

Quantifying the investor's view on the value of human and robo-advice

In this paper, we quantify how much investors value financial advice and where they believe advisors add value. Using a survey of more than 1,500 investors who reported having a human advisor, a digital service, or both, we found the following:

- **Advice adds value across the board.** Regardless of the method of delivery, investors believe advice provides higher incremental portfolio value than going it alone. The perceived value-add to annual performance was 5% for human advice and 3% for digital-only advice.
- **The loyalty to human advisors is enduring.** While more than 90% of human-advised clients say they would not consider switching to digital, 88% of robo-advised clients would consider switching to a human advisor in the future.
- **Clients prefer emotional support from human advisors.** Investors using human advisors estimate being \$160,000 closer to achieving their financial goals. Three times as many investors report having strong peace of mind when working with a human advisor as compared to going it alone.
- **Digital advice also serves a role.** Investors prefer digital advice for certain portfolio-management services such as diversification and tax optimization.
- **The preference for advice delivery type is not dictated by client age or wealth.** Across the board, clients suggest that human advisors should consider automating their portfolio management services, leveraging technology to scale their business while strengthening their uniquely human value.

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Introduction

Frequent financial news headlines may lead people to believe that human advisors are under threat from technology. In the past decades, many fintech firms have entered the advice marketplace promising to disrupt human-advice practices. In the last two years, the impact of COVID-19 has further affected face-to-face models, and virtual interactions have gained traction in most business sectors. Given the increased use of technology, what are investors' preferences regarding advice, and how should advisors optimize their service delivery? In this paper, we study the trade-offs that investors perceive between human and digital (or robo-) delivery of advice in three steps.

First, we investigate whether technology is indeed a threat to financial advisors by examining loyalty to both digital and human advisors and the likelihood of switching services. The industry has primarily focused on how digital services could potentially replace human advisors. Less attention has been paid to the possibility that digital-advised clients could consider switching to human advisors. We study both possibilities in this paper.

Second, we measure the perceived value of digital and human advisors to investors. Many studies have measured the value of financial advice using various approaches.¹ Vanguard's paper *Quantifying Advisor's Alpha* (Kinniry et al., 2019) is a primary example of a normative approach. Our paper differs from previous work as it captures investors' perception of the value of financial advice delivered by human and digital services. The subjective nature of some components of value make perception an important and understudied metric to be accounted for in the broad discussion.

Third, we evaluate which services investors prefer to be delivered by human or digital advisors. Last, we explain how advisors can optimize their practices to maximize loyalty and support business growth.

Methodology

To investigate the trade-offs between human and digital advice delivery, we designed a two-part research study using both qualitative and quantitative methods. In April 2021, we conducted qualitative interviews with 25 investors and 15 advisors to understand how and why investors choose human versus digital advice services and the tasks that define each service model. We analyzed the transcripts to arrive at 42 micro-interactions that define advice as a service through the lens of investors and advisors.

The quantitative phase was conducted in July 2021 and surveyed 1,518 investors who reported they had an advice service at the time of the survey. Our study was blind, conducted by a third party that did not reveal Vanguard as the sponsor. We included a representative sample of U.S. investors by age, gender, and other demographics with at least \$100,000 in investable assets (see **Appendixes 1 and 2**).

Respondents could indicate they used a human advisor, a robo-advisor, or both. Approximately 75% reported using a human advisor, with the remaining 25% using robo-advice or both types. Throughout this paper, we will use the terms robo-advice and digital advice interchangeably.

¹ See Finke (2013), Grable and Chatterjee (2014), Murphy, Lamas, and Sin (2020), Pagliaro and Utkus (2019), Rossi and Utkus (2020a, 2020b), and Warschauer and Sciglimpaglia (2012).

Investor preferences and advisor loyalty

We first sought to answer the question of whether advisors should view robo-advice as a cannibalizing threat to their existing client base. **Figure 1** presents survey responses on channel preferences and switching behaviors. For investors who already use a human advisor, 93% state that they would choose a service that includes a human advisor in the future. Despite the common headlines about technology replacing humans, our data suggest that investors have a strong loyalty to their human financial advisors.

