THE GLOBE AND MAIL

PORTFOLIO STRATEGY

Check your schadenfreude, advisers. Robo-advisers are thriving in the bear market

ROB CARRICK PERSONAL FINANCE COLUMNIST

PUBLISHED MAY 1, 2020

So much for the long-predicted humbling of robo-advisers in a bear market.

Robo-advisers are thriving in the market turmoil caused by the pandemic. Market leader Wealthsimple had almost twice as many new account sign-ups in March than it did in the same month of 2019. WealthBar had an 81-per-cent increase in new clients in March and April, while Nest Wealth reports that March was one of its best months ever for signups.

Online brokers BMO InvestorLine, Questrade and TD Direct Investing have also racked up many new clients lately, as have the free stock-trading app Wealthsimple Trade and an advice-DIY hybrid from Bank of Montreal called adviceDirect.

Digital investing firms like these face a big test over the coming months and years in retaining these new clients. But right now, they're making a case for long-term legitimacy. If you've got money to invest and appreciate the importance of low fees in a period of low interest rates and constrained stock market expectations, then take a look.

Pure practicality is a big part of the growth in digital investing lately. You can still walk into a bank branch in the pandemic to discuss investing, but do you really want to? Investment advisers may be working hard these days, but often from home. By contrast, people who want to take advantage of the decline in stock prices since the mid-February peak can open an account near-instantly on their phone or computer with a robo-adviser or online broker and start investing shortly after that.

But there may also be a bigger story of change happening in how Canada invests. While robos and online brokers were gathering new clients and assets, the vastly larger mutual fund industry faced net redemptions of $14.1-billion in March.

"My belief has always been that a market like this would put money in motion," said Michael Katchen, Wealthsimple's chief executive. "When everyone is making money, as

they did in the past 10 years, you don't care about how much you're paying in fees and whether you got the right advice or not."

Robo-advisers build and maintain portfolios using low-cost exchange-traded funds and charge an advice fee of 0.5 of a percentage point or less in most cases. Wealthsimple and other robo-advisers have continually been told that their model wouldn't hold up in a bear market. Without a human adviser to coach and console, investors would succumb to panic and sell.

But at the robo-adviser WealthBar, clients were adding money on a net basis in March and April. New deposits increased 23 per cent on a year-over-year basis, while withdrawals rose 12 per cent.

More than half of Wealthsimple clients consistently add money to their accounts. In March and April, the number of people doing this fell only 3 per cent. Overall assets were down because of the plunge in stock prices, but Wealthsimple's market share of robo-advice assets edged up to 74 per cent in the first quarter from 72 per cent in the final three months of 2019. Market share of clients rose to 67 per cent from 63 per cent.

"There's been skepticism about our model ever since we launched," Mr. Katchen said. "The most often-asked question: How would Wealthsimple fare in a bear market? I think the fact that we're performing better than ever before, and better than the industry, is incredibly vindicating."

The theory that robo-clients would cave to the pressure in a bear market was given extra credence because these investors tend to be younger and less experienced than in the broader investing industry. Wealthsimple, for example, says its average client age is 34.

But robos have found a way to stay in touch with investors that seems to be working. Mr. Katchen said Wealthsimple has supported clients with instructive e-mails in weeks when stock markets made big moves, by holding webinars that attracted thousands of views, and through its call centre. Calls volumes for the company's portfolio managers increased 24 per cent from January through March, which suggests clients kept their heads and didn't panic.

InvestorLine president Silvio Stroescu recalls that there was panic-selling by DIY investors in the bear market of 2008-09. "It's different now," he said. "There is no flight to safety. If anything, people are taking advantage of opportunities."

On normal days, 55 per cent of trades placed by InvestorLine clients are buys. That number dipped to 50 per cent when the market was plunging, but the average for March and April was 60 per cent.

InvestorLine's flow of new clients was more than 3.5 times higher in March than a year ago. TD Direct Investing said new account openings jumped nearly 180 per cent in March over the previous year, and that April levels were only a bit below that level.

Questrade said it has added new accounts at well over double last year's rate in March and April, and net inflows of money far exceed withdrawals.

It's common in the investing world to take a zero-sum view where interest in digital investing comes at the expense of advice. But investor behaviour lately suggests that's an overly simplistic take.

