

The Buzz about Robo-Advisers

CAN PROFESSIONAL INVESTORS LEARN FROM THE EXAMPLE OF HONEYBEES?



By Kurt N. Schacht, JD, CFA

Robots are everywhere, performing many jobs and services more efficiently and cheaply than humans. I am reminded of the movie *I, Robot*, which is about what happens when humanoid robots become too intelligent for their human masters and eventually seize control of major US cities. As CFA charterholders and “hands-on” analysts, we must face the obvious questions: Will we too become obsolete,

and if so, how soon?

Last month, I met the latest mechanical competition firsthand. Given the rise of robo-advisers in the last few years, I wanted to experience personally whether we are seeing the beginnings of an irreversible trend. That is, can artificial intelligence meet the needs of people anywhere for financial services (including low-cost, tailored, active management of investment savings)? Many think we are already there.

My experience with the robo-adviser was highly effective and efficient—probably a much better service and product than the traditional retail brokerage account with a salesperson on the other end. The robot welcomed me to the platform; asked me a dozen or so questions about my financial history, goals, and risk tolerance; and created the optimal portfolio of low-cost, no-transaction-fee funds. It was slick and much more tailored and calculated than working with a typical broker salesperson. What struck me, though, was the cold and impersonal nature of the experience. I am not sure what I was expecting, but it was as if investment management had been reduced to the equivalent of a drive-through fast food restaurant.

At a recent “Battle of the Quants” event in New York City, I participated in a discussion on whether quant strategies are finally in the sweet spot. The providers of quant strategies in the room were almost giddy with excitement that their time had come because they now rule the speed, coverage, and quality of technical and fundamental analysis. They are convinced that few aspects of financial analysis, security selection, and asset allocation—even account services and, ultimately, investment performance—can be delivered better by humans. And with the advancements in artificial intelligence, even the need for important soft skills in client relationships and communications may disappear. Who needs to talk with a real person who understands your financial challenges and appreciates and adjusts for your

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desired outcomes if a computer can get you to the same place in mere seconds?

A wonderful Irving Berlin lyric comes to mind: “Anything you can do I can do better.” For traditionalist CFA charterholders who bleed the virtues of client loyalty, service, and professional judgment, the robo-adviser trend is disturbing. Are we the last workers to leave the factory floor, despite our training and intuition in an investment process founded on rock-solid ethics and industry experience?

I say, “Long live technology and innovation—but not so fast.” Recently, I was reading about the phenomenon in the honeybee industry known as colony collapse disorder. Worker bees are simply vanishing from their hives, leaving behind the younger bees, the queen, and the honey. I surmised that in the age of information, these workers are leaving for better jobs in the technology sector, certain that honey can be replicated more effectively and efficiently in the brave new world of computers. On a serious note, the decline of bee populations worldwide is inflicting mayhem on certain ecosystems. Research shows that having a greater variety of bee species makes each species that much more specialized, leading to more effective pollination.

The lesson I draw from the bees is that increased competition creates opportunity. By offering fairly priced products (with transparency around fees) and demonstrating skill, expertise, and ethical focus, we can build a sustainable ecosystem for investors.

The good news is that some things, such as the production of high-quality clover honey, can happen only when living beings are involved. It is up to us to ensure that quality investment services, grounded in the deeper client relationship, remain another example. What is your value add?

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