The Just Word Podcast

Transcript of Episode 3 – Robos Have Landed! Robos Have Landed!

Pat Bolland 0:01
Canadians pay some of the highest investment fees in the world. And those high fees hurt returns. But there are options, including robos. The future is here. And joining me is the chief disrupter of Cut the crap investing Dale Roberts. Dale. great to see you today.

Dale Roberts 0:20
Great to see you. Thanks so much for having me.

Pat Bolland 0:23
Dale, I was interesting, you know, I look through your bio, and you used to write for Moneysense and still do for Seeking Alpha. And you were involved in marketing at Tangerine, Gray Power insurance, Expedia. I even saw Kinders Surprise in that list. And then you came up with 'Cut the Crap', interesting name, where'd it come from?

Dale Roberts 0:46
Actually, you know, it was when it was at Tangerine, again, I'm a former advertising creative director working on a lot of brands from Tim Hortons to Chrysler to beer, all kinds of stuff. So, you know, when I was looking for a name, I wanted to have a lot of disruption I wanted to be attention-getting, but be very relevant as well. So as we were doing advertising and came up with maybe 30, or 40, names for the blog, did my own focus groups with coworkers at the time Tangerine friends, family, just online, basically, anybody that I could capture. And I certainly chose the one that didn't win. Because I didn't, didn't want the one that was too accepted, if you will, because it wouldn't have any disruption, right, it wouldn't have that punch. So it was accepted enough to say ‘there's a top 10’, it probably came in about fourth or fifth. So it had enough disruption, the fact that it rubbed a few people the wrong way. And that I got those answers saying these are great, but do not use that Cut the Crap I thought, thank you very much. There's your winner. So I wanted to be, you know, have that sense of disruption. But again, I had to have the right communication and really the whole mission of what I do in the site, just tell people cut it with the crap investing, right? It's just, it's such an easy thing to do. It's just like, when you're trying to lose weight or eat better, you just cut the crap. And in Canada, Canada's easiest because most people are in crap.

Pat Bolland 2:21
True. Now, who is your target audience then

Dale Roberts 2:25
Really is quite varied. And it's surprising because these days, you'll find more younger investors and some millennials coming along. I think more tell you the truth. And more of the late stages of accumulation and a lot of retirees because I know when I post on there using ETFs, for

retirement funding and such the readership is great. It's a wide swath, I believe a lot of people in the middle to maybe 40s - 50s. Obviously, it's targeted towards Canadians. But again, I'll get Europeans coming in, I'll get a lot of Americans come in because they're right on Seeking Alpha. So it's a wider kind of a general swath, if you will, but I do think it skews a little, a little bit older. And again, it may change too, I'm thinking about all the stuff we're seeing today with the kids and the Redditors. And all the trading and the fact that they're not investing, they're trading. So I think when they all get hurt, which we all go through as young investors. That, I think, when they start looking for investing options, I think that'll help, you know, the site that I run, just generally on the ETF environment, robos and stock. So I think eventually, they will look for investment options.

Pat Bolland 3:42
You know, I probably shouldn't give away your secret sauce or your email, but it does say the cranky writer ... are you the downbeat guy? Or are you generally optimistic,

Dale Roberts 3:53
I think generally optimistic mood, more kind of even keel I think, probably. That was actually my handle. That was my site when I was an advertising guy. Because often I would work full time, but often I would take off for years on end and freelance and consult. And my website was actually the cranky writer. So once again, I wanted a lot of disruption. I wanted something that would get attention. And maybe that week when I wrote it, I was just pissed off, I don't know. It just kind of, I just I like the disruption. And at times, I could certainly add some crank and stuff like that kind of, especially when you're in advertising, you have a bit of that and she kind of carried around with you look at everything from through different lens and try and turn it upside down and maybe a little bit sarcastic and such. So I think your advertising personality might be a little bit skewed because we're retooling our brains when we work on that side.

Pat Bolland 4:46
Yeah, fair enough. You do write a lot on the website about ETFs What is it about ETFs that you like?

Dale Roberts 4:54
Just go back to it, simple and cheap. Again, broad diversification Really cheap, easy to put them together for, you know, a complete portfolio. And that's the thing, right? The story is so simple, it takes about 20 seconds to explain it, you'll be able to buy the market for four or five basis points or putting portfolio together for 10 or 12, or doing a one ticket ETF portfolio for 20 or 25 basis points, which of course, is point two or point two, five ... simple and cheap, I think it would be, you know, the easiest way out of it. If we want to get more sophisticated we can, which is great as well. So I love seeing the evolution in ETFs but again, it's just a better way to invest, and it is the future. It will evolve. But it's just plain and simple. It's just better. Okay

Pat Bolland 5:46
Is there anything you don't like about ETFs? Or needs improvement?

