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Robo-Advising Advances, But Human Role Still Part of Equation

INVESTMENT: Most Firms Tap Technology For Variety of Services

■ By SARAH DE CRESCENZO

Billions of dollars in the United States are being managed by algorithms under the auspices of digital platforms such as **Wealthfront** and **Betterment**.

That technology, often called robo-advising, is making it cheaper for people to invest their money without consulting a registered investment adviser (RIA). Investors, especially tech-savvy millennials, are moving money into those accounts. More than $30 billion in assets were under robo management as of the end of 2015, according to **Cerulli Associates.**

However, local wealth managers are confident that until artificial intelligence makes significant advances, people will still want people, in addition to robots, making decisions about how to invest their funds.

Tech and Human Touch

Paul Hynes founded **HearthStone Private Wealth Management** in 2010 after working at a large brokerage firm for 22 years.

"I wanted to start a firm where I'd be comfortable if something happened to me, that firm could take care of my family in a way I'd want them to be taken care of," he said.

That personal touch means while tech is "definitely changing the landscape for us," Haynes isn't concerned it will supplant him anytime soon.

He likened the change to the time of upheaval in 1975 when federal regulators OK'd brokerage firms setting their own commissions for buying and selling stock.

"It changes things, but the industry adapts," he said.

Hynes, who works with about 135 clients, nearly all in Southern California, said he welcomes the additional choice provided to consumers as tech offers more routes to investing.

Still, for his clients, "I think the vast majority of people, so far, enjoy the conversation," he said. "A lot of the things we talk about are things that can't be solved by computers."

Further, it is unlikely robo advisers would ever allow or offer clients the chance to make a change that would reduce the revenue coming to the firm that made or purchased it.


Paul Hynes


Marci Bair


Michael Fenison

A couple that wanted to spend $50,000 on home renovations asked Hynes how to best finance it, whether through a refinanced home loan, a line of equity on their home or by selling some investments. In the end, Hynes discovered selling some investments was the best move for the pair.

"It's hard for any kind of a programmable decision tree to be able to interpret the subtleties of a decision like that," he said.

Rapid Innovation

At San Diego-based **Bair Financial Planning**, CEO **Marci Bair** said the pace of adoption of finance technologies has picked up "significantly" in the last two years.

The firm launched a free mobile application in 2016. It provides clients with access to a web-based software program with a dashboard showing their accounts, assets and spending in one place.

"We have always tried to keep up to date with our website and other online technologies, like our client database, and by utilizing software packages that integrate with each other," Bair said. "But technology in the whole financial services industry has really sped up over the past several years. We know that if we are not moving forward, we are going backwards and we need to stay current."

Bair's in good company: According to a recent survey by **Scottrade Advisor Services** of RIAs on how they would spend an extra dollar investing in their business from, technology has moved to the top of the priority list. Of the more than 300 respondents, 27 percent said they would allocate the money to technology. Business growth was the top choice for 24 percent of respondents. That was a reversal from the previous year, in which business growth was the top choice for 38 percent while tech was top for 25 percent.

Bair said the effort comes with an educational component as advisers work to ensure clients aren't jarred by the change.

"We want them to perceive the technology as a benefit and an enhancement and not a replacement to visiting with us in person," she said.

That's because the people her firm works with are looking for personal attention, she said.

"We know that to attract and be relevant to younger clients we need to have these tools and online capabilities for them, but they still need the personal advice that we can tailor direct to them," she said. "We feel we combine the best of both worlds with giving them online capabilities but with a personal relationship for when life events happen or advice they need that a website or app can't provide."

CRM Software

Michael Fenison, founder and CEO of **Pure Financial Advisors Inc.**, said technology has played an essential role in the company's growth.

He launched the fee-only firm after selling his previous company, an RIA with an insurance brokerage component.

His short-lived retirement came to a quick end once he started Pure Financial at the urging of friends, who encouraged him to come up with an advisory model without the aspects he disliked.

Pure Financial went further than establishing a fee-only model by also eliminating the percentage of revenue compensation typical at RIAs. Instead, employees get salaries based on the number and profile of the households they manage.

He started building infrastructure in 2007 and bringing in clients in 2008.

From the start, Fenison used **Salesforce**'s customer relationship management (CRM) software and hired a Ph.D. from **Stanford University** to customize it.

"It's become central to everything that we do," he said. "We track everything we do through the CRM; even the trading platform is part of the CRM. There's compliance checklist built into the CRM."

That technology was worth the investment, Fenison said, because it relieved the anxiety he had felt in his previous career as he supervised 10 branch offices.

"I always felt at risk because you never really knew what those people were doing out there," he said.

More Expect Tech Services

Although his clients, the mass affluent, are those also being targeted by robo-advisors, he said digital advising hasn't particularly affected his firm.

"Because we were trying to build something that was scalable on the back end, we look very similar to the robos," he said. "The thing that makes us better than the robos is that a lot of our financial planning is driven by taxes, so we've achieved a true integration between portfolio management and the financial planning process."

"A small number of traditional firms seem content to ignore this technological revolution, hoping that they can continue to remain relevant to a new generation of investors with the tried-and-true approach of human advice," Cerulli Associates said in its January edition of the Cerulli Edge, a research publication.

"But most traditional firms see the change as an opportunity to address recent regulatory changes, appeal to consumers who want a technology-mediated relationship with their service providers, and capture a share of the large numbers of mass-market and mass-affluent consumers often underserved by the financial services industry."

While clients may be interested in the latest technology when it comes to how their money is being managed, advisers shouldn't sit back and wait for their requests before investing in new high-tech products and services, said Hynes, of Hearthstone.

"Whoever thought to ask about the computer mouse?" he said. "We're looking for things like that that don't necessarily exist, but once they do, they'll (clients) think it's great and we'll provide it for them."