

## Transcript

### The Ideas Exchange

### Episode 3: Robo-advice - a new way of looking at financial advice?

April 2021

**Voice Artist** [00:00:03] Welcome to the Monthly Ideas Exchange podcast brought to you by ASX, The Heart of Australia's Financial Markets. Each month we'll connect you to a range of leading industry experts who'll give you a look into the finance industry and deliver valuable insights, hear about important market events, industry research, tips for your own market research, as well as innovative products to help you diversify your investment portfolio.

**Martin Dinh** [00:00:34] Hi everyone, and welcome to another episode of the Ideas Exchange Podcast by ASX. I'm your host, Martin Dinh, and in today's episode, we will take a deep dive into the world of robo-advice, an area that some analysts forecast to grow over \$1.26 Trillion by 2023. Today, I'll be joined by Sarah King, head of client care at Stockpot, one of Australia's oldest robo-advisors. As we learn about how robo-advice works, some of the key benefits and how robo-advice can help you meet your investing and financial goals. So sit back, relax and join me and Sarah as we dive into the world of robo-advice.

**Martin Dinh** [00:01:15] Hi, Sarah. Thanks for joining me today. It's great to have you here.

**Sarah King** [00:01:18] Thanks so much, Martin. It's awesome to be on the podcast.

**Martin Dinh** [00:01:21] I just wanted to say I really enjoyed your interview with YouTuber, Queenie Tan, earlier this week. There was some great investing and financial tips to help empower women, which I found very insightful. So well done on that.

**Sarah King** [00:01:33] Thank you so much. It was great to do that with Queenie and yeah, in particular, to celebrate International Women's Day.

**Martin Dinh** [00:01:38] So for those interested in that discussion, you can find it on Stockpot's YouTube channel, I believe. Is that correct, Sarah?

**Sarah King** [00:01:44] Yeah, that's correct.

**Martin Dinh** [00:01:45] That's well worth a listen. So jumping right into it. In today's episode, we'll focus on the topic of robo-advice. Robo-advice may sound like something from a sci-fi movie, but I'm hoping that by the end of today's episode, you will find a good idea of how robo-advice can help you with your investment and financial goals. So, I'm sure many investors are familiar with the idea that you can get investment advice from a financial planner. But I'm sure that not many investors know that you can actually get investment advice from a robo-advisor. So, Sarah, for those that are not too familiar with robo-advice, can you help us understand what robo-advice is?

**Sarah King** [00:02:23] Yes, sure. So in very broad terms, it's a way that people can now access professional investment advice online. So as you said, traditionally you go to a financial planner to get that advice and it will cost you quite a lot of money. But how robo-advice is changing that is that you can go to a robo website, you can enter some of your personal information and answer some questions around, you know, what are your goals? What's your investment time frame? What's your risk appetite? And be recommended a strategy that's best suited to you. And then the robo is going to help to manage your money ongoing and automate a lot of the investment decisions along the way. And the good thing is, is that typically, you know, you'd have a human doing a lot of those tasks, like recommending a strategy, you know, what to buy and sell. And the beauty of the robo component is that you're using technology, you're using algorithms, you're using automation to do that. And you can optimize when to do that. And it helps to drive costs down. It helps to reduce the barriers that are often associated with investing, because typically it's something you think is only accessible to the wealthy. Yeah. And it's just making it very, very accessible for everyday Australians and anyone around the world, really.

**Martin Dinh** [00:03:30] And can you confirm with me, robo-advisors are not run by robots?

**Sarah King** [00:03:35] Yes, there is a very common misconception that robo-advisors are purely run by robots. It's just a bunch of algorithms. But that is definitely not the case. You know, if I draw on Stockspot, where I work, you know, there's a whole team of us working hard every day to make sure that our clients' portfolios are being professionally managed. You know, we're coming up with the investment methodology, the portfolio construction, the right asset mix. And, you know, we have a team of in-house developers who are always looking at how we can optimize those investment decisions. And on top of that, equally from a trust perspective, which is super important when you're managing people's money, you need to know that there's a team of professionals that you can contact. And a lot of robos out there have many investment advisors on hand that you can contact to talk about your investments. And that's a really important component of it as well. And I think it isn't quite well understood out there.

**Martin Dinh** [00:04:26] So can you confirm that, if I had questions about my portfolio, I can speak to an investment professional? Right, Sarah? Is that correct?