Confirmation bias could be at work here, with respondents validating the choice they have already made. However, **Figure 2** presents evidence that this is likely not the primary explanation. When we ask current robo-advised clients about their future preference, we find that the same loyalty does not hold: 88% say they would be willing or extremely willing to work with a human advisor in the future.

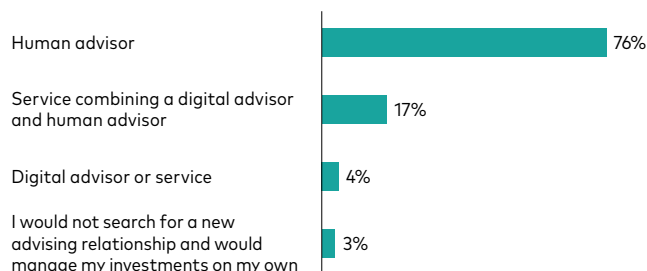
This contradiction provides important data for advisors as they think about prospecting and bringing in new business. Robo-advised clients could represent an untapped and under-targeted market to convert to human advisors, especially as their needs become more complex. We will explore this theme more later.

Because human-advised investors are not likely to switch to digital services, they must value interaction with their human advisors. In the next section, we explore the perceived value of advisors to both human- and digital-advised investors.

FIGURE 1.

Investors with human advisors are not likely to switch to a digital service

Question: If you had to leave your current [human] advisor today, what type of advising relationship would you search for in the future?



Note: The sample in this figure includes all clients who only have human advisors (1,175 in total).

Source: Vanguard, 2021.

FIGURE 2.

Investors with digital advisors are likely to switch to human advisors

Question: On a scale from 1 to 7 where 1 means "not at all willing" and 7 means "extremely willing," how willing are you to work with a human financial advisor in the future?



Note: The sample in this figure includes all clients who only have digital advisors (135 in total).

Source: Vanguard, 2021.

Advice value as defined by investors




While the case for loyalty to human advice is compelling, what drives this loyalty? We believe the answer lies in understanding the value of advice from the investors' point of view.

Vanguard has proposed that the value of advice goes beyond investment returns. Pagliaro and Utkus (2019) presented a framework based

on portfolio, financial, and emotional outcomes. Portfolio value is the outcome of building a well-diversified portfolio tailored to an investor's preferences. Financial value revolves around planning to achieve desired financial goals. Emotional value embodies the idea of financial peace of mind. **Figure 3** shows the Pagliaro and Utkus value-of-advice framework.

FIGURE 3.
The value of advice can be broken down into portfolio, financial, and emotional value

Value-of-advice framework

|  Portfolio value |  Financial value |  Emotional value |
|---|---|--|
| Optimal portfolio construction and client risk-taking <ul style="list-style-type: none">• Portfolio risk/return characteristics• Tax efficiency• Fees• Rebalancing and trading activity | Attainment of financial goals <ul style="list-style-type: none">• Saving and spending behavior• Debt levels• Retirement planning: cash flow, income, and health costs• Insurance and risk management• Legacy/bequest/estate planning | Financial peace of mind <ul style="list-style-type: none">• Trust—in advisor and markets• Success and sense of accomplishment• Behavioral coaching• Confidence |

Source: Vanguard.

We added empirical data to this framework by asking investors to quantify their perceived value for each dimension. **Figure 4** shows the percentage of value investors ascribe to portfolio, financial, and emotional values by advice delivery type. Investors believe that human-advised clients derive higher levels of emotional value from their financial advisors than digital-advised investors

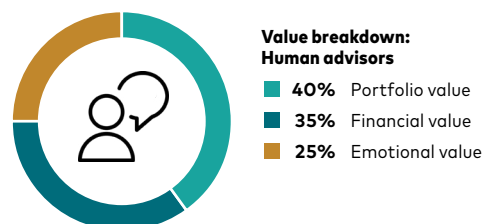
get from theirs. In seeking to convert robo-investors, advisors can leverage emotional value to help position their services.

In the next section, we further investigate investors' perception of each source of value, starting with portfolio, followed by financial, and ending with the emotional value of advice.

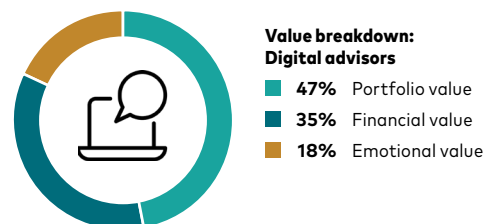
FIGURE 4.

