

CAPSTONE PROJECT SUMMARY

REVIEWS OF ROBO-ADVISOR PLATFORMS

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The public summary of the Capstone project

Robo-advisors are digital platforms which provides financial planning services and assist customers to invest their money across several different securities. These advisors are algorithmic-based and perform automated investments, creating optimized portfolios and even rebalances portfolios, based on certain parameters. These activities are carried out with little human input (Frankenfield, 2022).

Generally, robo-advisors are cheaper than traditional human advisors. With lower fees of up to half of traditional advisors, investors obtain greater net/actual returns. It should be noted, however, that managing your own accounts can be significantly cheaper than robo-advisors, even though it would require more effort on the part of investors. Robo-advisors are also more accessible than traditional advisors, partly as robo-advisors only require an internet connection. This 24-hour access makes it more convenient. Traditional advisors offer a wider array of services so in addition to the services of robo-advisors, they also “provide clients with annual financial plans, tax planning, estate planning and more.” (Henricks, 2022). It must also be noted that lower account minimums are required for a robo-advisor which further supports its increasing popularity.

Robo-advisors must be registered with the U.S. Securities and Exchange Commission (SEC). Furthermore, they are often members of the Financial Industry Regulatory Authority (FINRA) (CFA Institute, 2022). As such, these advisors are required to follow the regulations laid down and can be held accountable for various breaches. The accounts held with robo-advisors are generally insured by the Securities Investor Protection Corporation (SIPC) (Marquit, 2021).

In this project, there were two (2) main aims. Firstly, BrokerChooser was interested in obtaining a general overview of the various robo-advisors operating within some of the major economies of the world. A few key characteristics to help describe the status of each robo-advisor were recorded. Secondly, a more detailed investigation of a selected robo-advisor was done. BrokerChooser selected this robo-advisor to be the Slovakian company, Finax.

There has been an increasing popularity of robo-advisors for a few years. In 2018, robo-advisors have been managing around \$785 billion (Iacurci, 2022). According to Statista, the assets under management are expected to be \$1.78 trillion in 2022, and with a compound annual growth rate

(CAGR) of 15.15%, by 2026 it would be \$3.14 trillion. The total number of clients would also hit about 506 million by 2026 (Statista, 2022). There is clearly huge growth potential in the robo-advisors sector. As such, in order to keep up with the trends, BrokerChooser must consider expanding its range of reviews to include more robo-advisors and this project is one further step in that direction.

Robo-advisors were chosen from across Europe, UK, Canada and the USA. Each company's website, articles and reports were scanned for information on the characteristics that was sought. The data was collected in an excel document and basic analysis was done. A similar, but a much more detailed investigation was done for the robo-advisor, Finax. The BrokerChooser methodology was used to guide this data collection process and it was compiled to write an article.

For the first aim, an overview was done for 20 robo-advisors. One example in the UK, is that of Moneyfarm. From the data gathered, the assets under management is £2.2 billion, with 80,000 customers. It has a simpler fee structure when compared to other robo-advisors, with management fee starting at a high level of 0.75% for account size of £500 and decreases gradually to 0.35% for account size greater than £500,000. The underlying fund fee is on average 0.20% and market spread 0.09%. Its minimum deposit is somewhat large at £500. Some accounts it offers are Stocks and Shares ISA (individual savings account) and Private Pension amongst others. There are 7 portfolio levels of risk with their corresponding annual historical returns also collected. This overview provided a list of companies which can then be investigated in more detail as BrokerChooser considers expanding its collection of robo-advisor reviews.

Furthermore, a detailed review of the operations of Finax was also of interest. It is a Slovakian-based robo-advisor founded in 2018 and is regulated by the National Bank of Slovakia. Its clients are covered up to €50,000 in investor protection amount. It is recommended for customers who are beginners and investors who are looking for low initial investment requirements. Overall, the pros include, easy, fully digital and fast account opening, good investment platforms (web, mobile) and reliable email and telephone customer support. Some cons are, high investment fees, low safety rating and limited number of model portfolios.

Finax has high investment/management fee. Its management fee for basic accounts is 1% + VAT(20%) and on average (Finax, 2022). These are very high, compared to other robo-advisors.

For example, the robo-service management fee for ETFmatic is 0.48%, and that for Betterment is 0.25%. There is no withdrawal fees and no deposit fee for deposits over €1,000 and 1.2% for deposits less than €1,000. Note that only bank transfer is possible- no debit/card nor electronic wallet can be used with Finax. This is not uncommon for robo-advisors.

Finax is available for residents in the European Union (EU) only. It offers user-friendly, fully digital and fast account opening, with accounts being verified within a day. The minimum investment amount for basic accounts is low, €20/\$23. As part of this account opening process, customers would complete a questionnaire which helps to classify the customer's level of risk tolerance. This determines the ratio of stocks (riskier) to bonds (less risky) to be invested in the portfolio. Note that Finax invests in exchange traded funds (ETFs), those of which tracks the development of areas of the markets such as, US and European stocks of large, medium-sized and small companies, stocks from emerging countries and European and global corporate and government bonds.

Finax offers its services through web and mobile investment platforms, developed in-house. Both have clear and user-friendly layouts and provide two-step authentication. They are available in six (6) languages, namely, Slovak, English, Czech, Polish, Hungarian and Croatian.

In general, each company's website provided an acceptable level of information, presented in an easy to use and understandable manner. It would be better if more robo-advisors were also open to sharing the maximum levels of annual drawdowns. This would better and more clearly inform potential investors of the possible risks involved in using this service. In this summary, the main aspects of the reports were briefly discussed. The report itself will support an article posted on BrokerChooser's website to provide readers with another helpful compilation on another robo-advisor to help inform them further on the strengths and weaknesses of these platforms.

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