Portfolios on Autopilot

Robo advisers make investing decisions for you, but lack a personal touch.

BY MARLA BRILL

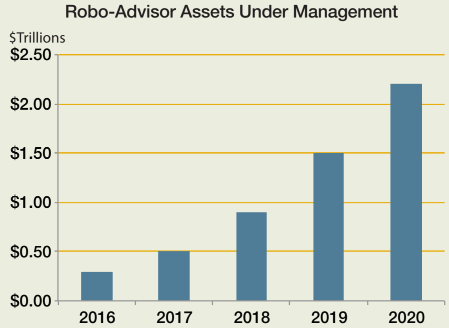
Automated investment services called robo advisers, introduced a few years ago, are being aggressively sold and are quickly grabbing market share. Though they now manage only half a percent of invested assets, in five years that number will rise to 5.6%, or more than $2 trillion, according to consulting firm A.T. Kearney.

Robo advisers are computer-based systems that set up asset allocations based on answers to a dozen or so questions about your age, risk tolerance, years to retirement and other basics. The investment mix grows more conservative over time as a goal, such as retirement, draws closer. In this way they're just like target-date funds.

Obviously they lack a personal touch. Hugh Massie, president of financial advisory firm DNA Behavior, says while they serve an important niche by delivering advice to middle- and lower-income clients, a Gallup poll showed 91% of investors want some human input. And of the 9% who wanted a completely automated service, most were younger.

RISE OF THE MACHINES

Robo-Advisor Assets Under Management



Source: A.T. Kearney

Among the dangers of such systems: They don't account for client personalities, and they don't know when a client's situation changes, says Massie, whose firm studies how to advise clients based on their personalities and predilections.

Based on the Gallup data, it's no surprise that the early adopters of robo adviser services tend toward millennials and those under age 50 with less than $100,000 to invest. But regardless of age or account size, robo advisers are worth considering if:

- You believe strongly in ETFs and index investing, which are the building blocks of robo adviser portfolios.
- You want to set it and forget it. The program automatically adjusts the portfolio so you don't have to tweak it. Then again, you can't tweak it if you want to—you have no say in allocations.
- You want to take the emotion out of investing. Behavioral studies have proven that most investors don't even earn the market return because emotions such as fear and greed cause them to make poor decisions. By handing over control, you can eliminate such mistakes.

On the other hand, robo advisers may not be for you if:

- You like actively managed mutual funds or picking stocks.
- You want more personalized service. That personal touch can add value, especially for complex situations or during bear markets, when a good financial adviser can be both a shoulder to cry on and a voice of reason.

You may actually be using a robo adviser and not know it. Many advisers base their recommendations on model portfolios provided by in-house analysts or outside firms, including robo adviser firms themselves), then add a fee for personal consultations, financial planning and other support.

Those annual fees are generally 1% to 2% of assets, depending on account size. And most financial advisers won't look at accounts less than $100,000.

Robo advisers have minimums, too. Most require at least $5,000. Fees range from nothing to 0.50% a year, and trades and periodic portfolio rebalancing are free.

The exchange-traded funds in most robo adviser portfolios add additional expenses ranging from 0.04% for well-known indices such as the S&P 500 up to 0.75% for more exotic fare, such as those following currencies or commodities. That's well below the 1% or more that most actively managed mutual funds charge. Robo fees and ETF expenses range from 0.35% to 0.50% annually.

Marla Brill is a contributor to Personal Finance.

The Right Fit

Here are the major players if you're considering dipping a toe into this new world of robo investing.

BETTERMENT

Minimum investment: None

Fees: 0.15% to 0.35%, based on account value. Balances under $10,000 pay an additional $3 a month, unless they auto-invest at least $10 a month.

ETF brands: Vanguard, iShares

Established in 2010, Betterment is one of the larger independent robo services, with over $2.5 billion in assets.

FUTUREADVISOR

Minimum investment: $3,000

Fees: 0.50%

ETFs used: Multiple

One of the more expensive robo services, FutureAdvisor uses products from a broad range of providers.

SCHWAB INTELLIGENT PORTFOLIOS

Minimum investment: $5,000

Fees: None

ETFs used: Schwab

Like Vanguard, Schwab tends to populate its portfolios with its own brand-label ETFs, which have some of the lowest expense ratios in the business. Its asset-allocation models put more money in cash—usually about 10% or so—than other services.

VANGUARD PERSONAL ADVISOR SERVICES

Minimum investment: $50,000

Fees: 0.30%

ETFs used: Vanguard

Designed for baby boomers, this new robo hybrid combines automated asset allocation with a Vanguard personal adviser.

WEALTHFRONT

Minimum investment: $500

Fees: No charge for first $10,000; 0.25% on amounts over $10,000

ETFs used: Vanguard

WealthFront distinguishes itself with asset allocation models crafted by a team led by Dr. Burton Malkiel, renowned economist and author of *A Random Walk Down Wall Street.*