Investors believe that human-advised clients derive more emotional value from advice than digital-advised clients get from theirs

Question: Within each of the boxes below, please allocate points based on the relative value you [would] receive from a **human** advisor.



Question: Now please allocate points based on the relative value you [would] receive from a **digital** advisor.



Notes: In the survey, portfolio, financial, and emotional value are defined as follows: **Portfolio management** includes activities such as asset allocation, diversification, rebalancing, and performance; **financial planning** includes establishing goals, saving and spending strategies, debt management, retirement, and estate planning; and **emotional outcomes** includes trust and confidence in your advisor, peace of mind that you will achieve your goals, and assurance in times of market volatility. The sample includes all clients who answered the question (1,222).

Source: Vanguard, 2021.

Portfolio value

As Kinniry et al. (2019) point out, it is difficult to observe the value advisors add to a client’s investment performance: “The difference in your clients’ performance if they stayed invested according to your plan, as opposed to abandoning it, does not show up on any client statement.”

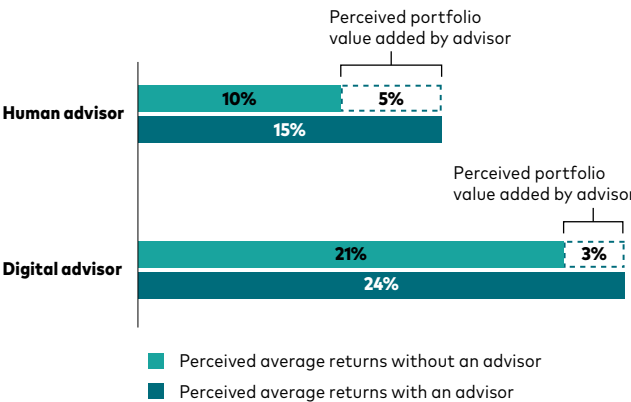
In our survey, we extracted the perceived value of clients’ performance by asking them what they believe their performance was with a financial advisor and what they believe it would have been without an advisor. By calculating the difference, we measure investors’ perceived portfolio value of advice.

In **Figure 5**, we show the investors’ perceived average return with an advisor, the perceived average without an advisor, and the calculated perceived portfolio value of both human and digital advisors.

FIGURE 5.
Investors believe human and digital advisors provide substantial portfolio value

Question 1: In your experience with your human [digital] advisor, what would you estimate your average annual investment returns to be in the past three years? If you have not had an advisor for three years, think about the relationship you have had with your advisor thus far.

Question 1a: You mentioned that your estimated average return while working with your human [digital] advisor was [insert answer to question 1]%. Imagine you did not have an advisor and were managing your investments on your own, what would you imagine your average annual investment returns to be in the same period?



Notes: In this figure, the sample includes all who responded to the question and had an answer of between -50% and 50% of average annual returns, to avoid outliers. In total, 802 human-advised and 187 digital-advised clients met these criteria. The portfolio value added is qualitatively similar across groups even in the presence of outliers.

Source: Vanguard, 2021.

Both human- and digital-advised clients perceive getting substantial portfolio value from their advisors. Human-advised clients believe that advisors add five percentage points to their performance on an annualized basis, and digital-advised clients believe that their advisors add three percentage points.

In terms of absolute performance, digital-advised investors believe they achieve higher returns than human-advised investors do. A possible explanation for this could be that the two samples of investors are different. For example, digital-advised investors skew younger and self-report being more aggressive in their investments, which would have led them to higher performance in recent years. Also, digital-advised investors believe that they could achieve a large portion of their performance on their own. It is important to note that these are perceived returns by the investors and not actual returns, which we could not verify in this study.

When analyzing the perceived value of portfolio outcomes, we also find that investors using a human or digital advice service derive high

perceived value (5% and 3%, respectively) from their advisors regardless of their self-reported risk tolerance.²

Financial value

Financial value can best be defined as the ability to meet one's goals as articulated in a financial plan. Since the job of financial advisors is to articulate this plan, it is naturally hard to observe how clients would have fared without an advisor.

