> Our parents would receive calls from people on the phone. It was like Wolf of Wall Street … I don't have a banking degree, I'm not saying I know more than bankers do, but if you do some homework, you can start to make decisions on your own. — *Adam Slight*, 29

PERSONAL FINANCE

WHY IT'S TIME TO PUT DOWN THE PHONE AND GIVE THE ROBOTS YOUR MONEY

Whether it's an online brokerage, ETF or robo-advisory, there's no shortage of options

By Danielle Kubes

Back in ancient times, there were three main ways to invest.

First, if you were an active, knowledgeable trader, you would call a broker (on the telephone) and pay him a hefty commission to buy or sell a security.

If you didn't want to deal with the decision-making, and you had the required minimum balance, you could just delegate the whole business to an investment adviser and allow him to create and monitor a portfolio, while he charged a percentage of your assets, or sold you a mutual fund or annuity for a hefty sales commission.

Of course, you could also just buy a Canada Savings Bond and call it a day, but the rock-bottom rates of the last decade and a half have made this route incredibly unappealing.

Luckily, times have changed. The Internet, after all, has democratized investing along with everything else.

"A lot of services (brokers and investment advisers) used to provide, and used to get paid for, are now done (for)

> They want you to be nervous about doing (it) yourself

pennies and are largely automated," says Marshall Beyer, director of academic standards at the Canadian Securities Institute.

Whether it's an online brokerage, an ETF or a robo-advisory, Canadians have never had so much competition for their money.

Adam Slight, a 29-year-old who started Rickshaw Studios, a print and marketing company, recently opened accounts at both Questrade, an online discount brokerage, and WealthSimple, a robo-advisory. The old ways baffle him.

"Our parents would receive calls from people on the phone. It was like Wolf of Wall Street," he says.

As a small-business owner in Toronto, he's especially interested in investing as he has no employer or pension plan to secure his future.

"It's sort of in my nature, even with my own career, to spend the time to learn the ins and outs of things," he says. "I don't have a banking degree, I'm not saying I know more than bankers do, but if you do some homework, you can start to make decisions on your own."

Now, more and more Canadians are thinking like Slight and switching over to the wave of investing alternatives that started appearing in the early aughts.

Note, however, that traditional banks are excluded from this category. While all of the major banks technically allow investors to trade online, it's clear by the abundance of administration fees that a bank's online presence is simply an extension of the traditional branch and its values.

"The major banks are, to some degree, interested in your well-being — to the extent that you need to be a little happy if you're going to keep doing business with them," Slight says. "But they are really self-interested, as far as I can see, like with fees."

They still, for example, charge inactivity fees, account maintenance fees and usually insist on minimum balances of $10,000 to $50,000 — all of which goes against the simplicity and low-entry threshold championed by true products created for a virtual, do-it-yourself age.

And it's this digital-first ethos that's the real attraction to non-traditional investing firms — especially for millennials.

"What I find with them, is with WealthSimple in particular, is that it is in some sense a fairly traditional company, except that it seems to be born out of the conditions that our generation is kind of participating in right now," Slight says.

"It seems like it's a little more of a tech startup; it appeals to the sort of app culture that we're a part of and it's kind of rebellious too. If you read their blog, they are sort of trying to challenge the status quo."

And the primary path through which these digital-first options are challenging the status quo is by capitalizing on technology that makes growing (or losing) your money a far more accessible process.

No longer do you have to drive crosstown to keep a branch appointment during bankers' hours, or try to get through a busy signal to your broker before the market closes. Instead, you can trade positions on an app or check out your annual performance review on your computer while eating lunch at your desk.

But the biggest advantage of unconventional brokerages is their dramatically lower fees.

They undercut each of the three major ways that old-school investment firms, banks and funds make money: dollar amount commissions, a percentage of assets under management and administration fees.

Let's recall our active, knowledgeable trader. She can now trade stocks, bonds, mutual funds and ETFs with an online discount brokerage. She used to pay between $40 and $100 a trade, and now pays around $5-$0 for ETFs. Not only is more of her money going directly into investing, she is also able to start with much less.

For example, if she had $1,000 to invest, and it costs $40 to buy, and the same to sell, a stock, she's already spent eight per cent of her seed money. To earn a profit, she would need to earn a return of at least eight per cent on her stock pick to make it worth even bothering to invest.

