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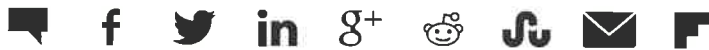
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CRUNCH NETWORK

Policy rollbacks can't counteract technology advances in retirement investing

Posted 19 hours ago by [Burton Malkiel](#)



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Technology is fundamentally altering the investment landscape, and it will continue to

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CRUNCH NETWORK CONTRIBUTOR

Burton Malkiel is the chief investment officer at Wealthfront and is most known for authoring the classic finance book, "[A Random Walk Down Wall Street](#)", which popularized the use of index funds.

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have a profound influence on the quality of service that individual investors receive. This change, coupled with a shift in consumer preferences from a younger generation, is crucial for evaluating the controversy currently surrounding the fiduciary rule.

In April 2016, the Department of Labor announced its final rule to amend the definition of "fiduciary" under the Employee Retirement Income Security Act. The rule imposes a broader fiduciary standard on those providing retirement advice to individual retirement account (IRA) holders, and also clarifies and adds to existing standards for advisers to 401(k) and other retirement plans.

In short: Anyone who receives compensation for providing retirement advice must put their clients' "best interest" first, as opposed to recommending products that are deemed to be broadly "suitable" but that compensate advisers more than competing low-fee investment funds.

While it might seem obvious that investors deserve advice that puts their interests first, the rule has engendered a storm of protest, from inception to more recent Trump administration threats to delay or scrap the implementation of the rule.

The guiding principle of the Labor Department's fiduciary rule is absolutely correct and long overdue. All too often investors in retirement plans pay higher fees than they should, and their accounts contain high-cost funds that reward the provider of advice rather than the client.

Critics of the rule argue the new fiduciary standard would force investors to move from commission-based accounts to costlier, fee-based advisory accounts. The result, they believe, is that investor choice and access to financial education regarding retirement accounts will be limited, and that small investors will be badly harmed.

Currently, a broker may recommend a high-expense mutual fund for a client investing in a 401(k) rollover or a new IRA. The broker is compensated by receiving a



commission for selling the fund and is only required to ensure that the fund is a "suitable" investment.

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Many fee-based advisers require minimum investments in the six figures, and they charge fees that would be prohibitively expensive for small and medium-size investors. Large brokerage and insurance firms argue that only a commission-based model can work for the average investor.

Missing in this controversy is that technology has already upended the current brokerage model and millennials, the largest generation in U.S. history, won't settle for anything less than a service that puts their interests ahead of company bottom lines.

Over the past few years, a number of digital investment advisers have been established, and they are growing rapidly. Firms such as Future Advisor, Betterment, Rebalance IRA and our own firm, Wealthfront, now provide low-cost, high-quality alternatives to antiquated investment models. Even large traditional incumbent firms, like [Charles Schwab](#) and Fidelity, are investing heavily in technology to provide high-quality, fiduciary service to more investors.

These automated investment services are able to provide sophisticated portfolio management to small investors at incredibly low cost by leveraging the same type of technology that has helped companies like [Facebook](#) and [Google](#) scale to billions of users.

Some automated advisers will even manage accounts of less than \$10,000 without charging any advisory fee. Accounts over \$10,000 might pay a management fee of only 25 basis points (one quarter of 1 percent), a fraction of the typical 1 percent that traditional investment managers charge.

Investments are made in portfolios of low-cost, exchange-traded index funds tailored to the needs and risk tolerance of the client. No trading commissions are charged, and conflicts of interest are avoided. Rock-bottom fees are especially important if we are in an era of future low-gross investment returns, which many investment managers believe.



The services offered by the new digital advisers are not second-rate. Clients receive daily monitoring and management rather than the quarterly or annual reviews

provided by many traditional advisers. Accounts can be automatically rebalanced and moved to somewhat safer asset-class allocations as the investor's financial situation evolves. Every trade is automatically vetted against the investment strategy promised to the client.

The securities industry is correct to worry that implementation of the fiduciary rule will result in massive changes to the traditional ways of doing business. Business models that depend on selling high-cost, low-value proprietary products to clients will be threatened, with the result that there may be fewer broker-dealers and investment advisers to choose from.

But the best firms will invest heavily in the technology to better address the change in consumer preferences. Investors will pay less, not more, for the services they receive, and what they get will be better, not worse. Capitalism has always involved a painful process of creative destruction. The financial services industry will be stronger and more effective because of innovation, and the fiduciary standard will accelerate the process of changing outmoded and ineffective financial business models.

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