**Sarah King** [00:04:33] Yeah, absolutely. So, you know, at Stockspot, we have an omni channel approach. Our clients can email us and we pretty much have a 24 to 48 hour response time, sometimes even less than that. We're on live chat, but you can also schedule a call to talk to an advisor. And that's a lot of what I do day in, day out. I'm talking to people about, you know, what is robo-advice? What's the right investment strategy for me? What are ETFs? Like, all of those very fundamental questions to help people have a great investment experience, but also know that they're working with a trusted advisor.

**Martin Dinh** [00:05:04] So what type of client would robo-advice be ideal for?

**Sarah King** [00:05:08] It's a really good question. And look, in my honest opinion, I think robo-advice is suitable for everyone. But it's not everyone's cup of tea. You know, you're always going to have people that want to DIY invest or self-manage. You might have people that prefer different asset classes like property and things like that. But in my opinion, I think this is how the majority of Australians should be investing their money. So, you know, our client base ranges from first timers who are just starting out on their investment journey through to young professionals who have a lot of savings and wanting to make their money work harder for them. Mixed with that, we have, you know, self-managed super fund clients who are looking to cut out complexity, get consistent returns and have a really, really sensible investment strategy for their, you know, their future retirement nest egg. So it's very diverse. You know, we also work with not for profit companies. So, yeah, it's really suitable to most types of clients.

**Martin Dinh** [00:06:00] And on the flip side, when would speaking to a financial planner be more appropriate than using a robo-advisor?

**Sarah King** [00:06:06] Yeah, good question. So I think people who have quite complex financial circumstances and, you know, they might have family, you know, family affairs, they may need to go and see a financial planner for advice because they may need advice around, say, cash flow and budgeting. They may need advice around tax. They may need advice around the right structure to own their investments under, you know, whether it's in a trust in their name, inside superannuation versus outside. They might also need information on, say, estate planning. So that's typically when you would see clients going to get that fully fledged financial advice. And when you do need that more specialized approach, that's when a financial planner is appropriate.

**Martin Dinh** [00:06:44] And does an investor have to choose between a financial planner and a robo-adviser, or can they use both?

**Sarah King** [00:06:50] Yeah, they can. They can actually use both. And what we're seeing more and more is we're seeing a lot of people going to get advice from financial planners. But actually, you know, it's just not going to be cost effective for the client or, you know, the client doesn't actually need fully-fledged financial advice or actually getting referrals from advisors to Stockspot, they're like you know what, you guys are a great solution for this client. They've got, you know, 50 grand. They need to put it into a diversified portfolio. And I feel 100 percent comfortable recommending you, you know, to help them reach their goals and build their wealth. Look, I also have a client and we're seeing more of this where we're also working with their advisors. So this is where there are more complex tax situations or clients who have, you know, existing share portfolios. They're wanting to reduce complexity and transition that across to a Stockspot portfolio. So you actually work with their accountant and some of their advisors to work on a transition plan, how to manage the amount of tax to do that and how to transition it into Stockspot, usually by way of like a dollar cost averaging strategy. So there's definitely ways where both can work hand in hand and complement each other.

**Martin Dinh** [00:07:58] So I think that's great to know that, you know, robo-advisors and financial planners, they can work together to help investors meet their financial and investing goals. So as Australia's oldest robo-advisor, you are?

**Sarah King** [00:08:09] Yeah, we are. Just celebrating our seventh birthday.

**Martin Dinh** [00:08:10] Just confirming.

**Martin Dinh** [00:08:12] Oh, happy birthday. So as Australia's oldest robo-advisor, can you describe Stockspot's investment approach when it comes to robo-advice?

[00:08:21] Yeah, and it's a good question because there's a lot of robos out there and all of the styles are quite different. So our strategy is passive long term investing. So buy and hold. So as I said, our clients come to Stockspot. They answer questions around, you know, their goals, their investment time frame, their risk appetite. We recommend them a strategy that's aligned to their goals and objectives, essentially. And then, you know, we help them access a globally diversified portfolio of exchange traded funds. So we really focus on asset allocation. And, you know, the portfolios are built using Nobel Prize winning modern portfolio theory. And on the premise that, you know, it's asset allocation that drives 90 percent of the returns in your portfolio. So as their advisor, we're helping them to get the right asset allocation. And so we break that down into five key asset classes, which is your Australian shares,