Conversely, when her trading costs decrease to $10 total ($5 to buy a stock and another $5 to sell it), she only needs a return of a little more than a one per cent return on her stock to start making a profit.

With this lower bar for entry, everyone saves money, and more Canadians are able to participate in the benefits of the stock market.

And what about our investor or who doesn't want to deal with the decision-making?

He now can dump his concerns onto a robot, which uses algorithms and ETFs to replicate the sort of portfolio that previously only an investment adviser or mutual fund could create.

Robo-advisories work by carefully selecting ETFs, which are simply funds that track particular indexes, across different asset classes — bonds, equities and real estate. They then adjust the weight of the asset classes in a series of model portfolios to reflect different risk tolerances and goals. All an investor has to do is select the appropriate model portfolio and the algorithms will monitor and rebalance the portfolio automatically. In this way, completely novice investors with very little to invest can gain access to a managed, diversified portfolio that has the potential to outperform the market.

Since robots and servers are cheaper than people and branches, robo-advisory services charge far less in management fees, at a maximum of 0.6 per cent of assets, plus the cost of the ETFs themselves, which usually top out at about

> They're invested in making money off the transaction

0.15 per cent. Compare that to fee-based investment advisers, who collect fees of between one and two per cent of assets and may include mutual funds, which charge an additional management fee of an average 2.42 per cent.

It's a big deal when even a few percentage points can cost an investor tens of thousands of dollars.

The U.S Securities and Exchange Commission, for example, looked at a $100,000 portfolio with a four per cent rate of return. Halving annual fees, from one per cent to 0.5 per cent, would increase the value of the portfolio by $20,000 over 20 years: You would cash out with $200,000, versus $180,000.

With those numbers, it's easy to see why millennials, with long time horizons and native comfort on the computer, are turning their backs on the so-called advice and expertise of the old-guard money professionals.

"Just to go to an adviser to execute orders, or even get some stock picking ideas — it's hard to justify what you're paying to them unless you're getting some real value-added services," Beyer says.

For now, many savvy millennials will stick with easily available market data and investment blogs for guidance.

"Certain professionals want you, with any sort of service professional industry, they want you to be nervous about doing the transaction yourself because there's so much that can go wrong; you need that person," Slight says. "But they're invested in making money off the transaction."

"It takes a little bit of courage but there's a bit of a movement right now that's coming from certain companies saying 'You can do it on your own.'"

