



OLD NORTH STATE TRUST, LLC

The Drawbacks of Robo-Advisors

Do you want a computer, or a human being, managing your assets? True artificial intelligence is still an elusive goal for the scientists who have been working in this field for decades. But that hasn't stopped a number of large online brokerage companies, which are selling the idea of letting so-called "robo" advisors direct people's investments.

We get asked this question a lot. People wonder if the rise of these automated asset management programs will have any bearing on what we do at Old North State Trust. Our simple answer is: No. We don't expect the robots to put us out of business anytime soon.

This may have some appeal to some people. By trusting software to make the best decisions about their family's financial future, they can save some money in the short run.

The theory is that sophisticated programs can use answers plugged into an online questionnaire to allocate individuals' investment assets. In theory, anyway, these investments best suit the customers' needs and wishes. These programs have similarities to how search engines can make predictions, and offer recommendations, based on an individual's habits online.

But safeguarding your family's long-term security, including your plans for children's education, your retirement and what you want to pass on to your heirs, is just a little bit different from getting advice on the best place for Thai food when you're visiting Atlanta or suggestions about what movies you might want to rent. Some things computers are doing pretty well these days, but estate planning and investing? That's a different story.

As one client commented to one of our advisors recently, "I'm not an algorithm. I'm a human being with unique needs."

At our company, our clients have let us know that, while they pay attention to the fees they pay, they value the service we give them in return. In fact, we have never had a client complain about our fees because they have learned that they get far more value than the dollars they pay.

The real difference, to us, is that no "robo" analyst can truly understand what makes every client's situation unique. One company urges prospective clients to rely on its "recommendation engine" for investment advice. They can get their money invested and their portfolios set up automatically, "untouched by human hands," as the old marketing slogan said. What is the advantage of the lower rates? The customer never has to talk to a person. The disadvantage? The customer never gets to talk to a person.

It's cheaper than getting a human expert's advice. But where is the customer service? The robots can't do estate planning, financial planning or retirement planning. They won't hold the client's hand (and sometimes we have literally done this!) and guide them through the

rough times. Sometimes the markets get scary; sometimes family situations are stressful and demand expert, caring advice.

Even when it comes to making investment decisions, automated algorithms have weaknesses. Critics have pointed out, for example, that robo advisors make the mistake of assuming that a few years of past experience can predict future results. We human advisors, who have been through more than one up-and-down market cycle, have a different perspective.

A robo advisor's questionnaire will ask about your tolerance for risk, or about your investment horizon. But the computer will consider your answers as nothing more than numbers to calculate, without having any understanding of the specific hopes, fears and family circumstances that lie behind those answers.

One other consideration, of course, is that these automated investing systems are so new that they have only a very short track record. These robotic advisors have not stood the test of time, or been through a major market downturn like what happened in 2008 and 2009. It's easy to look like an investing genius when the markets are rising. Coping with turbulent financial times is a much more challenging task, one that the robo advisors have not yet had the opportunity to do.

These are some of the reasons we don't think there is any contest between us and a robo advisor. For us, the difference boils down to the client experience. Dealing with experienced, caring individuals is so much better for the client. And when we go beyond just the investment piece, it truly requires human intelligence to do thoughtful, nuanced long-term planning that truly reflects the client's needs.

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