However, in a survey environment, we can estimate what clients perceive financial value to be in three steps. First, we ask their financial goal in dollar terms; second, we ask how far they are in percentage terms in their journey toward their goal; and third, we ask them to imagine how far they would be if they did not have a financial advisor. By subtracting the percentages in the second and third questions, we can provide an estimate of their perceived financial value of advice. By determining the investor's financial goal in dollar terms, we can also quantify this value.

² When breaking down human- and digital-advised investors by their self-reported risk tolerance, the perceived portfolio value of advisors remains nearly identical: 6% (conservative, human-advised), 5% (moderate, human-advised), 5% (aggressive, human-advised), 3% (conservative, digital-advised), 3% (moderate, digital-advised), and 3% (aggressive, digital-advised).

Figure 6 shows how much of their goals investors believe they have achieved with an advisor, how far they believe they would be without an advisor, and the calculated perceived financial value of both human and digital advisors.

In percentage terms, human-advised clients have, on average, achieved 59% of their financial goals. However, they believe that if they did not have an advisor, they would have only achieved 43%. Therefore, these clients believe that advisors have contributed to 16% of their financial goals. For digital-advised clients, the estimate is 5%.³

To convert perceived financial value to dollar terms, we used the median financial goal of both human-advised and digital-advised clients, which equaled \$1,000,000. We find that human-advised clients attribute to their financial advisors being \$160,000 closer to achieving their financial goals, and digital-advice clients attribute \$50,000.

In other words, both human- and digital-advised clients believe that their advisors add substantial financial value in helping them achieve their financial goals.

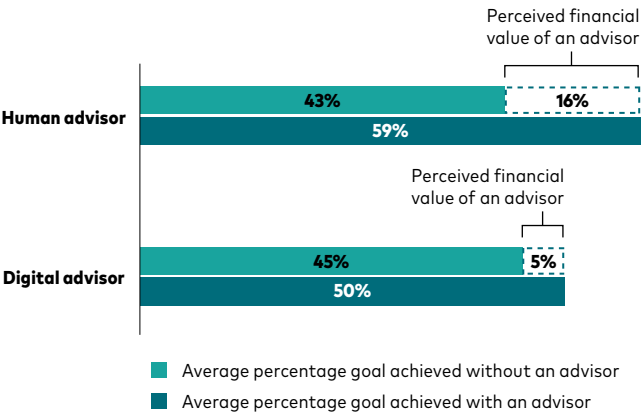
FIGURE 6.
Investors believe both human and digital advisors provide high financial value

Question 2: What is your financial goal in terms of how much money you would like to have in your investment accounts?

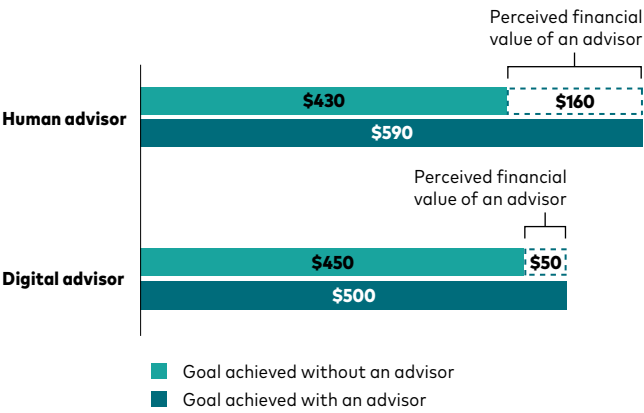
Question 2a: You mentioned that your financial goal is to accumulate \$[insert answer from question 2]. How much progress have you made toward that goal? Please enter a percentage where "0%" indicates that you have not achieved any of your goals and "100%" indicates you have achieved all of your goals.

Question 2b: As a reminder, you estimated your progress with a human [digital] advisor was [insert answer from question 2a]%. Now imagine you did not have a human [digital] advisor and were managing your investments on your own, how much progress do you think you would have made towards your goal of accumulating \$[insert answer from question 2]? Please enter a percentage where "0%" indicates that you would not have achieved any of your goals and "100%" indicates you would have achieved all of your goals.

