

Summary of “The Rise of Automated Investment Advice: Can Robo-Advisors Rescue the Retail Market?” by Benjamin P. Edwards

Benjamin P. Edwards’ article *The Rise of Automated Investment Advice: Can Robo-Advisors Rescue the Retail Market?* is a short review of the changing landscape of automated investment tools being used in directing retirement accounts.<sup>1</sup> The article begins with an introduction to a company called Honest Dollar, which changed the typical formula that investment firms had been using up to that point.<sup>2</sup> Honest Dollar used automated investment advice to keep their costs low, in an effort to make investment advice affordable to smaller employers.<sup>3</sup> Bigger firms at the time required employers to have tens of millions of dollars in assets before even offering a plan, whereas Honest Dollar gave retirement plans for eight dollars a month per employee.<sup>4</sup> Within a year, Goldman Sachs saw the potential and acquired the company for an undisclosed amount.<sup>5</sup>

Edwards uses Honest Dollar as an introduction to the ways in which the market is changing and to show how important automated advisors are going to be moving into the future. This is in large part due to the looming retirement crisis.<sup>6</sup> With the current rarity of defined benefit plans and the downhill trajectory of social security, Americans are now often left to save for their own retirement, most of whom do not have nearly enough put away.<sup>7</sup> Affordable investment tools may be able to help many Americans, but the main questions Edwards looks to tackle are the benefits and consequences of widespread adoption of these automated advisors. The first problem in which automated advising might provide some beginnings of a solution is conflicted advising and overcharging which are common in today’s firms.<sup>8</sup> Edwards quotes Paul Smith, the President and CEO of the CFA Institute as saying, “[e]veryone knows we overcharge for what we do. It’s obvious.”<sup>9</sup> The growth of automated advisors should drive prices down; however, they may still face the issue of conflicts of interest.<sup>10</sup> Investment advisors both now and in the future will always be trying to find a balance between maximizing client profits and maximizing their own profits. If an automated advisor is programmed to make high-cost investments to maximize fees, that is no different than the bad faith investment advisor that we could find today.<sup>11</sup>

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<sup>1</sup> Benjamin P. Edwards, *The Rise of Automated Investment Advice: Can Robo-Advisors Rescue the Retail Market?*, 93 CHI.-KENT L. REV. 97 (2018).

<sup>2</sup> *Id.* at 97.

<sup>3</sup> *Id.* at 98.

<sup>4</sup> *Id.*

<sup>5</sup> *Id.*

<sup>6</sup> *Id.* at 100.

<sup>7</sup> *Id.* at 101.

<sup>8</sup> *Id.* at 102.

<sup>9</sup> Ben Steverman, Why You Still Can’t Trust Your Financial Adviser, BLOOMBERG (June 7, 2017, 2:00 AM), <https://www.bloomberg.com/news/features/2017-06-07/fiduciary-rule-fight-brewswhile-bad-financial-advisers-multiply> [<https://perma.cc/Q3JT-JL25>] (quoting Paul Smith).

<sup>10</sup> Edwards, *supra* note 1, at 106.

<sup>11</sup> *Id.* at 110.

The final problem Edwards addresses is the potential oversight that automated investment advice firms may face from regulators and the judiciary. With this technology still being relatively new, and with the rise of artificial intelligence in recent years, automated investing may be at risk of heightened scrutiny from lawmakers and judges who might not fully understand it.<sup>12</sup> Edwards ends his article by calling for regulators to continue to expand their expertise and capabilities to ensure that the largest amount of people can be benefitted with the least amount of burden on the market.<sup>13</sup>

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<sup>12</sup> *Id.* at 111.

<sup>13</sup> *Id.*