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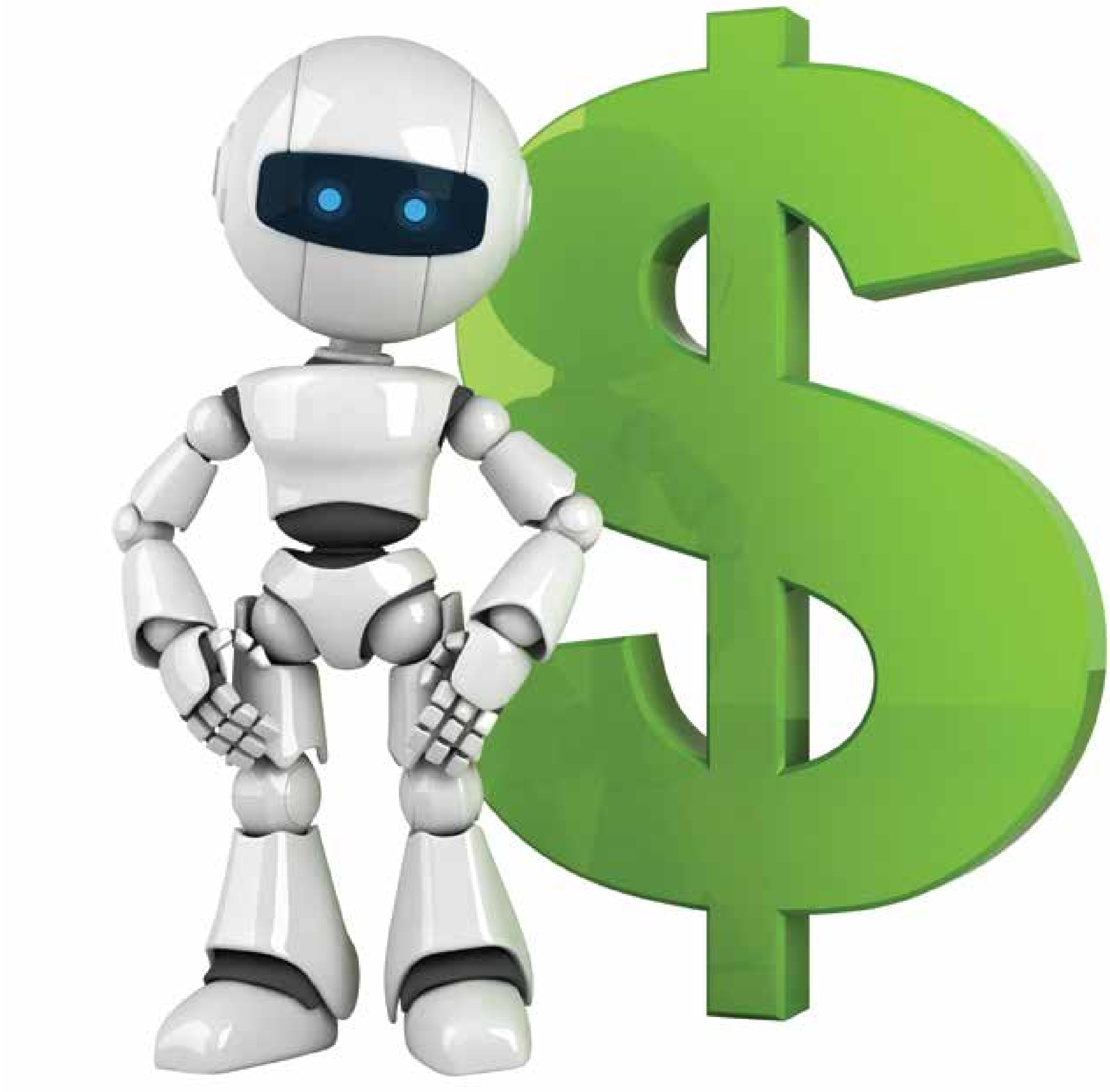


What is a Robo Advisor?