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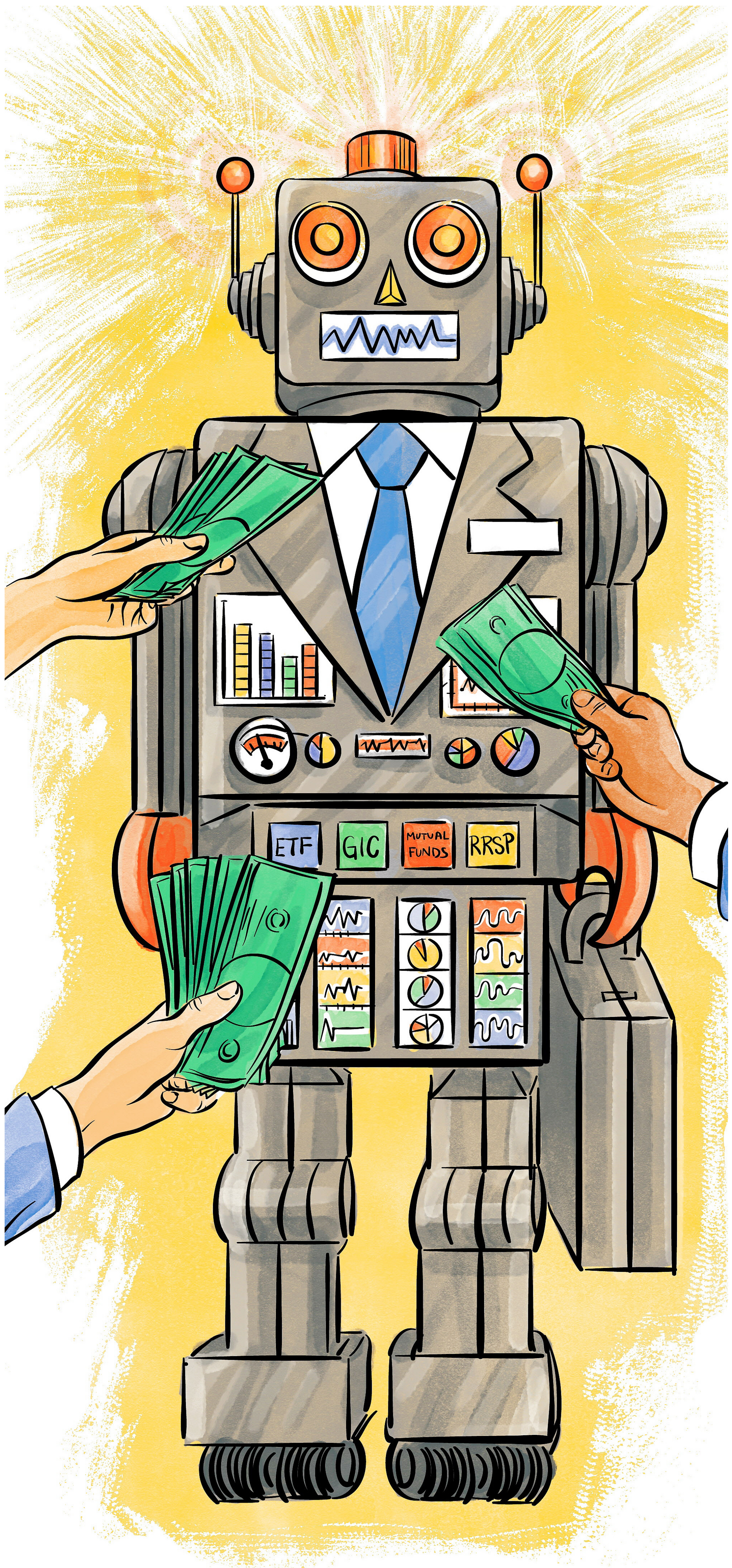

TRADING PLACES ONLINE

WEALTHSIMPLE
Type of brokerage Robo-adviser that trades ETFS
Minimum investment $5,000
Commissions and fees First $5,000 managed free; then 0.35-0.50% of assets under management
Fees None
Money perks Rebates all transfer fees for registered accounts
What makes it different For millennials, by millennials. Founded by 28-year old Torontonian Michael Katchen.
Registered accounts All, plus dual currency settlement saving on conversion fees
Best for The investor who has no idea what he's doing, doesn't make much money, but still wants to retire on a beach in his early 50s.

SHAREOWNERS
Type of brokerage Direct and pooled trading for select blue-chip U.S. and Canadian stocks plus robo-adviser that trades ETFS
Minimum investment None
Commissions and fees Direct Trades: $20 per stock; Pooled Trades: $10 per stock to a maximum of $40 to buy an unlimited number of stocks at once; Robo-advisor: 0.5% for under $100,000 of assets, or $40 a month
Fees Annual maintenance fees for registered accounts; misc admin.
Money perks Free fractional dividend re-investing
What makes it different Unique and inexpensive way to fractionally re-invest dividends. Can choose your own automated model portfolio
Registered accounts All
Best for Mr. Conservative who's in it for the long haul. Robots fit in with his buy-and-hold philosophy, but he isn't quite ready to let them run the farm.

QUESTRADE
Type of brokerage Onlinediscount brokerage that trades equities, bonds, mutual fund and ETFs, plus robo-advisory that trades ETFs
Minimum investment DIY: $1,000. Robo-Advisor: $2,000
Commissions and fees DIY: $5-$10 per stock trade. Robo-advisor: .29-.47% of assets
Fees Misc. administrative fees. Mostly applicable on wire, estate and registered account transfers
Money perks Buy ETFs free; rebate on mutual fund trailer fees; rebates transfer fees for registered accounts up to to $150 if assets are at least $25,000
What makes it different Different trading platforms accommodate advanced trades. Can trade options, currencies, commodities and register for monthly streaming market data packages.
Registered accounts All, plus dual currency settlement saving on conversion fees
Best for Any Goldilocks investor can find her place here.