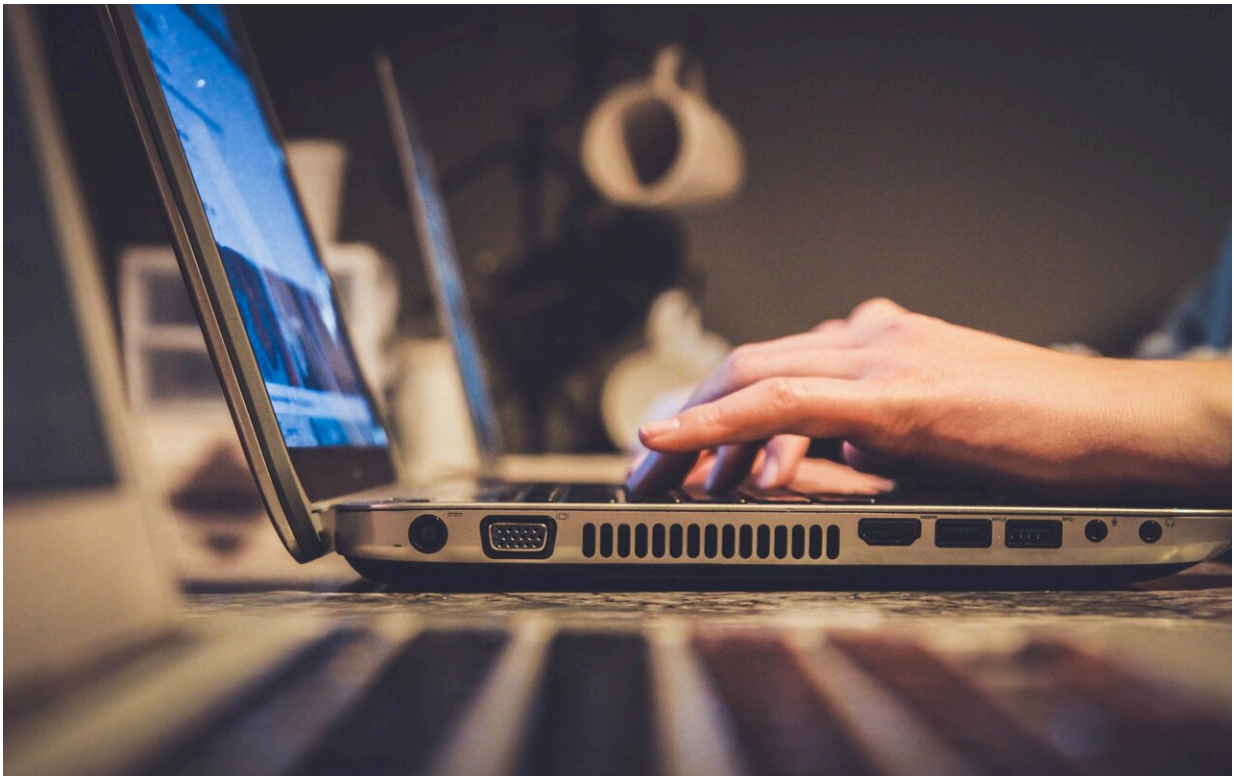


Finance expert explains why people are turning to AI for investment advice

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With ChatGPT and other artificial intelligence systems making waves, some people are turning to AI for financial planning, according to one West Virginia University researcher.

The AI-powered financial planning service "robo-advising," or automated investing, is relatively new but rapidly expanding, and many large U.S. investment firms now offer robo-advising accounts.

Pawan Jain, assistant professor of finance at the WVU John Chambers College of Business and Economics, is an expert on technology-forward financial tools such as blockchain and high-frequency trading and co-author of a demographic analysis of a robo-advising firm's customer base that appeared in the *Financial Review*.

Jain explains what robo-advising is, how it works, who's likely to use it and some potential benefits and risks of automated investing.

"In robo-advising, algorithms monitor portfolios and evaluate clients' financial conditions, risk tolerances and objectives to provide investment recommendations with little to no human help, typically via a diversified mix of low-cost, exchange-traded funds or index funds," he explains.

"Robo-advising could disrupt traditional wealth management by enabling investment of smaller sums at lower costs. From a user perspective, robo-advising typically involves creating an account on the robo-adviser's website or phone app, answering a series of questions about your investment goals and risk tolerance, and linking the bank account to fund the investment account. Then the robo-adviser or AI analyzes the information collected from the client—risk tolerance, investment goals, time horizon—and creates a personalized investment portfolio for the client. Robo-advisers share information in real-time and can be accessed online 24/7.

"The portfolio is typically composed of a diversified mix of low-cost ETFs or index funds that align with the investor's goals and risk tolerance. Clients can view their portfolios, track investments and make account changes such as adding or withdrawing funds through a web-

based or mobile platform. The robo-adviser's algorithm monitors the portfolio and adjusts as needed to keep the portfolio aligned with the investor's goals, usually through rebalancing. Some robo-advisers offer additional services such as personalized financial planning and tax optimization.

"The minimum dollar amount required to start an investment account that comes with personalized financial advice from an AI is much smaller than the investment that's required to get tailored financial planning support from a human, so robo-advising lowers the economic barrier to guided participation in the stock market. Robo-advising enables people who could not afford traditional investment services to start saving and investing based on advice and portfolio management that is automated, but tailored to individual situations, preferences and goals.

"Robo-advising has the potential to fuel economic growth on a macro scale by engaging new lower-income demographics in—first of all—saving for retirement, and secondly, doing so through investments in stocks, bonds and other assets."

In conclusion, says Jain, "One downside is that robo-advising [portfolios](#) generate significantly lower returns as compared to the market index, so a portfolio managed by AI is unlikely to perform as well as one managed by a professional human adviser. And robo-advising is not for everyone—someone who prefers personal interaction and emotional support should choose a human adviser to guide them through the investment process. Finally, as with any centralized technology company, there is always a cybersecurity risk."

More information: Vishaal Baulkaran et al, Who uses robo-advising and how?, *Financial Review* (2022). [DOI: 10.1111/fire.12324](https://doi.org/10.1111/fire.12324)

Provided by West Virginia University

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