

# AUTOMATING INVESTING FOR A BETTER FUTURE

Would you trust artificial intelligence to invest your hard-earned cash for you?



**R**obo-advisors are fast gaining popularity in Malaysia, and while the concept of digital wealth management platforms have been around since 2008, it has taken much longer for such services to reach our shores.

StashAway was the first robo-advisor to enter Malaysia in 2018, a year after it first launched in Singapore. Today, there are seven robo-advisors or digital investment managers (DIM) recognised by the Securities Commission Malaysia, suggesting that the industry is beginning to mature and grow exponentially. So what fuelled this sudden growth and how does it bode for the future of retail investors?

By Caleb Khew

## A TIME-SAVING OPTION FOR INVESTORS

Contrary to a lot of investment products which tend to champion the rate of return, one of the main selling points of robo-advisors is the time that can be saved by using their services. The typical image of a full-time investor can often be one of multiple screens set up in a room, with hours spent analysing graphs and charts. In short, it is essentially a full-time job, especially for the most successful investors.

“To build a case for investing, an individual would need time to learn the in’s and out’s of investing, which can be overwhelming for certain individuals,” says Wong Wai Ken, country manager, Malaysia of StashAway.

“Robo-advisors offer individuals an alternative to this, as they are able to offer guidance to picking the right portfolio whilst charging much lower fees compared to traditional unit trusts. It is also a convenient manner to invest, as it gives investors a platform to get exposure to global markets.”

With such convenience at investors’ fingertips, it appeals greatly to individuals that are keen to save time and have disposable income that they can invest, a notion that is backed by the demographics.

“Our main demographic are white collar professionals in the financial services, tech, consulting, and oil and gas sectors,” shares Wong.



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“One of StashAway’s Economic Regime-based Asset Allocation’s (ERAA) key features is to maintain each customer’s risk profile constant throughout any economic condition through systematic re-allocation of assets when the economy or markets change substantially,” he explains.

“This process is what we call “re-optimisation” whereby ERAA proactively determines a new asset allocation target for any given portfolio.”

### EMOTION-FREE INVESTING

One of the key tenets of robo-advisors is that it is not swayed by emotion, unlike humans who are often influenced by market movements in either direction. Regardless of market sentiment, the AI simply executes buy and sell orders as determined by its risk algorithms, which can provide peace of mind for more passive investors.

This quality was on full display during the first movement control order in Malaysia in March 2020, when global markets fell significantly. However, robo-advisors were not caught up in the panic and simply continued operating as usual, and for investors that either decided to deposit more into their accounts or simply not take action, the market rebounded

“64% of our customers are the main financial decision-makers of their household, while 43% are male and 57% are female. The range of our demographic varies however, as StashAway is built for those focused on building long-term wealth.”

And while a time-saving investment product may be thought of as appealing to the younger generation who are more tech savvy, it seems that seasoned working professionals are also coming round to the idea of alternative investments and are willing to explore. The time they save by leaving investing to algorithms can then be utilised elsewhere, be it into their careers, families or personal goals.

### HOW DOES THE AI WORK?

“StashAway’s investment strategy, ERAA (Economic Regime-based Asset Allocation) looks at the rate of change between growth and inflation to determine an economic regime. This method of investing is best described as a systematic investing style where we make investment decisions based on economic data,” says Wong.

There are different asset allocations based on four types of economic regimes – inflation, recession, good times and stagflation. The ERAA is adjusted according based on economic data and it also monitors valuation gaps and abnormal market movements in order to weed out and eliminate human bias. StashAway will then invest in ETFs across various asset classes and geographical regions based on these recommended strategies.

However, although company does heavily rely on artificial intelligence when constructing portfolios, it also has a human investment advisory team that constantly monitors market events to highlight abnormal patterns or black swan events.

“Should it be needed, the advisory team may intervene if exceptional market-changing behaviour is seen,” explains Wong.

Ultimately, ERAA aims to maximise customers’ long-term returns whilst maintaining volatility and risk at each individual customer’s specific risk appetite that has been set. ERAA is built to always take a long-term approach optimising for long-term wealth building rather than short-term market movements and corrections.

sharply in six weeks and even continued to rise throughout the year.

While everything makes perfect sense in hindsight, it is hard not to see the benefit of having an emotionless algorithm making investment decisions during turbulent market periods such as the Covid-19 pandemic.

In fact, while the virus decimated countless industries and economies worldwide, robo-advisors were beneficiaries of a new wave of retail investors looking to invest for the first time. According to Wong, the pandemic “accelerated digital adoption amongst consumers and businesses significantly” in 2020, with the adoption of robo-wealth management platforms also seeing a spike in users.

However, it is not just the newbies that are turning to such platforms.

“We actually saw an uptick of more experienced investors try StashAway during the pandemic,” recalls Wong.

He highlights that a study conducted by StashAway found that in Malaysia, 4% more of investors are saving more than half of their income, while 21% of investors are investing 30-50% of their savings since the pandemic began.

“The bear market in March and April really drew in investors who were waiting for a once-in-a-decade opportunity to deploy capital. Because we give investors exposure to global markets across multiple asset classes, we saw large deposits during this time,” he adds.

### GROWTH POTENTIAL OF ROBO-ADVISORS?

According to a 2020 survey conducted by analytics firm Hearts & Wallets, less than one in 10 households in the US currently use robo-advisors. This highlights that there is still plenty of room for robo-wealth management platforms to grow, not just in Malaysia, but around the world.

Although similar country-specific



### LIST OF APPROVED DIGITAL INVESTMENT MANAGERS (DIM) IN MALAYSIA

1. Akru Now Sdn. Bhd.
2. BH Global Fintech Solutions Sdn. Bhd.
3. GAX MD Sdn. Bhd. (MyTHEO)
4. Raiz Malaysia SdnBhd
5. StashAway Malaysia Sdn. Bhd.
6. UOB Asset Management (Malaysia) Berhad
7. Wahed Technologies Sdn. Bhd.

Source: Securities Commission Malaysia

**“Robo-advisors are able to offer guidance to picking the right portfolio whilst charging much lower fees.”**



Wong Wai Ken

statistics are not available for Malaysia, it is not farfetched to imagine that the take-up rate for robo-advisors is similar to global statistics. There are still plenty of people falling victim to scams and pyramid schemes so to draw a bridge between the prevalence of the lack of financial education and the more sophisticated investment products is not unrealistic.

However, the tide may be shifting. The spike in StashAway users touched upon earlier in this article is corroborated by the Securities Commission Malaysia (SC), revealing in a press conference earlier this year that robo-advisors saw an increase of over 700% in terms of new account openings.

In addition, cryptocurrency exchanges saw a 1,000% increase in new accounts, while equity crowdfunding (ECF) and peer-to-peer (P2P) financing seeing an increase of 43% in terms of the total amount of funds raised via these mediums.

This suggests that the general public is beginning to warm to the idea of alternative investments and non-conventional products, including the likes of automated AI-powered investing. In fact, the 2020 SC Annual Report highlighted that digital investment platforms in Malaysia acquired a collective total of RM466.2 mil in total assets under management (AUM) and DIM have acquired 199,224 clients by end of December, offering solid proof of a fast-growing market (2019: 23,803 clients and RM74.4 mil in total AUM).

With both novice and experienced investors increasingly putting their trust in robo-advisors, there is no better time for such platforms to push aggressively in a bid to increase their user base. And with the benefits that emotion-free investing brings, perhaps a better future lies ahead for everyone involved. **\$**