your global developed market shares, emerging market shares and then bonds and gold as those defensive cushioning investments, we then help our clients get the right investments to own within that. And we choose to use exchange traded funds and we use passive index tracking ETFs as well as a commodity ETF, gold, because we want our clients to have really, really broad diversification. That's the best way to manage the amount of risk you're taking. And it also helps to get them more consistent returns because they're just buying the market. They don't need to worry about picking individual shares and worrying if they've got exposure to the winners every single year, because within those ETFs, you're always going to have exposure to the winners. So that's our approach. And then we have things like optimize rebalancing along the way, which is really important when, you know, a client's portfolio might drift from its target allocation. A good example is when that happened this time last year, when the share market fell back in March by close to 35 per cent, our clients' allocation to gold became quite overweight because it was outperforming at the time. Australian shares had absolutely tanked, as we know. And we were able to swiftly optimize on, you know, selling some gold and harvesting some profits for clients and then using that money to top up Australian shares, take advantage of cheaper prices. But in doing that, bringing our clients' portfolios back to alignment and on target to their benchmark allocations and that's where the tech and automation really helps because we can swiftly act on those opportunities, you know, if you're doing that yourself, sometimes you miss those opportunities. So that done consistently year on year can add anywhere of, you know, two percent plus in extra returns for clients' portfolios. So, yeah, it's really passive long term. And then our role is to help our clients, you know, stay the course, stick with their strategy, you know, ensure they have a sensible asset allocation, they have good diversification, and essentially they're paying very low fees. And that's also what we help them to do. We help pay less than one per cent per annum in fees.

**Martin Dinh** [00:11:06] And am I correct in saying that Stockpot believes that market timing is a difficult thing to do and that it's more important to say stay invested in the market for a sensible amount of time across a broad range of investments? Is that sort of a good summary?

**Sarah King** [00:11:19] Yeah, absolutely. So we always get asked when is the right time to invest. It's one of our most common questions and our standard responses always look, no one really knows. You know, you could be waiting on the sidelines, like waiting for, you know, the market to hit rock bottom. But usually when that happens, you can miss it anyway. So we recommend to clients to dollar cost average instead, which means that you can invest regularly in smaller amounts and average your way into the market. And it kind of removes that need to time the market. And we all know, like going back to 2020, last year, the market fell and then over three days it rose by 16 per cent. And to get the timing on that right is really, really difficult to do. So the best thing you can do if there is volatility or you're trying to pick the bottom or the

top, it's to really just not focus on that and to just invest regularly and stick with your strategy.

**Martin Dinh** [00:12:09] So how much does an investor need to get started with Stockspot?

**Sarah King** [00:12:12] Yeah, good question. So the minimum is two thousand dollars. So, you know, as a business, we're aiming to make investing accessible to every Australian. So it's a really low entry point. And that amount would get you an exposure to an Australian share ETF and a bond ETF. So lots of diversification. At the ten thousand dollar level, you know, you have a fully diversified portfolio, including Australian shares, global shares, bonds and gold. But yeah, then our clients have the option to top up any time, like a lot of our clients set up regular transfers into their account, you know, in line with their pay cycle or, you know, when they might be getting a bonus and they use that to regularly contribute to their account. And that's really the best way to kind of supercharge the compound growth over the years and to ensure that, you know, proactively growing the portfolio and enjoying more compounding of returns over time.

**Martin Dinh** [00:13:01] And what's the performance been like the last couple of years?

**Sarah King** [00:13:04] Yeah. So if we look at the last five years we've had from our conservative strategy, which is our Amethyst Portfolio that was around about seven per cent per annum after fees for the last five years up to our high growth strategy, which was 11 per cent per annum after fees. So those returns have actually helped us to outperform similar diversified funds over that five year basis. And that's purely from having the right mix of investments, having good diversification, broad market exposure, paying low fees and not doing a lot along the way.

**Martin Dinh** [00:13:36] So you must have some pretty happy clients, right?

**Sarah King** [00:13:37] We do! You know, I think we spend a lot of time educating our clients on the benefit of, you know, riding through the ups and downs, keeping that long term perspective and really focusing on what you can control. And, you know, that seems like the amount of risk you're taking, you know, the fees that you're paying and managing your emotions along the way. And it's those behavioural things that are really quite difficult when you're investing. And that's how robo-advice is a great solution, because it helps investors not to be tempted to buy and sell at the wrong time. You know, if you are managing your portfolio yourself, you can get emotional and you can, you know, sell at rock bottom and buy when things are sort of steaming ahead. So, you know, that's how the tech and automation really helps. And so we have had a lot of clients. Most of our clients stayed the course during COVID and

have enjoyed, you know, pretty much full recovery of their returns. So, yeah, we've got lots of lots of happy clients, thousands, in fact.

**Martin Dinh** [00:14:33] Now, a hot topic over the last couple of months has caught the attention of investors around the world, has been the GameStop saga. Have you been following this by any chance?