A publication of Paladin Research

The word "Robo" is catchy and easy to remember. Your assets are managed by computer programs and not by investment professionals. A true Robo wants you to believe a computer can do a better job than a live financial advisor. Starting now you have a choice between Virtual Advisors and Human Advisors.

There are several types of Robos, based on services, expenses, and your access to humans that use a variety of naming conventions:

- Online Financial Advisors
- Automated Investment Advisors
- Robo Asset Allocators
- Automated Investment Service
- Digital Investment Advisors

We will use Robo to describe them in this eBook.

Online Service Providers

The different types of Robos have several characteristics in common. They deliver advice, services, and reports over the Internet. They are easy to use. They rarely have brick and mortar offices. And, they do not have expensive sales forces. Their websites do the selling and you access your investment data on their websites.

What Advisors?

The term "Robo" implies computer programs invest your assets. Most Robos do not employ advisors who determine your financial needs, develop tailored solutions, and meet with you to discuss your financial results. Therefore, Robo Advisor is a misleading set of terms. There is no advisor.

Most of the Robos employ more mathematicians and programmers than they do investment professionals. For example, they may have a Chief Investment Officer or a portfolio manager, but that is it. They do not require a deep financial staff if they use passive investment principles to invest in ETFs and Index Funds.

Most Robos do not employ advisors

Automated Investment Processes

Most Robos have automated the investment process. You complete an online questionnaire. A computer program uses your responses to select a model portfolio. You are invested in a diversified portfolio that consists of several ETFs, Index Funds, Mutual Funds, and securities.

Most of the Robos also utilize computer programs that rebalance portfolios, harvest tax losses, and produce performance reports.

Small Asset Amounts

Real financial advisors, who are compensated with fees for their investment advice and services, do not work with investors who have small asset amounts. These top quality advisors cannot cover their expenses. For example, a 1.00% fee on $10,000 of assets produces $100 of annual revenue – that may cover 20 minutes of time from an advisor who is a real financial expert.

By eliminating the advisor and automating the investment process some Robos have no minimums or very low minimums. For example, one Robo does not have a minimum, but it does have a monthly savings requirement of $100. Other Robos have stated minimums of $5,000 or $10,000.

ETFs & Index Funds

Most Robos invest in low cost Exchange Traded Funds (ETFs) and Index funds. These funds are designed to match the performance of various market indices - for example, an ETF matches the performance of the S&P 500 Index.

These investments do not attempt to beat the performance of the market. They match the performance of various markets and asset classes. This is a lower risk, lower cost strategy for producing market rates of return.

A few Robos offer actively managed solutions that are designed to beat the performance of the market. These Robos charge higher fees for their services and they may invest in securities or actively managed ETFs and mutual funds.

Low Cost

A major selling point for the Robos is their low expenses. For example, One firm charges $10 per month for its investment services. Most of the Robos charge a fee that is 0.15% to .035% of your assets.

Some Robos have minimum fee or asset requirements that impact what they charge for their services. And, a number of Robos offer free services that enable you to test their services without incurring any expense.

There are also Robos that provide advice and services through a financial advisor. They are trying to create the best of both worlds – automation and personal advice. You are interacting with a live investment professional who may offer tailored solutions. These Robos charge 0.50% to 0.95%, which is similar to what is charged by financial advisors who are willing to meet with you face-to-face.

A major selling point for the Robos is their low expenses

Planning vs. Investing

Most Robos provide investment services and not planning services. Only LearnVest provides an online planning-only process. Planning is a lot more difficult to automate due to the large number of variables that impact the planning process. And, most investors have shown a strong preference to meet with their planners face-to-face.

Vanguard's Personal Advisor Services have integrated planning and investing services into one service. You also have the option of communicating with a live professional by telephone or email. But, this is still an unusual level of service for most of the Robos.

