Automated Investing vs. Human Guidance

When you're looking for help managing your investment portfolio, you have a decision to make: Should you work with a financial advisor or a robo-advisor? A financial advisor is a professional specializing in financial planning, wealth management and other personal finance services. On the other hand, a robo-advisor is a digital platform that uses algorithms to invest with very little human supervision.

Since the launch of the first robo-advisors during the Great Recession, they've become popular as cheaper alternatives to financial advisors. They typically work best for people who have very simple investment needs, while they can be a poor option for individuals who want to tackle complex issues, such as estate planning. No matter your financial situation, there are benefits to working with a financial advisor that the robo-advising process can't easily replace.

1. Setting and planning for goals

Financial advisors can help you establish financial goals and implement strategies to help you achieve them. At the outset of working together, a financial advisor will typically go through a discovery process where they ask you questions about what you hope to accomplish with your money. Some goals may be relatively simple like saving for a down payment on a house or a child's college education. Others may be more complicated, such as leaving a legacy or ensuring a dependent child will be taken care of after you're gone.

Once your advisor understands your goals, they can help you choose the right strategies to accomplish them, from maximizing savings in retirement accounts to helping you implement an estate plan or trust.

As you age, changes in career, marriage or the birth of children may lead to shifts in your financial goals. Regular meetings with an advisor can help you keep tabs on your changing needs, and your advisor can help you make adjustments to your financial plan as necessary.

2. Keeping you on track

Financial advisors don't just set up a plan with you; they help you stick to it along the way. No matter how rational you think you are, emotions can influence your personal financial decisions, often to a surprising degree. Letting emotions get in the way can lead to counterproductive investment choices, such as panic selling — selling assets after they've dropped in value, rather than staying in the market and taking advantage of an eventual recovery.

Your financial advisor is your sounding board, and when you get worried about changes in the market, you can voice your concerns. Your advisor can provide an objective point of view and information on how short-term volatility might affect your long-term financial plan.

A financial advisor can also provide a sense of accountability that can help you stay on track, making you less likely to do things like put off saving or empty your investment accounts on a whim.

3. Building a team of experts

The benefits of a financial advisor go beyond wealth management. Your financial advisor can assemble a team of professionals around you to deliver expertise and services in other fields. Access to CPAs, attorneys and insurance brokers can help you address all your financial needs in a coordinated, holistic way.

Whether a financial advisor or robo-advisor best fits your needs will depend on your individual circumstances. Making an informed decision requires an understanding of the range of benefits unique to financial advisors. It's important to bear in mind, too, that when it comes to access to new machine learning technology, it's not an either-or proposition. Financial advisors use advanced digital tools to analyze portfolios and market data, so you can enjoy the advantages of a personal touch without forgoing the benefits of technology.

SOURCES
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