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Top 11 Trends
in the Robo-Advisor Industry

The robo-advisor (RA) industry is changing at lightning speed. Find out what's in store for this emerging technology from leading investment experts. There's plenty more to come, from greater artificial intelligence to a new suite of robo investment products. Convetit has brought together six experts in the field of robo-advisory to delve into the trends and drivers that are defining the space.

Here are **11 Robo-Advisory trends** that our experts have identified as driving the industry:

1

Fee and Margin Compression

As technology drives down fees and new competitors enter the robo-advisory field, margins and fees will be squeezed-maybe even to zero. Fees to investment managers, brokers, financial advisors, etc., will be compressed due to the highly competitive environment. Robo-advisory means good advice at a low price, which is almost certainly the better option in a space where less money to invest usually means substandard advice. There is now a desire for transparent, real-time reporting and on-demand service.

"Massive return-compression (bonds yielding nothing to very low returns and the rally in equities looking tired) leading to massive fee-compression for advisors. Clients are asking why they are paying 1% to an advisor to buy a fund that yields -1%."

Kunal Bajaj
Founder & CEO, Clearfunds

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"Technology to fill the Value Gap: Robo-advisors will force advisors to use technology to add value to their services. I see a gap forming between advisors who don't offer digital engagement/value to consumers with those that do offer tech."

Patrick W. Hannon
VP Enterprise Accounts, Advicent Solutions

Continued Technological Advances

The robo-advisor industry began with technological advances and will grow and expand with the continued advancement of associated technologies. The influence of technology on the entire legacy-investing environment is being upended by the automated investing systems, and this trend is certain to continue. Millennials are a driving force in technology acceptance, but their parents aren't far behind. Technology will only get better and better with lower barriers to entry.

3

Hybrid Human-Tech Models

The technology-only robo-advisor will be overtaken by a hybrid investment advice and management platform. Consumers like the automated features but also want access to a human advisor for questions, support, and guidance. Vanguard Personal Advisors is a perfect example of this trend. The hybrid model allows for a rapid rise in growth and penetration rate of digital wealth-management assets, free compression, enhanced offerings of service, and a higher efficiency of serving clients. This hybrid model has the potential to serve a much larger range of clientele who seek a new norm in wealth management.

"There will be a transition of wealth from parent generation to children and a different adoption rate for a hybrid-advisor model with digital technology and respective platforms, especially mobile."

Johnny Huh
Global Investment Strategy Advisory, Homaer International U.S.

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"Consolidations [will happen] either through acquisitions by established financial institutions, merging among each other for market share and cost efficiencies, or no longer existing."

Johnny Huh
Global Investment Strategy Advisory, Homaer International U.S.

Industry Consolidation

There is a consensus among experts that the existing robo-advisor pool will shrink, due to mergers, acquisitions, and industry consolidation. This trend is in full force as larger asset and investment managers snap up smaller robos. Take a look at Invesco's purchase of Jemstep and Blackrock's acquisition of FutureAdvisor as recent examples of this trend. A consolidation will likely be driven by several factors, which include broad asset-deflation and falling markets (NIRP, exit to cash, which could turn to a stampede), a global liquidity crisis, too many players chasing too few clients willing to pay for underperformance, value destruction leading to a significant drop in investable asset value, and a growing sense of sit-it-out and hoard cash.

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Mobile Capacity

Online life is migrating from desktop computing to laptops to tablets and finally to mobile. Mobile capacity continues to trump other platforms as consumers perform more and more financial-management tasks on the go from their phones. The robo-advisor industry must keep up with the trend.

"The bright new face of the RA will be the smart device for many...The great relationship that exists between, say, the banks and its clients, now has to scale to an iPhone."

Alex Spiewak
President, CRAM Capital, LLC

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"The value and role is changing. Many clients today trust technology and welcome 24/7 access, reporting, and perceived lack of conflict. This will have a major impact on branding. So in the near future, if a wirehouse or an RIA does not include an RA offering, the perception will be 'what are you hiding?'"

Alex Spiewak
President, CRAM Capital, LLC

Human Advisors with Tech Components

According to the experts, advisors who wait to jump on the robo-advisor bandwagon will lose. First, consumers will migrate towards those lower-fee providers with technology components. Second, those without tech solutions will be perceived as less significant advisors, while the perceived value of those advisors who do use technology will go up.

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Integrating Artificial Intelligence

Making robos more "human-like," and therefore more appealing to consumers, will involve the integration of artificial intelligence.

"Wanting (the robos) to take control over the process and making the experience more like online shopping for a luxury sedan rather than suffering the 'my advisor reminds me of a car salesman' business service model."

Dr. Kenneth Gustin, Ph.D.
Advisory Board Member, Chartis Research Ltd.

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"New regulations deal specifically with the RA. The fiduciary status - new regulations are driving companies to offer robo services as a way to meet them."

Alex Spiewak
President, CRAM Capital, LLC

Increased Government Regulation

On the heels of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the new DOL Fiduciary Rule, increased government regulation will almost certainly affect the robo-advisory industry. Following the recession, mortgage meltdown, and proliferation-of-subprime housing crisis of 2007-2008, additional financial regulations were enacted. This led to the creation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The current Department of Labor Fiduciary Rule is directly impacting the financial advisory industry as well. This, and potential regulations, will impact the robo-advisors now and into the future.

9

Low-Fee Robo-Advisory

The expansion of the investment-management and robo-advisory industry will continue as robos serve a wider range of customers. Lower-fee robo-advisors offer lower-net-worth and younger investors the opportunity for professional investment management. There is a growing demand for investment management from expanding segments of the population, not just the rich. Robo-Advisor growth will be moved forward by wealth transfer of millennials as well as by the entire population's increasing reliance on technology solutions.

"Millennials, price-sensitive clients, client demand for standalone robo-advisors, and hybrid service models [will drive demand]."

Henry H. Ngan, MBA, CPA
Senior International Investment & Financial Executive, HHN Capital LLC

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"Given the powerful impact of the high-frequency-trading (HFT) segment of the markets, it is suspected that retail investors will progressively gravitate towards a robo-assisted experience, with two main types of trades: (1) structured trades on a holding-period horizon scenario basis using off-the-shelf products (ETFs, index products, baskets, etc.) supported with quantitative trading simulation tools to trigger entry/exit and (2)structured products that offer bespoke payout profiles."

Dr. Kenneth Gustin, Ph.D.
Advisory Board Member, Chartis Research Ltd.

Move Towards Structured Products

We've only just begun to see the potential of the robo-advisory industry. The experts expect that, in the future, you'll find a variety of investing styles available from the robo-advisor, not just a passive, index-fund investment approach. Greater sophistication in the technology for trade and horizon-based analysis, plus back-testing of strategies, will drive these styles forward.

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Non-Financial Firms Entering Robo-Advisory

It won't be long before corporations like Amazon, Google, Snapchat, Facebook and Apple get in on the robo-advisor industry. After all, these firms already have huge client bases and sophisticated technology platforms. There will be one new player that will do to financial services what Amazon has done to retail. Because that player will have access to capital and will not worry about the next quarter, what's to stop them from expanding their offerings to the financial services playing field?

"Firms that are not even in the financial services will enter, such as SnapChat. Can Google and Facebook be far behind? How hard will it be for the new companies to create their own products that compete with traditional offerings?"

Alex Spiewak
President, CRAM Capital, LLC

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