

INVESTMENT 101: ROBO-ADVISOR

JUNAIDAH HANIM AHMAD

✉ jun372@uitm.edu.my

Are you interested to invest, but do not have the confidence or time to do so? Or do you want to diversify your investment, but do not have enough capital to do so? Fret not, robo-advisors may be able to help.

What is a robo-advisor?

By definition, a robo-advisor is a digital investment platform that automates investment portfolio using artificial intelligence (AI) algorithms. The platform will suggest an investment portfolio based on the investor's risk tolerance level and investing goal(s). These robo-advisors have a set of pre-defined portfolios with different risks and returns, each catering to different levels of risk tolerance. Typically, a robo-advisor uses the investors' money to invest in exchange-traded funds (ETFs), which are groups of stocks, bonds or other types of investments. So basically, investments using robo-advisors are managed by AI; replacing human unit trust agents and managers.



Why use robo-advisor?

Robo-advisors are suitable for beginners who may not have experience in investing, or those who do not like to seek advice from, or may have trust issues with agents. Robo-advisors also offers more convenience as the whole process from registering, investing, monitoring, and withdrawing the investment can be conducted anywhere at any time using just a smartphone. You do not have to leave your home, meet anyone, talk to anyone or reveal your investment plan to anyone.

In terms of cost, robo-advisors normally charge lower fees and only require a small amount of capital to start with. And since they are managed by AI, not humans; there will be less human bias or conflict of interest in choosing which portfolio to invest in.

How does robo-advisor work?

Very simple. In general, to get started you just need to download the apps, and register for an account. The robo-advisor will ask several questions to determine your risk tolerance level (whether you are willing to accept high level of risk or you are a risk averse person), and your investment goals (what you want to achieve and when you plan to achieve it). It will then suggest investments which are suitable for you. This is because different type of investment has its own level of risk (and return). However, you still have the ultimate say in choosing your preferred type of investment. Once you have chosen what you want to invest in, you can start investing by transferring money online. You can also monitor your investment whenever you want to do so, add more money, or withdraw your investment.

The return will of course depend on the type of investment or portfolio chosen. Aggressive portfolios have higher expected return but comes with higher risk. On the other hand, conservative portfolios have lower risk and lower expected return.

Licensed robo-advisors in Malaysia

While robo-advisors have been in existence since 2008, the first robo-advisor launched in Malaysia is Singapore-based StashAway in 2018. Next, MyTHEO and Wahed Invest entered the market in 2019. Currently, there are also locally established robo-advisors such as Akru, Bank Islam Malaysia's BEST Invest, Kenanga Investment Bank's KDI Invest, and Raiz. However, only two are shariah-compliant – Wahed Invest and BEST Invest. The following is simple comparison between the platforms:

Platform	Year launched	Minimum capital	Annual fees	Shariah compliant
Akru	2020	RM1	0.2% to 0.7%	No
BEST Invest	2020	RM10	0.5% - 1.8%	Yes
KDI Invest	2022	RM1	0.3%-0.7% for investments > RM3,000; 0% for RM3,000 and below	No
MyTHEO	2019	RM100	0.5% - 1%	No
Raiz	2020	RM5	RM1.5 a month for investments < RM6,000; 0.3% for RM6,000 and above	No
StashAway	2018	RM1	0.2% - 0.8%	No
Wahed Invest	2019	RM100	0.39% - 0.79%	Yes

So, is robo-advisor for you?

It depends. From my personal point of view, robo-advisors provide the convenience to invest, and require very small capital to start off. You do not have to go through the hassle of opening a different bank or CDS account to invest, and you can just use some spare money to get started. I mean, where else can we start investing and have a diversified portfolio with only RM10 or RM100 for example?

However, if you prefer a human touch to guide you through your investment journey, then maybe robo-advisors are not for you. This is because you will have to constantly and continuously learn, monitor, and make investment decisions on your own. On the other hand, if you are already an experienced investor and prefer the more sophisticated method of analysing and making decisions about your investments, you may find robo-advisors to be a bit mundane. But then again, if you have that extra money, a little diversification does no harm, right? Just put some money there and let the AI does its job.

Is robo-advisor risky?

As with any type of investment, investing using robo-advisors still has risk. Also, robo-advisors are just platforms to facilitate you to invest. If you want to invest, you need to at least understand the basics of investment such as risk, return, portfolio, diversification, as well as debt and equity instruments. So yes, you need to pay attention to your Corporate Finance and Financial Market classes. Once you start investing, continue to learn and gather more information to help you make informed choices.

My disclaimer: This short write-up is not to entice you to invest using any of the platforms. It is only meant to share some insights on what is available. As I always mention in class, invest with money that you are willing to lose (so when you lose, you will not cry like there's no tomorrow), and always choose investments that are shariah-compliant and licenced (because having a blessed life and peace of mind is priceless). Lastly, think wisely and be realistic. When it comes to investing, things which seem too good to be true are most likely not true.