Dale Roberts 5:50
Um, why I mean, there's probably too many of them, as much as I like seeing, you know, that we're developing. So I think that part of it, if it does develop like that, and there's so many names, there's that risk that people will get confused. When at the core, it started with, you know, very, very simple, low-cost index investing. But that said, you know, it's up to the investor to choose either leave those alone or raise them if they know what they're doing. And the only thing I can look at too, is even on the one ticket side, and how people approach it. Would like to see people invest for and protect against economic environments, the way it looks. And these days, we all invest, I believe, you know, with a lens of that the sort of disinflationary environment will go on forever, and that we don't protect against the catastrophes like we saw in 2020. Or even, you know, even the threat of more robust conflation, or stagflation. That's even advisors, I find when I talk to them, they just feel that that can't exist. And the typical portfolio is not designed to perform in that environment. So I think over the last year or two, I've been more beating that drum, you know, the core might work. But again, it might not. There are long periods when stocks don't work, and be even the typical balanced portfolio does not work.

Pat Bolland 7:13
Okay, so now we get to the subject of the day, which is robos. And the future's here because we've got more than a billion dollars in robos, in Canada right now. And as you point out, ETFs are an easy way to put together a portfolio, what's your sense of Robo and what it is.

Dale Roberts 7:32
In layman's terms, if you will, I would just say like, obviously, the robo … it starts with the core words, it's digital, if you will, everybody, you can go online, from start to finish. So you can go online, sign up, do your evaluation, your risk profiling, and be offered a suitable investment portfolio, which of course is by way of ETFs. And fits that description that that doesn't free you up, there's more around it. And I will write to you know, the robots are not all that robo as well, because you can get advice at any of the robos. And a few of them actually even offer financial planning as well. So you can get the full offering if you like and robo's a misnomer. I think it kind of turns some people off. That it's not accurate. There really are more, a lot of them and even more boutique investment shops, right,m where it's a digital offering. But if you want the humans there would also offer too that even. I believe I worked at the very first Robo, which was Tangerine. And they're offering index-based portfolios, but through mutual funds, and anything and everything can be done online from start to finish. But at the end, the offering wasn't ETFs it was mutual funds. So obviously under different regulatory bodies, but to my mind, I know the ETF-ers wouldn't agree the robos. But I do believe Tangerine was the initial, the first robo advisor in Canada and I had five and a half, wonderful years. They're talking to Canadians, educating them, and putting them in these portfolios. Recently, as you may know, they actually did come up with an ETF portfolio as well. So it's nice to see that there are the two offerings.

Pat Bolland 9:09
Okay, you make an interesting point, because I wouldn't have thought of Tangerine as the first in the robo space, but it probably was because all you're really looking at was an asset allocation tool, wasn't it? You'll put them into stocks, put them into bonds and work from there.

Dale Roberts 9:23
Yeah, they're identical to the others. It's just the fact that they see me now they would have state student would manage the portfolio's problems actually buying the stocks like a mutual fund would, but they were replicating, you know, the S&P 500, the TSX 60, the core universe bond index and an international - very, very simple - and poor assets and Canadian bonds. So everything could be digital from start to finish. And in the end, you know, you get an index-based portfolio. But I actually wrote a post on it and you know, did Twitter as well, and pretty much everybody came back saying no, it's not a robot. Yeah, okay, I give up whatever you want to call it. That's fine.

Pat Bolland 10:08
Yeah, you're absolutely true. What surprises me and that was a few years ago. Now, what surprises me is we're only at a billion dollars in robos. ETFs are a fraction of mutual funds as it stands right now. Why do you think? Why do you think there hasn't been more acceptance of ETFs? And, of course, for this conversation, robos?

Dale Roberts 10:29
Start with the robots, I guess, you know, I am, I'm really surprised that there isn't more acceptance, I thought, I mean, obviously, you don't introduce something and it takes off to the moon right away. I mean, that's that the growth is good. From what I understand. These companies are growing, even 100% year over year,

Pat Bolland 10:46
And they're just starting to grow that fast.