Ideal Users

The ideal users for Robo services will be investors with smaller amounts of assets and relatively simple financial needs. They may be:

- Younger investors who are just starting the accumulation of assets for their retirement years: Millenials, Gen-Y, and Gen-X. Younger investors may be more comfortable than older investors using technology to invest their assets in the securities markets.

- Some older investors prefer passive, low cost investment strategies and services, which make Robos a viable solution.

- Some investors have had bad experiences with Wall Street advisors. They want an alternative that minimizes their risk of bad advice and bad products in the future.

- Then there are investors who are limited to selecting sales representatives, who masquerade as financial advisors, to sell them investment products for commissions. These salesmen prey on investors who cannot afford the services of real advisors who work for fees.

So, What's New?

Thousands of financial advisors have invested in ETFs, index funds, and other lower cost, lower risk alternatives for 20 years. What is new is even lower costs, automation, and the simplicity of the Robos' online services.

The Give-Ups

There is an old saying in the financial service industry: "There are no free lunches." So what are you giving up to use the low cost investment services of a Robo advisor?

You may be invested in a model portfolio that is the same for all investors with your characteristics. You lose the ability to have a portfolio that is tailored to your specific requirements.

You may also lose the ability to meet with advisors face-to-face. Your communications are limited to telephone and Internet. Even then you may not be communicating with a planning or investment professional. You may be talking to a customer service representative who is not licensed to provide investment advice or recommendations.

Warnings

Do not be mislead by slick website marketing messages or brand names. You have to conduct your due diligence and you have to read the fine print of the service agreements that impact the investment of your assets. You may find the agreement is loaded with disclosures and disclaimers that are very different than marketing messages that are designed to gain control of your assets.

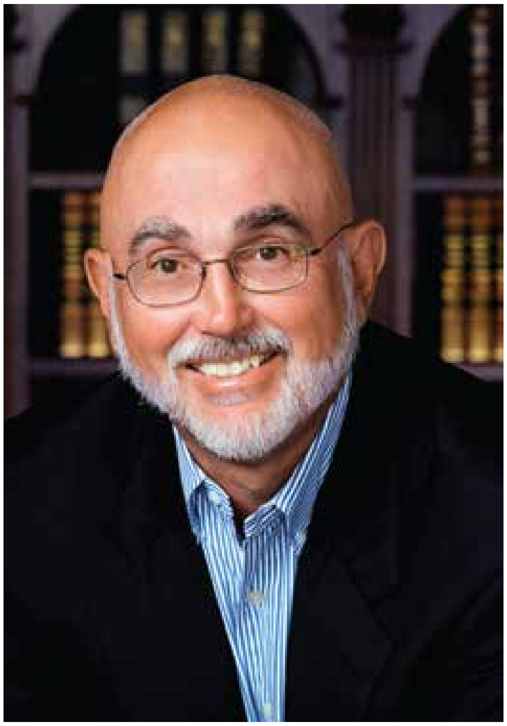
- Watch-out for investment advice that is provided over the telephone and email. The "advisor" may have three months of experience and you will not know that. Many of the major mutual fund families use this business practice to reduce their expenses. Yes, you have a live contact, but the contact has limited investment knowledge.

- Watch-out for investments in actively managed mutual funds that have excessive expense ratios. You pay higher expenses so the Robos can get hidden kickbacks from the fund families.

- Watch-out for blended solutions. The Robo blends low cost ETFs with higher cost mutual funds. Its marketing message emphasizes ETFs and neglects to disclose half of your assets are invested in mutual funds that charge substantially higher fees.

- Watch-out for bad guys. There are billions or trillions of dollars at stake. It is inevitable that this amount of wealth will attract the wrong type of attention.

About the Author



Jack Waymire is the founder of PaladinRegistry.com and Investor Watchdog. He spent 28 years in the financial service industry and is the author of Who's Watching Your Money?

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