5 Tips on Using Robo-Advisors

By: Vin Heney

Like it or not, robo-advisors are here to stay. I, for one, couldn't be happier. They're automated investment management platforms that are digital, easy to use, and offer some of the lowest investment fees around. Considering that millennials prefer digital, have little time for confusing financial jargon (and/or little interest in becoming financial experts), and are growing wise to the high management fees charged by banks, it's fair to say these platforms are tailor-made for young investors.

But before you pull everything out of your bank and dump it into a robo-advisor, you should probably do a little homework. Here are 5 things to keep in mind.

Choose wisely

Wealthsimple and Nest Wealth and WealthBar, oh my! The number of robo-advisors in Canada is growing quickly, so make sure you choose the one that best suits your needs. Are you most concerned about security? Ease of use? Fees? Here's a quick look at what makes three of the frontrunners unique. Wealthsimple is the most notable (full disclosure: I use Wealthsimple): it has an award-winning interface, major financial backing, $2B Canadian) in assets under management, socially responsible investing options, and no account minimums. Nest Wealth, on the other hand, is unique in that it holds all assets within a large Canadian bank (National Bank), fees are capped regardless of account size, it offers best-in-class industry experience, and it sets up customized accounts for each client. Lastly, WealthBar prioritizes personalized financial advice and allows users to access private investment pools previously reserved for high net worth investors. These are only a handful of what's out there, so make sure to check out a more extensive breakdown of Canadian robo-advisors before selecting yours.

Test the waters

OK, so you've picked your robo-advisor and it's time to start investing. As with any investment plan, it's always wise to diversify. So instead of putting all your savings into a robo-advisor, consider testing the waters with a single account. For example, I started by putting $5,000 of my TFSA into a Wealthsimple portfolio. Download the app, play around, and get used what it's like. If you're anything like me, you're probably used to traditional banks. Robo-advising is different. It takes a while to get used to never seeing a person face-to-face (although you can speak over the phone), and it takes a while to build trust in a financial company that hasn't been around for decades (but rest assured, they're heavily regulated and as safe as any bank). If you're happy with how things are going, then look to expand further. And don't forget, some robo-advisors will cover the fees that your bank charges for transferring out accounts, so make sure you remind them of what you're owed — it can speed up the reimbursement.

Know your risk level

Is the account you're setting up intended for long-term savings? Will you need it in the next five years? Be sure you're clear about the purpose of your account and your comfort level with risk. Most robo-advisors will ask these sorts of questions to determine your risk level. If you're sure won't need the money in the near-term, there's probably no point in opting for a conservative portfolio. If you have time to ride out the ups and downs, a growth option might make more sense. And if your situation changes, be sure to let your robo-advisor know so they can adjust your account accordingly.

Oh, and while we're at it, you should give some thought to 'ethical investing' or 'socially responsible investing'. Some robo-advisors offer these options to ensure what you're invested in lines up with your values. Wealthsimple even offers Halal investing that complies with Islamic principles. Granted, there's a good chance you'll still be invested in *something* that conflicts with a belief you hold, but that's the nature of investing in a broad range of companies and industries.

Reach out to your robo

With robo-advisors, you can't simply walk into a branch and sit down with an advisor, so there's a recognition among these companies that strong customer support is paramount. On most platforms, you can get free expert advice via live chat, email, or phone, and the responsiveness is impressive. I've even had a few questions fielded within minutes on Twitter — can't imagine that happening with a big bank. All in all, I've been pleasantly surprised with how my investing needs have been met via a quick phone call or an email exchange.

Maximize the perks

Robo-advisors are the new kids on the investment block, and because of that, they're eager for your business. There are usually lots of incentives to get net users to sign up and existing users to increase contributions. Take advantage of as many of these as possible. Through Wealthsimple's rewards program, for example, $35,000 of my TFSA is being managed for *free* because of the following actions I took: sign up, transfer an existing account, invite a friend, turn on auto-deposits, and enable two-step sign in. It's all pretty straightforward stuff and nothing beats having your money managed for free.