Rise of the robo advisers revisited

In my January 14 article, "The rise of robo advisers," I said that the new "robo advisors" were facing their first test during the market sell-off.

Machines don't feel the pain of lower asset prices, but people do. Angst is high, as most stocks are down 20 percent or more and news headlines are overwhelmingly bearish.

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A robo advisor is an online wealth management service that provides automated algorithm-based portfolio management. They are designed to work in conjunction with, or even replace, investment advisors like me. The four biggest players are Vanguard, Schwab, Betterment, and Wealthfront.

How are robo advisors handling client angst? Some are turning to humans to calm frayed nerves. Charles Schwab, who has one of the largest robo-advice platforms, had a one-third increase in customer calls.

Apparently many clients are asking about rebalancing their portfolios. The translation is probably, "get me out of stocks!" Betterment is also resorting to answering phone calls and emails.

As an advisor of nearly 20 years, I know how important it is to own a portfolio that fits each client's goals and comfort level. If you invest too aggressively, the client will panic when the market falls.

I also have no illusion that diversification creates a safe portfolio. When the market moves lower almost all securities, outside Treasuries and maybe gold, fall.

Most robo advisors periodically rebalance portfolios, buying more of the securities that have done poorly and selling those that have done well, while maintaining holdings in most areas of the market.

That's not my style. I prefer to overweight the areas that I deem attractive and completely avoid what I don't like. What's worked this year? Fixed-income, preferred stocks, telecom stocks, and utilities. The common thread is yield. In a low interest rate environment, dividend and interest payments become more important.

With the market weakness, robo advisors are experiencing another real test. This, too, will pass and robo advisors will continue to attract more assets. Although their advice can be very generic, they give investors access to financial recommendations for low or even no fees. Still, investors are learning they like human contact.

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