



Registered Investment Advisor Firm

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ROBO-ADVISORS

Jeffrey Gundlach, CEO of Doubleline Capital, recently spoke at the FPA NorCal Conference about “robos” and passive investing. Often referred to as a bond king, “I would never use a robo-advisor,” he said, “that could be the cause of the next crash. Robo-advisors are the strangest thing. They are the ultimate definition of herd mentality – one size fits all. Everybody gets the same portfolio, which means when they all decide to get out you cause a crash.” He doesn’t believe in machines taking over finance at all.

According to Investopedia, robo-advisors are “a class of investment managers and software that uses complicated computer algorithm to administer your investment portfolio”. Their assertion is that each company’s proprietary algorithm claims to take the emotion out of investing and reward the investor better returns for a lower cost than traditional financial advisors.

Let’s look at the pros and cons of robos according to Investopedia.

Cons:

- They aren’t personalized: you’re more than just an investment. You have goals, both short and long-term. While some robos allow you to set and edit your goals you also have money related issues and concerns which benefit from a conversation with a human. The human financial advisor is there to ease your fears and explain how the investment markets work. A human financial planner works to integrate your finances, taxes and estate plans.

Most robos do not allow investing in options and individual stocks, even though these are sound investment strategies that go beyond algorithms. Sophisticated or newbie investors may want a broader investment portfolio with a wider range of asset classes than the typical robo offers.

- Robos falsely claim the lowest price schedules: most robos have low fee schedules, but not all do. It’s not true that all financial advisors are expensive. Some, like Davis Investment Group (DIG), charge approximately 1% of assets under management (AUM) for their services. This fee compares to many robos.

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- Falsely claim there is no place for small investors: There are financial advisors and alternatives for those without lots of money or just starting out, DIG is one. With financial advisors, there are fee schedules and investment strategies for every type of investor.

- No face-to-face meetings: You can't sit down with a robo-advisor and discuss Social Security claiming strategies, taxes and other financial services.

- Limitation of investment options: most robos only offer a few dozen mutual funds or ETFs, while most financial advisors have a full line of stocks, bonds, ETFs, mutual funds, options and alternative investments.

Pros:

- Low fees: typically 1% AUM or less.

- Nobel prize-winning algorithms: In general, best practice investment theory strives to create an investment portfolio with the greatest return for the smallest risk. Since 1990, robos have been using cutting edge investment portfolio research.

- Access to robo services through a financial advisor: It's more common for traditional financial planning practice to use a robo platform for their clients, to spend more time on taxes, estate and financial planning.

- Expanding the market for financial advice: Some younger investors or those with lower net worth may not have considered professional financial advice. Because robos allow easy access and lower fees, some may choose this path.

-Robo-advisor aren't one-size fits all: There are single approach and hybrid style robos, some even offer rebalancing and tax loss harvesting.

-Low minimum balance: Several firms have zero minimum balances with many of robos requiring less than \$5,000 to get started.

To me, the cons have it, and investing with DIG has the benefit of the entire cons list and some of the pros. I agree with Jeffrey, cheaper is not always better.

If you would like more information, please contact Bob Davis at DIG.

FED Watch

Quarter point move up, no surprise and there is less than 15% chance of a further raise before the December meeting.

Next meeting, July 25th and 26th.

[Davis Investment Group](#)

Davis Investment Group is a fee-based Registered Investment Advisor firm servicing the needs of clients across the United States.

Davis Investment Group custodies all client assets at Charles Schwab & Co. Davis Investment Group's home office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at:

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