Dale Roberts 10:48
Yeah, but they're starting from such a low base. Right, that it's now it's getting more difficult for them. Now we'll see in 2021, and 22, can they still double the business? Um, yeah, I think I said too, I think there's just not enough awareness of what they are, maybe the robo word doesn't help. I often said to always think that they should band together and have an association and communicate like to Canadians what they are, and let them know that again, they're not that robo, don't be afraid of that Robo word, but communicate exactly what they do that which is, you know, very cost-efficient, complete portfolios with, do it online and feel like you get advice, talk to humans, and just separate the fact that they are far superior to how Canadians typically invest, which is high fee mutual funds. Either, you know, without advice, they'll still pay that trailing commission 1%, and very poor advice. And not to suggest that all advisors are bad. But most Canadians are sold, as we know right, there are salespeople on the other side of the desk, and say this is all I have, it's a mutual fund at two and a half percent or 2%. Take that. So yeah, I'm surprised too, I really thought it would, it would take off more. And maybe even robos could do more of the existing clients. They have to go after the money that is sitting on the other side that they have, you know, at other investment houses and such. And I used to do that at Tangerine, it was work on the outbound team or a manager side, if you will. And it was like, you know, it's like taking candy from a baby You don't have to sell it - never sold a day in my life

there. Even though that top salesperson, I just put on the table here, here's the tool, we can compare what you're invested in to how you would do in your Tangerine portfolio. So if they already were in those index-based portfolios, let's just look at the returns you got compared to that and it was was no contest and all honesty was probably 95% of the time the low fee indexing model would work much better.

Pat Bolland 12:56
Okay, so then what what's your sense of what a financial advisor? How should they approach robo advice?

Dale Roberts 13:05
Well, I think again, that's probably one of the growing trends, right is a lot of the shops are set up so that the financial planners and advisors can do it. They should be doing what they do best, which is the planning, and then send them on to the portfolio management at a robo advisor. So I understand them that is the greater growth at a few of them. And so I think, really, I mean, and I think it's no surprise that the hybrid model will be the future, which is, you know, a lot of human advice for those who have greater assets and actually need it, but a digital solution for the portfolio management. And obviously, to make changes by how much money you have, and, you know, difficulty and complexities of your, your life and investment situation. You know, a lot of people know, those who have a lot of money in their rich families and such will continue to go to the family shops and those, you know, beneath that have a lot of assets. We're complicated, well, we'll need a full-time full-service advisor. But I also think on the digital side to the digital advice will continue to grow. I understand there's some products that are about to be released, probably in 2021 where the we have digital sort of investment advice now right digital investment planning is next, meaning that they can start to do more of that planning, and take it right through from beginning to end.

Pat Bolland 14:28
So you're talking about artificial intelligence being applied then somehow?

Dale Roberts 14:33
Or another still be on algorithms if you will. And getting the input from fromthe client as well on those questionnaires. And such. Again, I don't, haven't, seen it so I don't know the model but all we know is, you know, when you punch in those numbers of, you know, on the financial planning side, like how much do you have an RSP and which have been tax free. How much do you have non registered Do you have insurance? Some estate planning? those can all be done by by punching in the inputs and running the models, if you will, to see again, what is the greatest tax efficient accumulation stage? And what is the best retirement-funding scheme for things like even, you know, delaying your CPP or old age security, just to get the most long-lasting and durable form of retirement income, those do exist already. And just don't i don't think they're running in a complete front end to back end to model, if you will. But I understand that you're getting very close on the digital financial planning.

Pat Bolland 15:39

It's interesting, the tax component, for instance, is almost better when embedded in ETS - so robos are taking advantage of that. Are some of them are doing that? It does beg the question are all robos the same? Or where would you look for differences?

Dale Roberts 15:56
Yeah, absolutely. No, actually, you know, I penned articles on my blog with that exact title, you know, the fact that you know, robos are not the same. And, you know, at the core, they are low fee, you know, ETF-based portfolios, but again, yeah, you're right, there's some that are just concentrated in the low fee offering. There's two of them, that would be, which would be again, Nest Wealth and the Quest Wealth offerings, which are low fee - those two battle it out. As who will be the cheapest, typically around both 2.4 or 5%. And then the Nest Wealth, again, is just a subscription based model, right? So I mean, it's very, very, very cheap. But not necessarily a lot of other add on options, if you will, right. I believe that either. And there's no, there's no financial planning option to speak with somebody. Now, the other end really would be the Justwealth, which I feel is a the most sophisticated, if you will. But most ETFs most portfolio construction. You get a designated Portfolio Manager, you know, even on the IRA, or RESP, which has to have those target date funds, there's a lot of other stuff that that's not available at the others. And you know, a lot a lot of folks in the middle as well, if you will, and you know, in some use will use some active ETFs. And some will use active asset allocation as well, right. So it will be very passive, just by the market, rebalance on schedule, you know, between Okay, and stocks, US stocks, etc. But some of them will make calls, you know, let's say I'm really going to overweight us or, or I'm gonna really underweight Canada, so they make those asset allocation calls, if you will. And that really is a, I guess, what we call active asset allocation. So they are different. And again, I'd say that's what I do in my site. Again, I don't give an advice, if you will. But I try and play air traffic control. So somebody comes in and goes, Hey, I really like Robo idea. You know, what do you think, what, where should I go? And you know, I won't send Hey, you really should go here? Don't say, Hey, no, because of where you are, you might consider you know, just wealth and this one here. Or if you just want the lowest fee models, well, here they are, right? Take Take these two or three, maybe a contact them have a chat, email with them, you know, make your own decision, but I can help guide them to what might be the most appropriate and then see if they like Jackie need a robot? Or maybe do you need real advice, right, like real financial planning. And by that, I'll say like, you know, you might use an advice only or fee for service planner, you know, get that money plan that life plan. And then and often again, those folks will send them to a robot as well, right. But even when they go there, they might come back and say, Well, what do you think, you know, I've got a plan. You know, where should I go? That said, when they go to those fee for service planners, that part of their function really is is hooked up with love to write and they go, here's a good place to go. And I can keep an eye on your investments as