**Sarah King** [00:14:42] I have, yes, quite closely.

**Martin Dinh** [00:14:44] It was a pretty wild story, right? Watching how relatively unknown US stock rose from nineteen dollars to four hundred eighty three dollars in a matter of weeks and became one of the world's most heavily traded stocks as we saw stock pickers try to time the market. Now, the reason I brought up this question, Sarah, was that I wanted to see if you could share any lessons from the GameStop saga? You know, given we've learnt that, you know, Stockspot has a belief that timing the market is difficult and it's better to take a long term approach. So I was wondering if you can share any lessons from the GameStop saga.

**Sarah King** [00:15:15] Yeah, like, I think the key lesson there is the difference between investing versus GameStop, which was frenzied speculation in my opinion. So, you know, investing is really you're buying and holding long term. Sure, it might mean that you're not getting the 48 million dollar return that the GameStop person achieved, but you're going to get consistent returns along the way and manage the amount of risk you're taking, if you look at GameStop, you know, that was wow, there were so many things in the mix there. You've got the gamification of investing through online apps like Robin Hood. You've got no fee brokerage. You've got then this wave of investors coming through on platforms like Robin Hood. And it was this mix of, you know, kind of herd mentality and this frenzied speculation of people buying and buying and buying GameStop and then with a view to try and time when to get in and when to get out. That led to a short squeeze and unprecedented one at that. And at the end of the day, most investors don't have the expertise or the skills to really be making those calls. So really the key lesson is to, if you are investing, have a sensible long term approach as opposed to active day trading and the speculation that we saw with GameStop.

**Martin Dinh** [00:16:26] I think that's a great lesson there. I think, you know, the media often reports the winners, but never the losers. Right. I'm sure they're a lot more losers than winners.

**Sarah King** [00:16:33] Thousands.

**Martin Dinh** [00:16:34] So we've talked a bit about Stockspot's investment approach. So I was wondering if maybe you could share a story of how Stockspot's investment approach has helped a client.

**Sarah King** [00:16:43] Yeah, well, there's a few here. And because we have such a diverse pool of clients, there's lots of case studies I could call on, whether it's behavioural, whether it's goals based, whether it's cutting out complexity. But I think there's two I'll touch on today. And one is particular to goals based investing. And this is how we're seeing a lot of our, you know, younger clients and even older clients using us to fund a specific goal. And, you know, if we look at the market at the moment, property, you know, it's hot. So we have a lot of clients investing to save for their first home deposit. One particular client, which is a great example of how investing can help you reach your goals. You know, he started investing with just 20,000 dollars back in late 2014, topped up with a couple of other, you know, 10,000 dollars here, you know, a few months later, but then set up a regular top up plan of, say, 100 dollars a month every other week. By the end of 2019, his portfolio had grown to close to eighty thousand dollars. He'd enjoyed returns of eight to nine per cent per annum after fees. And if you compare that to the average rate in a savings account over that period, it would have been around about two percent. He was then able to draw out a hundred thousand dollars to fund his first home deposit.

**Martin Dinh** [00:17:52] Wow.

**Sarah King** [00:17:52] Yeah, significant. But then he still also was able to, you know, he only needed 100k. He still had eighty thousand dollars that he was able to keep in his Stockspot portfolio and to fund his next goal, essentially, whether that's another property or whether that's for his retirement, that's a really great example of how investing can help you reach your goals sooner compared to leaving it in like a low rate bank account. Another great one, which I think is important, is how clients are using us to cut out complexity. So we've got a client at the moment who, you know, she has a self-managed super fund account with us. She really likes the fact we have gold in the portfolio. So, you know, we keep costs low. But what's important as well is she's managing her parent's financial affairs. You know, they've got quite a sizeable portfolio. And what she was seeing was that the financial advisor, she was seeing had recommended some really, really poor actively managed funds. They were being held on rap form. She had a number of direct shareholdings, or the parents do respectfully in a company, in an SMSF. And she just thought, wow, like, you know, there has to be a better way to do this. So we're actually working very actively with her to cut out the complexity, to transition those investments off the rap platform, to then transition those into a Stockspot SMSF portfolio and a company account and, you know, saving them tens, if not hundreds of thousands of dollars in fees every year and just helping them access a really simple, diversified portfolio. And for her, who's going to be managing that ongoing, it's you know, it's a win-win for her as the power of attorney over her parents' financial affairs. But it's also a great approach for



the parents as they're in their later stages of life and wanting a much more simple approach to their investing.