Interest in fee-for-service planning, where clients pay flat or hourly fees for advice and no products are sold, has really come on in the past couple of years and seems to be holding up in the pandemic. "Aside from fewer inquiries in March as people were scrambling to figure out what to do, we're on pace with our normal trends here," said Sandi Martin of Spring Financial Planning.

Further evidence that digital investing and advice can co-exist comes from the surge of interest in adviceDirect, which has been around for more than seven years. Mr. Stroescu said new account online applications were up 75 per cent in March on a year-over-year basis for this service, which offers investors advice in building and monitoring their portfolios.

The rising popularity of Wealthsimple Trade highlights the appeal of digital investing for people who are willing to forgo help of any kind in exchange for low costs. This free stock-trading app for mobile devices reached 100,000 users in mid-March and was averaging more than 7,000 a week in late April.

There's a downside to the success of online trading platforms in this bear market. Crowds of clients eager to buy and sell shares have gummed up trading platforms and at times prevented people from making the transactions they wanted. Phone queues at online brokers have also been frustratingly long in some cases.

Longer term, the biggest challenge for digital investing channels will be to build relationships with the clients they landed when stock markets tanked and everyone was stuck at home.

"The fact that there are lots of people using this as an opportunity to get into the market doesn't necessarily mean they're going to be long-time, loyal customers," said Mike Foy, senior director of the wealth management practice at J.D. Power. "How effective this model is both from a performance standpoint and a service standpoint will be tested over time."

It's likewise too soon to judge digital investing returns in the bear market, but the first-quarter returns at Wealthsimple are encouraging for the company. Its conservative, balanced and growth portfolios all outperformed benchmark indexes from Morningstar Canada and some popular competing balanced mutual fund and exchange-traded fund products.

Fees are one area where digital investing will have a decided advantage looking ahead. If the economy is slow to recover from the pandemic, interest rates will remain low and

stock market returns could be modest. In that context, paying roughly 0.65 per cent to 0.75 per cent in total fees (advice and ETF fees) at a robo-adviser looks a lot more appealing than a balanced mutual fund that costs roughly 2 per cent to own.

Wealthsimple Meets The Bear

Since they made their debut about five years ago, robo-advisers have faced questions about how they would do in a bear market. Here are first-quarter performance numbers for three portfolios offered by Wealthsimple, the largest robo-adviser in Canada, and popular balanced mutual funds and exchange-traded funds. Given the short timeframe, these numbers offer only the merest of snapshot views.

	Q1 RETURN (%)*
Conservative Funds	
RBC Select Conservative Portfolio	-7.4
Desjardins Melodia Conservative Income Portfolio	-8.1
Vanguard Conservative ETF Portfolio (VCNS)	-6.9
Wealthsimple Conservative Portfolio	-2.7
Benchmark: Morningstar Canada Fund Global Fixed Income Balanced	-7
Balanced Funds	
RBC Select Balanced Portfolio	-11.3
BMO SelectTrust Balanced Portfolio	-11.1
Vanguard Balanced ETF Portfolio (VBAL)	-10.4

	Q1 RETURN (%)*
Wealthsimple Balanced Portfolio	-5
Benchmark: Morningstar Canada Fund Global Neutral Balanced	-10.2
Growth Funds	
Scotia Partners Growth Portfolio	-12.6
EdgePoint Global Growth & Income Portfolio	-19
Vanguard Growth ETF Portfolio (VGRO)	-14
Wealthsimple Growth Portfolio	-11.4
Benchmark: Morningstar Canada Fund Global Equity Balanced	-13

Source: Wealthsimple

*Returns are shown on an after-fee basis, except for benchmarks.
Note: The mutual funds shown here are Series A versions.

https://www.theglobeandmail.com/investing/markets/inside-the-market/article-check-your-schadenfreude-advisers-robo-advisers-are-thriving-in-the/

© Copyright 2020 The Globe and Mail Inc. All Rights Reserved.globeandmail.com and The Globe and Mail are divisions of The Globe and Mail Inc., The Globe and Mail Centre 351 King Street East, Suite 1600 Toronto, ON M5A 0N19 Phillip Crawley, Publisher