

Older investors turn to the web to manage assets

More investors over 50 are firing their advisers and managing their own finances through online platforms

By **Joyce Hanson**

May 25, 2014 @ 12:01 am (Updated 10:26 am) EST



Lois Mayerson: Decided to study investing after her advisers lost money. *Beth Schneider*

Young people are self-directed investors who use online technology to get financial advice. People over 50 are tech-illiterate old-timers who require face-to-face meetings with human advisers.

Or so the myth goes. The reality is more complicated.

Lois Mayerson, a 76-year-old investor in Denver, fired her traditional advisers about 20 years ago when she and her husband, Peter, now an 81-year-old retired physician, decided they should manage their own finances. A former speech pathologist who left the workforce to raise her children, she started reading *The Wall Street Journal*, spent long hours on financial study and opened a brokerage account at **Charles Schwab & Co.**

“The reason I got into this was that we had some lovely, charming, delightful financial advisers who were losing money faster than we could put it into our accounts,” Ms. Mayerson said.

Though she wouldn't disclose the amount of investible assets she and her husband have, she did say their net worth resides in a variety of asset classes. The couple's portfolio includes real estate, stocks (she hates bonds) and “little pieces of oil wells that have come down from family.”

The Mayersons are a typical adviser's dream client. But they have become do-it-yourself online investors, and they're not alone.

Indeed, far from being statistical outliers, self-directed investors over 50 are starting to look like the norm.

Nearly half of investors in their 50s (49%) describe themselves as self-directed, meaning their primary advice provider is either a so-called robo-adviser or a discount brokerage, according to a first-quarter report from research firm Cerulli Associates Inc. In fact, about 40% of investors over 60 describe themselves as self-directed.

WHY THE WEB?

Why are these people investing online? It's a combination of expenses, post-2008 trust issues and convenience — regardless of age, said Scott B. Smith, a Cerulli director and one of the report's authors.

“It varies by the individual person,” Mr. Smith said. “I'm in the middle of this myself. I'm 41 and can't imagine taking three hours out of my day every quarter to meet with an adviser. The in-person meeting is more of an onus than a bonus.”

Using computers is second nature to Joseph Giuliano, 58, a customer with online financial adviser Betterment, who describes himself as “nerdy.” Mr. Giuliano, now retired, worked for Byers Engineering Co. from 1986 to 2010.

His interest in finance blossomed when he bought his first stock at 12, he said. Having read thought leaders John “Jack” Bogle and Craig L. Israelsen on the topics of index investing and building a portfolio with exchange-traded funds, Mr. Giuliano became interested in passive investing years ago.

In 2007, he joined the Southeast Florida chapter of the American Association of Individual Investors and got even more engaged in personal finance when he volunteered to serve as its program manager. That's when he invited Betterment founder and chief executive Jon Stein to speak to the chapter.

“I was intrigued to see that in Betterment accounts greater than \$100,000, the fee schedule was 15 basis points,” Mr. Giuliano said. “I thought Betterment sounded like a good thing and started investing.”

Betterment doesn't have a minimum investment requirement for its diversified index fund portfolio, which is invested in up to 12 global asset classes, each represented by an ETF, according to the company's website. It charges a management fee of 0.15% to 0.35%, depending on an account's balance.

Mr. Giuliano and his wife hold about \$500,000 of their assets in their Betterment account. They have other investments in mutual funds, stocks and a hedge fund but are trying to get all their securities except a cash basket into Betterment's ETF portfolio pools.

As far as Mr. Giuliano is concerned, the only reason anybody should ever see an adviser is to make big-picture plans involving insurance, taxes, estate planning and college costs.

He points to behavioral finance studies showing that — the Warren Buffetts of the world aside — investors simply can't beat the market, because they are ruled by emotion.

“The average financial adviser can be equated to your average mutual fund manager in terms of savvy, and the average mutual fund manager doesn't even come close to beating the average returns,” Mr. Giuliano said. “So why would a financial planner do a better job than a mutual fund manager, who's a professional money manager?”

IMPACT ON ADVISERS

Advisers may disagree about their role or the potential for active management to outperform passive in a less favorable market environment. But the point is that Mr. Giuliano's outlook mirrors that of many people in his wealth and age demographic — one that advisers covet. The impact of online advice and investing options on traditional advisers is only beginning to unfold.

Customers over 50 account for about 20% of Betterment's \$550 million in assets, according to company spokesman Joe Ziemer.

Simon Roy, president of online investment adviser Jemstep Inc., which imports investors' retirement account data and sells automated asset allocation advice for as low as \$18 per month, said 33% of the firm's registered clients are 50 to 67.

They have a higher propensity to subscribe and pay for the full portfolio management service than those under 50, Mr. Roy said. The largest customers have more than \$15 million in assets linked on the Jemstep service, but the average portfolio is about \$300,000, he added.

Mr. Roy stressed that Jemstep is not in direct competition with advisers or 401(k) plans, and is in fact setting up partnerships with investment advisers. But at least one of Jemstep's high-net-worth customers has terminated his relationship with his traditional 1% fee adviser.

LOW FEES

Cleveland O'Neal III, founder, president and chief executive of Connection III Entertainment Corp. in Los Angeles, said Jemstep's annual flat fees are less than 0.5%. Plus, he said, its algorithm engine lets him analyze and invest in multiple ETFs and mutual funds.

As is the case with many self-directed investors, 2008 was when everything changed for Mr. O'Neal. On Thursday, Sept. 11, of that year, he phoned his adviser and said he wanted all his assets moved to cash. His adviser ignored the request, and on Monday, Lehman Brothers Holdings Inc. collapsed.

“I had a 40% loss, so I fired my adviser. They didn't follow my directive,” Mr. O'Neal said. “I'm the client. Move it to cash. Period. These clowns had put me in this ridiculous situation of being 40% under.”

Now in his 50s, Mr. O'Neal has a 16-month-old daughter and owns a busy Hollywood production firm, yet he would rather manage his own finances than leave it to an adviser.

He uses Jemstep along with other online resources, including TD Ameritrade Inc.'s Investools education program for individual investors.

“I’m a fan of modern portfolio theory. I don’t have time to be an active investor,” he said. “I believe that [Nobel Prize-winning, efficient-market economists] Eugene Fama and Robert Shiller are right. I can just load up on funds and go to sleep. Jemstep re-balances it for you.”

As the number of online advisers proliferates and tech-savvy investors accumulate more assets, more consumers are likely to explore robo-advisers.

Ms. Mayerson, for example, recently opened an account with online brokerage Motif Investing Inc. after watching an MSNBC program that featured the tech startup’s chief executive and co-founder, Hardeep Walia.

Motif’s platform lets her create, share, buy and sell baskets of stocks or exchange-traded funds, called “motifs,” many of which revolve around a theme. Ten percent of her portfolio is now composed of motifs.

“The people over there at Motif are so lovely,” Ms. Mayerson said. “I haven’t met them personally, but I’ve talked to them over the phone, and they’re just terrific. It’s very reassuring to have such fantastic customer service. I hope they go public soon, because I’d like to put them in my motif.”