RICHARDSON Wealth | ALEXANDRA HORWOOD & PARTNERS

Our Insights

Across various industries, there's a palpable sense of panic that AI will render many jobs obsolete, and wealth management is no exception. The rise of robo-advisers — automated platforms that provide investment services with minimal human intervention — has only intensified these concerns.

As AI continues to evolve, it's crucial to understand how these technological advancements will reshape the landscape of financial advising and what it means for both clients and advisers. Will AI enhance the human touch in wealth management or will it render it redundant?

AI can help manage your money, but it can't do it all

Technology can limit the impact of behavioural biases, but human advisers better understand the nuances of investing

ALEXANDRA HORWOOD
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Using AI in wealth management

Whether it was the infamous Google Gemini photo controversy or reports of Chat GPT "hallucinating," we see time and time again that AI is hardly a perfect tool. That said, AI can serve as an intern-level assistant to take the first pass at simple tasks such as summarizing meetings, data entry and initial idea generation.

Tools like Microsoft Corp.'s Copilot can simplify more complex tasks in Excel and save time on menial tasks such as checking the accuracy of formulas, thereby bringing convenience for advisers who can use the saved time to tackle nuanced topics about wealth management, like strategies to lower tax bills and leaving a legacy through a comprehensive estate plan.

AI and other preprogrammed systems can also be particularly useful in limiting the impact of common behavioural biases while continuously optimizing investment portfolios. These automated systems are structured to rebalance portfolios at certain thresholds and minimize the impacts of emotionally fuelled decision-making.

For example, someone with significant gains in equities may want to continue riding the trend, while history may dictate that market highs are often a good time to take profits since valuations tend to regress to the mean.

Unlike humans, who have their fair share of psychological biases, AI and other automated tools can be designed to strictly follow a predetermined plan, providing a disciplined foundation for portfolio rebalancing.

Despite the convenience of AI tools, it's always important to remember these models rely on inputs to learn and create outputs. The issue is that no one should want AI to "learn" or, to put it another way, make mistakes on their dime. Investors are not looking to jeopardize their hard-fought savings to train an AI model on portfolio allocation so that it can be useful in the future.

Given how new AI tools are, most will require significantly more training to be optimal. Erroneous outputs are not uncommon, and human oversight is crucial to ensure accuracy, especially for something as important as your finances, where a small change in one variable can make a meaningful difference to your long-term financial well-being.

The human touch

How someone reacts during crises is often the determining factor in their long-term success in any endeavour. Meeting your financial goals and growing your investment portfolio is no exception. However, the stakes are higher than ever when your hard-earned money and future comfortable retirement are on the line.

Anyone who has experienced a market crash can attest to how gut-wrenching volatility can create emotionally charged conditions where it can be difficult to make the right decisions.

In times of crises, when many investors feel the visceral downturn in their portfolios and negative headlines permeate the news, what matters to them is not another research report on the folly of selling during a steep market correction. During these moments, the ramification of each decision is amplified compared to normal market conditions, making every decision more critical.

Research, insights and tools such as AI can provide cold, calculated solutions, but many people need the warm touch of an adviser who understands their concerns to counsel them in making the best decisions to achieve their long-term goals.

AI is making significant strides in reading and conveying human thoughts and patterns, but it cannot replace human connections. An AI tool may summarize a meeting by noting the words said at a surface level, but an experienced adviser can pick up on body language cues, tone of voice, the dynamics of interpersonal relationships and less obvious signs to truly understand values and motivations, and to explore deeper when necessary.

In a world of information abundance, most clients look for services beyond investment reports or educational articles. They find value in personalized, high-touch services such as an annual progress review catered to their specific circumstances, needs and aspirations. Even small things like forwarding insights from a book relevant to a recent conversation can provide a valuable personal touch and guidance in a client's daily life.

All these services require a deep understanding of many aspects of a client's life from both a quantitative and qualitative perspective that goes beyond the capabilities of AI to deliver effectively.

As companies continue to invest billions into AI solutions, their accuracy and ability to handle more complex tasks will undoubtedly improve, thereby enhancing productivity and freeing time for more important tasks.

Ultimately, the real value lies at the intersection between humans and AI, leveraging the raw computing power of technology with the human touch of advisers. Advisers who make the best of both worlds will stand out from mass-market AI solutions by efficiently providing the high-touch services many families seek today.

Alexandra Horwood is a portfolio manager and investment adviser at Richardson Wealth.