**Martin Dinh** [00:19:27] Thank you for sharing those wonderful stories. I mean, it's great to hear how Stockspot has helped one client achieve one of their financial goals, which is to buy a property and on the other side, to help someone minimize the complexity when it comes to investing. So, you know, I love hearing about real life stories because I think it adds a human element to investing. And sometimes that's what I think is missing when we talk about investing, it's hard for people to relate to. Now, just before we wrap up, I was wondering if you could share with us any exciting projects that you're currently working on.

**Sarah King** [00:19:56] Yeah, so there's a few. And I think if we backtrack to, say, June last year and this is an important one, we launched our Stockspot Sustainable Portfolios, and this was an offering that was really driven by, you know, the Gen Ys and the Gen Z millennials who are wanting to invest in a way that's, you know, planet focused, it's environmentally friendly, you know, so we produced our sustainable portfolios that screen out things like gambling, tobacco, mining, have a huge focus on renewables. And that became, you know, through COVID, we saw that that was a big concern for investors. So it's great that we now have an offering where clients can invest in a way that aligns with their ethics and their values going forward as opposed to our core, that may be more, say, performance focused. In line with Stockspot's mantra of making investing easy and simple, you know, we're working on a multi account solution for our clients. So, you know, we've got a lot of clients who want to have multiple accounts for different goals, but then they might want to open a kid's account and they might want to open a SMSF account. At the moment, that's a little bit more long-winded. We're making that as easy as possible and a great experience for them. We've also just released a range of new themes. So this is ways that outside of the core five ETFs in the portfolios, our clients can tailor or customize their portfolio a bit. So we introduce some themes where you can access different countries, sectors or market themes. And they're things like tech and health care, you know, socially responsible themes, large cap, small cap themes or, you know, US shares, for example. So we're working on that. Yeah. We've got, you know, a great goal tracker that we've just put into the dashboard. So it is looking ways that we can, you know, engage and improve our core offering for our clients. But I think the most important thing out of all of that is, you know, our core product offering is to always look at how we can optimize the investment decisions for our clients. And, you know, just recently we changed the strategic allocations for our portfolios to position them for more growth in, say, the emerging market economies of the world. Putting a little bit more into gold as that extra hedge against rising inflation. And to take some money out of bonds knowing that yields aren't great and potentially falling. So they're the things that we always want to make sure that we're doing well and continuing to improve so that we're consistently

delivering on our promise to clients, which is to invest their money and keep it safe.

**Martin Dinh** [00:22:15] Looks like you guys have a very exciting couple of years ahead. But I think that the great thing is that as the market changes, you're constantly having to adapt. So you mentioned about why you've increased your allocation to gold and that's due to, you know, interest rates being at all-time lows. So the opportunity costs or the trade-off isn't that high. But, yeah, it looks like a very exciting year ahead, so I'll keep my eye on it. And if investors were looking to learn more about robo-advice and Stockspot, where can they get more information?

**Sarah King** [00:22:43] Yeah, great. So obviously on our website, [stockspot.com.au](http://stockspot.com.au). We're across all social media channels. So Instagram, Facebook, you can also see Chris' videos on YouTube. If you go to Stockpot, he's got a great sort of list of personal finance topics and ETF topics. Check us out online and also recommend checking out our blog. There's a heap of resources there.

**Martin Dinh** [00:23:07] Well, Sarah, I think this concludes this month's episode. I really wanted to thank you so much for sharing your knowledge about the robo-advice space, but also confirming that Stockspot is not actually run by robots. We look forward to having you on down the road. So thank you.

**Sarah King** [00:23:23] Thanks so much, Martin. It was so good to be on the show.

**Voice Artist** [00:23:26] Visit the ASX website, [ASX.com.au](http://ASX.com.au) and register for the next Investor Day, our premier education event providing timely market insight and ideas from a range of industry experts.

ASX Limited ABN 98008624691 and its related bodies corporate 'ASX' makes content available for podcast content and the content may be downloaded on these conditions. ASX grants a non-exclusive licence to download the content for private and non-commercial use only. You may not use the content for any other purpose, including without limitation, distribution to a third party or implying a connection between you or any third party and ASX, its officers, employees or contractors. The views, opinions or recommendations of the author or speaker in the content are solely those of the author or speaker and do not in any way reflect the views, opinions, recommendations of ASX. The content is provided for educational purposes only and is not intended to include or constitute financial product advice. You should obtain independent advice from an Australian financial services licensee before making any investment decisions. ASX does not give any representation or warranty with respect to the accuracy, reliability, completeness or currency of the content. To the extent permitted by law ASX and its employees, officers and contractors

are not liable for any loss or damage arising in any way, including by way of negligence from or in connection with any information provided or emitted, or from anyone acting or refraining to act in reliance on this information.