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Neil Woodford
Fragile China poses a significant global threat 26

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Osborne's next pensions gamble

Pensions as Isas move could see the Govt win big

Sector focus 41

Platforms
FCA looks to combat platform re-reg times 8

Alan Hughes
Exhibit A on retrospective regulation 46

Regulation
FCA says no to relaxing advice rules 14

Independent thinking

NIC CICUTTI

Robots or humans? Why the answer may depend on your choice of adviser

Many IFAs are as effective as automatons when it comes to discussing investments with their clients

Will robots ever take the place of financial advisers? This was the question asked last week in *Money Marketing*, amid suggestions that the market for automated investment tools and low-cost technology-driven solutions will gradually replace face-to-face advice.

Money Marketing reported on estimates by US research firm Aite Group, which suggested the value of assets managed in this way will more than triple to £39bn in 2015 from about £10bn at the start of 2014.

It is not clear whether this sum refers to US- or UK-based investments. Either way, while the amounts involved are tiny compared to the trillions of funds invested on the basis of 'human' advice, it is easy to see how the amount managed by robots could increase exponentially.

Intriguingly, the response from advisers quoted in the article seemed mixed, with some suggesting the main impact would be on execution-only advisers such as Hargreaves Lansdown operating in a similar online space as so-called 'robo-advisers'.

Jonathan Davies Wealth Management managing director Jonathan Davies was quoted as saying: "Robo-advisers will do well for certain periods of the investment cycle but not on a long-term investment strategy. The problem is when investment conditions shift. I think I would want to stick with a real person with a real brain."

He is implying, presumably, that advisers are human beings who can recognise changes in investor sentiment and can advise their clients on appropriate courses of action more swiftly than a robot can.

Hopefully, Jonathan will not mind if I disagree. The real challenge for advisers and their clients is less likely to come when markets are falling than when the issues they are seeking solutions to have a human component to them, like having a baby or planning for long-term care.

Even then, it is likely that within the next five to 10 years robo-advisers will be enabled to come up with far more personalised and tailored financial answers to issues such as these.

In any event, the real problem is that, in my experience at least, many advisers are about as effective – and proactive – as robots when it comes to discussing investment decisions with their clients.

Many years ago, before the demise of Peps and their replacement by Isas, I was slightly surprised to receive a large cash payment for work I had carried out long before.

I had previously agreed with my IFA what funds to invest in as far as my £6,000 Pep was concerned, my personal and company pensions were fully funded and I had already maxed out my Tessa allowance. The question, then, was whether there were any appropriate tax shelters for a further sum running into several thousand pounds.

A few days later I received a phone call from one of the advisers' administrators to say that I would shortly receive an envelope in the post with an application form. They said I should sign and send it back with a cheque for £3,000.

Two days later the envelope arrived with an application form for a Fidelity Pep wrapper (with very high charges) and Vodafone as the single-company share recommendation.

Why Fidelity? Why Vodafone? I called the administrator and she did not know. The adviser himself was too busy to tell me. So I asked around: it seemed Fidelity was punting Vofadone shares on the basis of one or two brokers' reports suggesting this was an up-and-coming place to invest.

Robotically – and without independently verifying these claims – my IFA sent out these wrapper forms to any of his clients interested in a single-company Pep.

Robotically, and with no independent verification of the brokers' claims, my IFA sent out these wrapper forms to any of his clients interested in a single-company Pep

Thankfully and unrobotically, I was able to carry out some quick research. I found a much cheaper Pep wrapper and chose another company to invest my £3,000 in instead. I also ended my relationship with that adviser.

In the past 16 years my single-company Pep has enjoyed returns of almost 700 per cent. Vodafone's share price, which stood at 498p on 1 April 1999, closed at 217p on Friday last week.

An unusual story? I doubt it. Fidelity did exceptionally well that year through its packaged single-company Pep application form, with many hundreds of advisers robotically sending them out to gullible punters.

Egregious as that so-called advice was, in the years that have followed there has been a raft of stories about clients' money being stuffed into all manner of unsuitable investments, from Arch cru to Keydata, largely because too many advisers robotically took for granted unrealistic claims about the safety of these funds.

Even worse, my experience suggests that, contrary to Jonathan Davies' assertion that 'human' advisers are quick off the mark when it comes to contacting their clients in the event of a change in the value of their investments, this rarely – if ever – happens in reality. Mine have never done so and hundreds of thousands of clients will attest to the same fact.

Which is why I suspect the real reason for the likely exponential growth of robo-advisers over the coming years is that they are generally much more reliable than their flesh-and-blood counterparts. In a straight choice between humans and robots, the machines win every time.

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