), a financial advisor could take a client on a “walk through” of their portfolio holdings on-line, and provide suggestions on portfolio adjustments. Such real-time collaboration meets the needs clients for time-efficiency and online convenience.

5. **Develop your online presence** One of the best ways to know what your competition is saying about themselves or you is by joining in on the online conversation. Robo-advisors are presenting their ideas through blogs and tweets. If you are not part of that dialog, you relinquish a valuable corner of the battleground to the competition. This may require some internal discussions at the compliance level and change won’t happen overnight. A good way to start, though, is to download “10 Things to Know about Social Media in the Financial Services Industry in 2014,” from Ropes & Gray, a law firm that specializes in issues related to the investment management industry. According to the document, “Firms are finding that they cannot dig their heads in the sand and think that they are the only firms immune...
Six Ways Financial Advisors can Benefit from the Coming Boom in Robo-Advice Assets

from the widespread adoption of social media by adults in every demographic category in almost every corner of the world. Social media conversations are happening about the topics regarding which financial services firms want to engage with their customers. Social media conversations are likely happening about every firm of any scale, even if it is simply via blogs and tweets.”

6. Review your fee structure to make it more transparent
The key threat from robo-advisors concerns their ability to provide a low-cost, transparent pricing alternative to financial advisors. To counter-act the sense from some investors that they are over-paying, a clearer case must be made for the additional value your advice brings to the relationship.

CONCLUSION
The growth of robo-advice has even spawned a counter industry: Videos, books and blogs that provide tips and tools for battling the bots are plentiful. With $35 million in funding, Silicon Valley-based Motif, is hoping to provide financial advisors with the equivalent of a robotic arm that will do the heavy investment lifting across six investment categories at low cost, while keeping all of the other relationship-based consulting under the human umbrella.10

For all of their utility, robo-advisors lack the human element that has been an essential part of making investment decisions. Easy to confuse with equity crowdfunding sites, the robo-advice experience itself is a lot like operating a calculator with better graphics. The more prominent entrants, Personal Capital, Wealthfront, Betterment and FutureAdvisor, when visited in aggregate, are generic, cold and interchangeable. While a number of them do offer the services of an oxygen-breathing advisor, the end-result is the same: a choice of programmed model portfolios, based on the customer’s risk and reward profile, comprised of off-the-shelf index-based investments.

Will the robo-advisor experience be enough to keep investors coming back for more? “How good will these automated advice providers be at following up?” John Payne, Cerulli, asked back in 1999, when robo-advisors were still in the planning stages.11 “They won’t notice that you’ve just got married, that you just had kids or that you’re going off to college.” For Cynthia Stephens at ByAllAccounts, advisors should “Turn personal service into a decisive advantage over self-directed investment websites. The forward-looking advisor who offers personal, event-driven counsel and technology solutions such as client portals provides the best of both worlds.”

WHAT ROBO-ADVISORS CAN’T DO THAT HUMAN-ADVISORS DO EVERY DAY

• Evaluate investor priorities against the complexity of family histories
• Show investors how to gain control of their financial picture, while guiding them through unexpected life events
• Answer tough questions about difficult, time-sensitive decisions.
• Apply a fiduciary standard to their recommendations
• Identify and explain unusual portfolio risks – and opportunities
• Help investors build a legacy that will last
• Avoid defaulting to a narrow spectrum of plain-vanilla, off-the-shelf, index-based products
• Explore the full range of investment choices with an investor, including alternative vehicles where and when appropriate
## ARTICLES OF INTEREST