Pat Bolland 18:58
well. You know, it's interesting. ETFs are now finally, both in the United States and Canada, outgrowing mutual funds. I want you to pull out your crystal ball. Do you think that robos will do the same from traditional advice, or traditional money management and investment?

Dale Roberts 19:18
I think eventually, but I think by the time it doesn't, maybe they're not even called robo advice. It's just like, everything just seems to be evolving. Like now, you know, we have we hear about direct indexing, which people think will take over ETFs which, as you may know, that's really where you have again, that functionality where you punch in what you want out of the portfolio, and it will skim from an existing index, and you know, maybe you know, increase the yield or add more value or create more tax efficiency. So we see that coming, I could see something that advisors would really be able to use And planners as well, because then they can, they can dial in with the law. You know, investors could use it as well. But I really see that more on the planning side. So I think it will all evolve. And I think the traditional robo stands really good chance to grow. I don't I, you know, I've been waiting for that eureka moment where that tipping point, and it's not coming. So maybe it isn't, maybe it's just gonna be really good growth. And maybe some sports, I think, anyway, I'd like Canadians to just do what I did when I was at tangerine. If you're with a robo now just compare, right? Look at the returns you have with your Robo compared to what you're getting on the other side. And typically, again, from my experience, it was about a 95, or even much higher win rate for the low fee models. So I think that's an option two more that are in it. Now that ball snowball rolling even more, because they're going to start comparing. That's just natural human nature. So I think they again, that's the, you know, that's the big pot of money that you were talking about, it's still in mutual funds, right? Their people are not. So that's where the money is, we know that, you know, more money's now is going into ETFs. I think it's the third year in a row, that ETFs outsold mutual funds, but the big pot is still sitting in in the mutual funds. So if that doesn't happen, unless there's a transfer form, and that money comes over, right? Yeah. I've talked to a couple of the rebel friends and stuff and said, No, you don't want to sell but you really should be contacting your clients. It's just, it's good for business, it's good for the clients, and just contact them and say, hey, let's do now a lot of them will have on their site, like you want a comparison of your you know, other assets, but they don't push it. But I think it's such an easy, easy way to help the client and help your businesses. Let's compare to, to where you are right now. And the truth. We'll we'll bring him in.

Pat Bolland 22:00
Yeah, then maybe the message is just shop around. Dale, I want to go back to the very beginning because you started in marketing and, and so on, maybe the problem is the name, maybe robos is the wrong name. So put on your marketing hat. What would you actually call the industry?

Dale Roberts 22:18
Yeah, again, that's, I've thought about that quite a bit, of course, right. So even like, if I if I do a little bit for, especially for just wealth to say like, you know, think of it as a little boutique investment shop, right? Like you get your own investment advisor or planner. And, you know, and I'm not sure if it's still the case, but even you know, the Chief Investment Officer, James, like that, he handles clients' money, and I believe you see like that in Scotiabank. Right. So what kind of robo is at RBC? Yeah, like what boutique? Can you go in and get a head of investments from a former bank, and he's gonna manage your stuff for you. Right? Like, so it's

not very robo, it's, it's more boutique ish. But again, that's why. And I did contact, you know, many or probably all the roles and said, if you really need to do an association, so you can have a, you know, collective communication. And at that point, you would figure out the branding. Right? And the opportunity is massive. And I said, like, I would be more than happy to help on that front, right, being a former ad guy. And you know, from there, you know, you can find the right advertising firm that knows how to do it properly and responsibly. And I think it … Yeah, if it was rebranded that is a massive, massive opportunity.

Pat Bolland 23:41
Hopefully, they're listening to this podcast. Great to chat. Thanks for your time.

Dale Roberts 23:47
Okay, thanks so much. Thanks for having me.