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Technology is fundamentally altering the investment landscape, and it may have a profound influence on the quality of service that individual investors receive. This change also is relevant for evaluating the controversy currently roiling the securities industry.

After four years of study, the Labor Department announced in April a proposed amendment to the definition of "fiduciary" under the Employee Retirement Income Security Act. The rule would impose a strict fiduciary standard on those providing retirement advice to individual retirement account (IRA) holders, and also clarify and add 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 this might seem obvious that investors deserve advice that puts their interests first, the proposal has engendered a storm of protest.

The guiding principle of the Labor Department's proposal 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.

Still, the devil is in the details—and the Labor Department's 400-plus page proposal requires careful scrutiny. The government must be careful not to prevent institutions from giving investment advice as long as all conflicts and fees are revealed to clients. It also is important to consider if there are unintended consequences that could leave some investors less well off.

The U.S. Chamber of Commerce and SIFMA (the Securities Industry and Financial Markets Association), along with others, see significant problems with the Labor Department's proposal. They argue that the new fiduciary standard will force investors to move from commission-based accounts to custodial, 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. 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 how technology will upend the current brokerage model. The only question is whether technology also will be the bridge that allows the industry to adapt to new fiduciary rules and provide individual investors low-cost advice that does not pit the interests of advisers against clients.

Over the past few years a number of software-based, automated investment advisers have been established, and they are growing rapidly. Firms such as Future Advisor, 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 Vanguard, are investing heavily in technology to provide high-quality, fiduciary service to small 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%), a fraction of the typical 1% 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 can be avoided. If we are in an era of future low-gross investment returns, as many investment managers believe, rock-bottom fees are especially important.

The services offered by the new computer-based advisers are not second rate. Client accounts can 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 a strict fiduciary standard is likely to result in massive changes in 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 needs of small investors. 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 outdated and ineffective financial business models.

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