<table>
<thead>
<tr>
<th>Source</th>
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<tbody>
<tr>
<td>ORION Blog</td>
<td>Challenge: How To Turn Personal Service Into A Decisive Advantage Over Self-Directed Investment Websites</td>
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<td><a href="http://www.orionadvisor.com/beating-robo-advisor-challenge/">http://www.orionadvisor.com/beating-robo-advisor-challenge/</a></td>
<td>Enterprising advisors can out-shine their robot counterparts by co-opting the “best of tech” while employing the “best of talk” in order to maintain themselves as the financial quarterbacks of the client’s investment affairs. Cynthia Stephens, ByAllAccounts Vice President, Marketing</td>
</tr>
<tr>
<td>ByAllAccounts Blog</td>
<td>Learning from Robo-Advisors</td>
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<tr>
<td><a href="http://www.byallaccounts.com/blog/401-learning-from-robo-advisors.html">http://www.byallaccounts.com/blog/401-learning-from-robo-advisors.html</a></td>
<td>Robo-advisors are to be learned from, rather than being feared. It is inevitable that the lower Robo-Advisor fees will affect the way advisors charge. It could be time to review your own fees, see if they match your services, and are simple for a client to understand.</td>
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<tr>
<td>InvestmentNews</td>
<td>Attack of the robo-advisers: Man versus machine</td>
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<td><a href="http://www.investmentnews.com/article/20140507/BLOG16/140509929&amp;utm_source=Daily-20140508&amp;utm_medium=in-newsletter&amp;utm_campaign=investmentnews&amp;utm_term=text#">http://www.investmentnews.com/article/20140507/BLOG16/140509929&amp;utm_source=Daily-20140508&amp;utm_medium=in-newsletter&amp;utm_campaign=investmentnews&amp;utm_term=text#</a></td>
<td>The digital advisor will computerize many aspects of the client experience that enhance their clients’ entire financial lives in a price-conscious and scalable way. Investors, both private and public, are making a bet today that self-directed technology companies are more valuable, have better businesses and better prospects than old-school brick-and-mortar advisers. They will be right unless advisors take a new road that integrates technology into every aspect of their business.</td>
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<tr>
<td>ETF.com</td>
<td>How Robo-Advisors are impacting investing</td>
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<td><a href="http://www.etf.com/sections/features/21887-how-robo-advisors-are-impacting-investing.html?fullart=1&amp;start=3">http://www.etf.com/sections/features/21887-how-robo-advisors-are-impacting-investing.html?fullart=1&amp;start=3</a></td>
<td>The growing segment of so-called robo-advisors is vast and diverse. Grant Easterbrook, senior researcher for Corporate Insight, discussed highlights from a report that breaks down this multibillion-dollar industry into 10 different categories, each offering investors an entirely different set of services.</td>
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<tr>
<td>ThinkAdvisor</td>
<td>Motif Launches Products to Help Advisors Compete With Robo-Advisors</td>
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<tr>
<td>AdvisorPerspectives</td>
<td>Five Ways Robo-advisors Will Change the Way Advisors Work</td>
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<tr>
<td><a href="http://www.advisorperspectives.com/newsletters13/Five_Ways_Robo-advisors_Will_Change_the_Way_Advisors_Work.php">http://www.advisorperspectives.com/newsletters13/Five_Ways_Robo-advisors_Will_Change_the_Way_Advisors_Work.php</a></td>
<td>Whether you think robo-advisors are the latest fad that will go away or a vision of how financial advice will be given in the future, they will definitely disrupt and change the way that advisors interact with their clients.</td>
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As an award-winning writer, John Drachman, www.alphasegment.com, has developed marketing communications initiatives for dozens of money managers for more than 20 years. With executive experience in the investment industry, he combines editorial skill and marketing knowledge in helping advisors, money managers and service providers to grow and retain assets. As a Series 7 Registered Representative, he brings a broad understanding of the strategic and creative challenges faced by financial professionals to each assignment. He can be reached at john@alphasegment.com.

MORE ABOUT EQUITY INSTITUTIONAL
Equity Institutional is an industry leader in providing alternative investment custodial services to brokers, advisors and sponsors. As part of Equity Trust Company, they provide services to more than 10,000 financial professionals and 130,000 clients with $12 billion in assets under custody. Visit www.EquityInstitutional.com for more information.

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8 Ropes & Gray Ten Things to Know About Social Media in the Financial Services Industry in 2014
10 ThinkAdvisor, http://www.thinkadvisor.com/2014/05/08/motif-launches-products-to-help-advisors-compete-w
11 IGNITES (paywall), http://ignites.com/c/15431/7861?referrer_module=SearchSubFromIG&highlight=robo-advisers