2 Stocks to Buy as Robo-Advisors Become More Popular

Description

In an early September article, I'd discussed the rise of automation and focused on several stocks that could benefit from the trend. Many often express concern about the loss of jobs in the manufacturing sector, as robotics become more popular, but the service sector will also be heavily impacted.

The rise of robo-advisors in financial services has the potential to shake up an entire industry, and early adopters have released interesting results. Business Intelligence, the research subsidiary of news website *Business Insider*, has projected that robo-advisors will manage 10% of all global assets under management by 2020.

LendEDU, an online marketplace for student loan refinancing, released a survey in September that polled 502 millennials about their investment choices. Of those who responded to the survey, 53.6% said that they were not working with a financial advisor. When the same pool of respondents was asked if they use a robo-advisor, 24.3% said that they currently do. Perhaps more interestingly, 61.2% of respondents said they had never heard of a robo-advisor. Regarding financial advisors, 27.5% of those surveyed said that they did not think the benefits of working with a financial advisor were worth the costs.

Financial advisors charge investment fees that range anywhere between 1% and 3% or higher, while robo-advisors range from free to about 1%. Financial institutions in Canada have been slower to adopt robo-advisors compared to U.S. counterparts, but that is quickly changing. Under new regulations that came into effect in July 2016, investment firms will now be required to disclose trailing commissions, annualized fee-based charges for customers who pay advisors a fee set as a percentage, commissions on the purchase of mutual funds, and administration and trustee fees.

New sets of regulatory disclosures are still forthcoming. Investors young and old could be driven to lower-cost options as a result of the new information. Let's look at two stocks that could benefit from a surge in robo-advisor interest.

Bank of Montreal (TSX:BMO)(NYSE:BMO) was an early adopter of robo-advisor technology, as it launched its first application in the beginning of 2016. The service, called "SmartFolio," interacts with

BMO clients online and recommends exchange-traded funds based on their answers to an investment questionnaire. BMO leadership said that the service was specifically geared towards millennials, who were an attractive starting point.

BMO stock has increased 26% since the beginning of 2016. The stock also offers a dividend of $0.90 per share, representing a 3.6% dividend yield.

In November, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) announced that it was preparing to launch its RBC InvestEase platform, a robo-advisor service. The bank is currently testing it as a pilot project with a number of Ontario clients. In an October article, I'd discussed Royal Bank and its impressive technological progress. Royal Bank stock has climbed 11.1% in 2017 as of close on November 20 and 15% year over year.

BMO and Royal Bank are implementing a forward-thinking strategy that should pay off in the long term. Regulatory changes requiring further disclosures and increased investor awareness regarding the availability of robo-advisor services will result in a steady transfer of assets to these new platforms.

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aocallaghan