



Are Robo-Advisors Good for Investors?

Description

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)) appears set to introduce a robo-advisor service, the first of Canada's big banks to enter this burgeoning space aimed at investors looking for a worry-free investment portfolio.

BMO has a large collection of exchange-traded funds, the main product recommended by most robo-advisors. Robo-advisors choose investments based on a variety of inputs, including age, risk tolerance, investment objectives and knowledge. The main advantages for investors is lower fees and less concern about your portfolio.

There are approximately 10 robo-advisors in the Canadian market, mostly independent, including Wealthsimple, NestWealth, and Portfolio IQ. New companies are expected to join soon, and it's possible that other big banks might also get involved, especially if the product's popularity takes off.

Surveys show that older investors still prefer the personal approach, and that means dealing face to face with an investment advisor. But as more and more investors choose to pick their own stocks through online brokerages, robo-advisors might be a logical extension to that channel.

However, the recent trend of volatile markets could negatively affect the popularity of robo-advisors. After all, a computer can't offer the same personal attention as an advisor on the phone or in a personal meeting.

A recent survey of advisors conducted by Boston-based Natixis Global Asset Management found that 78% of advisors believed clients would abandon robo-advice in a turbulent market." You can ask lots of questions up front on risk and risk appetite but no one will call you if the market is down 10% and you're wondering what to do," Natixis executive vice president Matthew Colden told the *Financial Post*.

In my opinion, this all comes down to demographics. Younger investors who are already comfortable with exchange-traded funds and the low fees they offer are more likely to consider robo-advice. But established investors, especially those with a substantial portfolio, will probably stick with their human financial advisor.

Those advisors who believe robo-advice is a threat to their business might consider beefing up their

personal service, a common complaint among investors. Ultimately, the robo-advice battle may be fought among investors in the mushy middle, those with a healthy account size that are unafraid of computer-based advice.

CATEGORY

1. Bank Stocks
2. Investing

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