Informed investing: Robo-advisers

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Investors are increasingly turning to robo-advisers for their investing needs. A robo-adviser is a digital platform that provides relatively low-cost automated investing services without having to work with a human financial advisor.

As with any investment product or service, it's essential to understand how a robo-adviser works and if it aligns with your goals, risk tolerance and investment needs.

How do robo-advisers work?

Robo-adviser platforms are governed by complex mathematical rules and algorithms designed in collaboration with investment managers, financial advisers and data scientists. These algorithms' common goal is to provide investors with a diversified investment portfolio aligned to their desired risk preference, time-horizon and expected return range. The robo-adviser determines a suitable portfolio for investors from questions they answer when opening an online account. Once the portfolio is constructed, the platform will automatically execute trades on behalf of the investor into select securities when funds are added to the account.

What are the fees for using a robo-adviser?

Fees are generally lower with a robo-adviser account because in effect computer algorithms and template investment portfolios replace the role of financial services professionals.

The fee structure for most robo-advisers includes two main components:

- **Account management fees**: Fees for the use of the platform and its investment algorithm services.
- **Investment expense ratios**: Fees for the securities held within the particular portfolio used by the investor.

It is important to research the robo-advisers available to you as they all offer different investment products and fee structures.

Are robo-advisers suitable for you?

Robo-adviser's may sound like the ideal investing service if you are interested in an automated passive approach to your investing journey, but consider the following before getting started.

Robo-advisers, much like financial advisers, can only provide you with a suitable investment portfolio so long as you are confident about your risk tolerance and investment goals.

Do you want to discuss questions when seeking financial advice? If so, be sure to understand the level of human interaction you will get from the robo-adviser you plan to use.

Are you comfortable with the fee structure for the investment portfolio and services offered? These vary from robo-adviser to robo-adviser, and you should know how these costs will affect your returns over time.

If you are investing with a time horizon (the amount of time you plan to hold an investment before withdrawing it) of less than five years, robo-advisers may not be ideal. Robo-adviser portfolios see greater success for medium-to-long-term goals.

Are you comfortable with a template portfolio used by many other investors, or would you like a customized portfolio for your unique financial goals? If you want a tailored portfolio, a human financial adviser or the do-it-yourself (DIY) investing route may be more aligned with your needs.

How to invest wisely with robo-advisers and avoid scams

By taking the time to do your research, you can ensure that the robo-adviser you choose is registered and suitable for your investing journey.

- **Check registration**
  In Canada, robo-advisers must be registered with the securities regulators in the provinces it operates in. To check if the robo-adviser is registered, use the National Registration Search available at CheckFirst.ca.

- **Research the company and its management**
  Look at the background and experience of the firm and the firm's leadership. Be sure you are comfortable with the people guiding the firm and their overall business strategy. You may also look for customer reviews, information and news, including management interviews about operational matters.

- **Check disciplinary history**
  Robo-adviser firms in Canada must comply with the laws of the jurisdiction they are operating in. Review the Disciplinary list available on the Canadian Securities Administrators website for any firm that may have broken securities laws in the past.

The bottom line:

While the popularity of robo-advisers has skyrocketed in the past few years, that does not necessarily mean it's suitable for you.

Take the time to understand if a robo-advisor fits your investment needs, fee expectations and level of service.