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Does the same sentiment carry over to investing and seeking financial advice? Is the value-add of a human financial advisor irreplaceable, or can it be optimised with the help of robo-advisors?

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FINANCIAL ADVISORS VS ROBO-ADVISORS: AN ALL OR NOTHING APPROACH?

By Rozanne Heystek-Potgieter
Financial Planner & Fiduciary Services Specialist Brenthurst Wealth

IS THE VALUE-ADD OF A HUMAN FINANCIAL ADVISOR IRREPLACEABLE, OR CAN IT BE OPTIMISED WITH THE HELP OF ROBO-ADVISORS?

This is not the first article comparing a robo advisory service to the human element of a financial advisor, and I suspect that it won't be the last. The concept of handing over such a traditionally human-driven role to an algorithm-driven entity further sparks interest and possible fears relating to robots and technology replacing human jobs, and possibly our existence.

The recent global pandemic, even though experienced differently by each of us, brought to light a common occurrence: technology quickly replaced functions which humans could no longer perform in person, such as food delivery apps and the emergence of Zoom meetings.

It further highlighted the fact that humans do not thrive in isolation, away from friends, family and colleagues. There simply is no app that replaces human contact and interaction – personally or professionally.

⇒ ***Does the same sentiment carry over to investing and seeking financial advice?***

⇒ ***Is the value-add of a human financial advisor irreplaceable, or can it be optimised with the help of robo-advisors?***

Brenthurst Wealth Management (PTY) LTD FSP No. 7833

First, let us clarify what is meant by robo-advisors? There are local and international robo advisory platforms that offer a range of services, whether basic financial advice based on data provided by the user, or forex and crypto trading platforms. Users of these types of platforms also range from exclusive, to beginner investors trying out different types of trading, to investors who already have a financial advisor, but use robo-advisors for a separate portion of their portfolio.

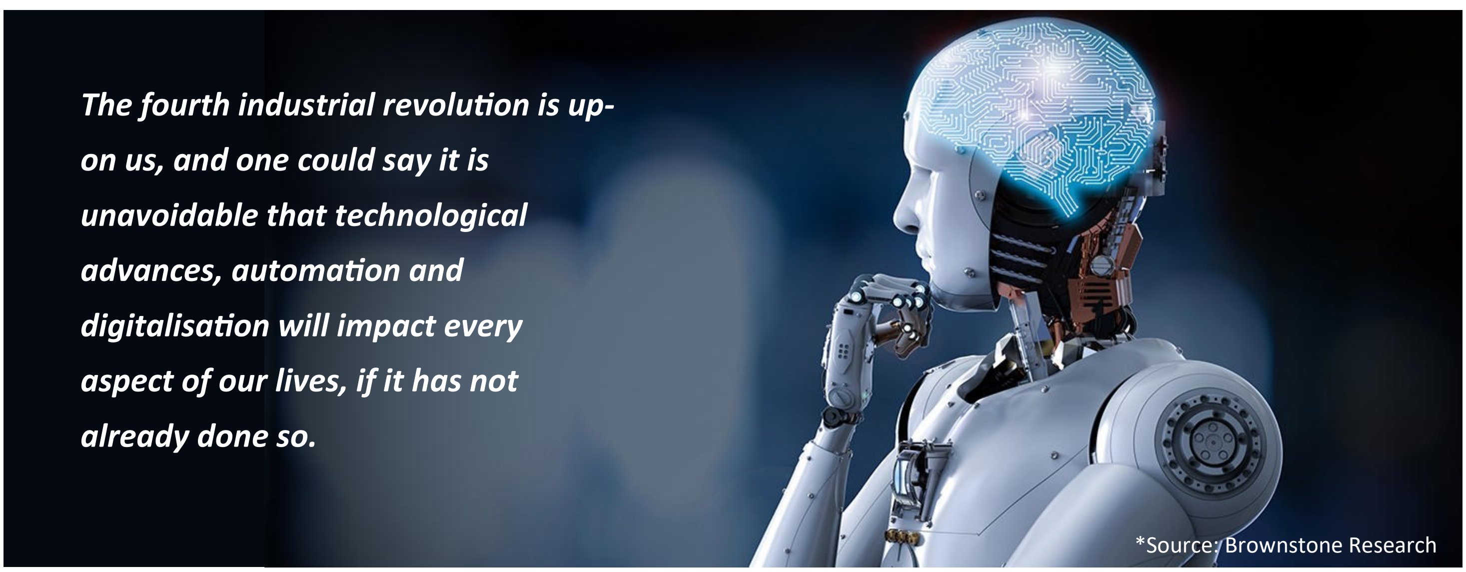
There is some similarity in the experiences of most investors who have used some form of robo advisory platform: the investment style is not as passive as envisioned, and they always tend to fall short when investment conditions are not optimal. Even the decision as to which platform to use is cumbersome and can possibly lead to adverse experiences. Some research is required by the investor and can become overwhelming when considerations need to be made around income and capital gains tax, or situs tax if the platform is based in a jurisdiction where this might apply.

As a human financial advisor, instinctually (and with career preservation at the forefront) one would have to question the mechanics around robo-advisors, and what that truly means for an investor and optimising the advice they actually need to meet their long-term financial goals.

The fourth industrial revolution is upon us, and one could say it is unavoidable that technological advances, automation and digitalisation will impact every aspect of our lives, if it has not already done so. An example of an eye-opening statistic is that between 60-73% of the trades that happen on the US stock market are from algorithmic-driven computers. That percentage runs higher at 80% for cryptocurrency-related trades and a staggering 92% for foreign exchange market trades*.

Lastly, one cannot simply ignore technological developments, but at the end of the day the humanness of investors remains a constant and so too the fact that investors' needs are at the forefront of the wealth advisory industry.

For investors who are still drawn to some type of automated platform, the solution would be a hybrid approach. Appointing a financial advisor and disclosing all assets, including those on digital platforms, will optimise the risk profiling of the investor, asset allocation of their overall portfolio and even concise estate planning considerations. A hybrid approach can only assist with targeted diversification of portfolios and broaden spheres of risk. Robo advisory might just fall short when considering the nuance of human financial behaviour, budgeting and succession planning.



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ROZANNE has been at Brenthurst since 2010 in different capacities, including as an assistant to a financial advisor. She officially re-joined Brenthurst in 2014, after completing her legal articles of clerkship, to head up our Fiduciary Services Department within the Gauteng region.

She is responsible for the drafting of wills, deceased estates administration and estate planning. She is an admitted Attorney and holds a BA Psychology & International Studies degree from Monash University and a LLB degree obtained from the University of South Africa (UNISA), and a further certificate in International Trust Management from STEP (Society of Trust and Estate Planners).

Rozanne is expanding her career scope to that of a Financial Advisor under the direct supervision of BWM Founder and Director, Magnus Heystek Sr. She has successfully completed the Regulatory Examination for Representatives as well as her Postgraduate Diploma in Financial Planning with the University of the Free State (UFS), which enables her to furnish advice to clients on all investment-related matters.

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