Panel A: Perceived financial value in percentage terms



Panel B: Perceived financial value in dollar terms (thousands)



Notes: In this figure, the sample includes all who responded to the question, for a total of 835 human-advised and 238 digital-advised clients. The median financial goal for both sets of clients is \$1,000,000.
Source: Vanguard, 2021.

³ A financial plan is a long-term plan that advisors and investors agree upon. Because digital advice is a relatively recent development, it could be the case that the longer clients stay with an advisor, the longer they benefit from a financial plan. To test this idea, we broke down the perceived financial value of an advisor for human-advised clients, who comprised a large enough sample to reduce to smaller parts: 11% (tenure of 2 years or less), 12% (tenure of between 3 and 10 years), and 23% (tenure of 10 years or longer).

Emotional value

Finally, we come to the third tenet of the value framework: emotional value. This is certainly the hardest component to measure, as emotions are subjective by definition. For such subjective measures, perception can be reality for investors.

The financial choices households have to make have become more complex over time. By their nature, financial markets tend to be volatile, which may make investors anxious during market corrections. Following Pagliaro and Utkus (2019), we decided to measure financial peace of mind as a proxy for the emotional value of advice. While it is a recurring phrase in our industry that advice delivers peace of mind, we set out to quantify this elusive value. We did so in two steps.

First, we asked whether investors had peace of mind knowing that a human (or digital) advisor was looking after their investments. For clarity about the meaning of peace of mind, we explicitly stated, "Peace of mind refers to a positive feeling of knowing that your investments are on track." Afterward, we asked the investors whether they would have peace of mind if they were managing their own investments. **Figure 7** shows the answers.

Only 24% of human-advised clients would have peace of mind if they were managing their investments on their own. However, three times as many, or 80%, report having peace of mind with the help of their advisors. In absolute terms, human advisors increase investors' peace of mind by 56 percentage points.

On the other hand, the increase in peace of mind of digital-advised investors is only 12 percentage points. There are two reasons for this. First, most of these clients believe that they would have

peace of mind even if they were investing their own money, thus giving them a higher starting baseline. Second, even after receiving financial advice, digital-advised clients report lower levels of peace of mind than human-advised clients do.

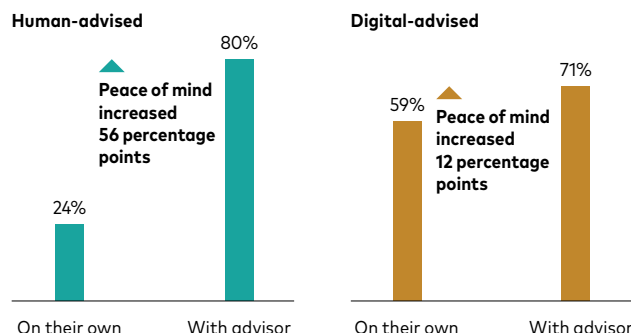
The vast majority of investors in our sample have peace of mind when investing. This is in large part because they believe that their advisors add emotional value.

FIGURE 7.

Human advisors dramatically increase their clients' peace of mind

Question: How much do you agree with the following statement? I have peace of mind knowing that a human [digital] advisor is looking after my investments. In this context, peace of mind refers to a positive feeling of knowing that your investments are on track.

Question: Now imagine you did not have a human [digital] advisor and were managing investments on your own, how much peace of mind would you have managing investments on your own?



Notes: In this figure, the sample includes all who responded to the question, for a total of 1,308 human-advised and 337 digital-advised clients. Clients could rate peace of mind from 0 ("No peace of mind at all") to 10 ("A great deal of peace of mind"). Clients were considered to have peace of mind if their rating was between 8 and 10.

Sources: Vanguard and Escalent, 2021.

Overall satisfaction with human and digital advice services

As seen in their perceived value of advice across portfolio, financial, and emotional outcomes, investors believe advice adds value. However, does the advice satisfy their expectations? **Figure 8** shows investors' level of satisfaction based on type of advice delivery.

We find that 84% of human-advised investors report being satisfied with their advice, as compared to only 77% of digital-advised investors. This gap further reinforces the opportunity for switching from digital services to a human advisor and could explain why the preference for human advisors is stronger.

Given the difference in level of satisfaction and perceived value of advice, one may wonder why the needs of human-advised investors are seemingly better addressed. One plausible hypothesis is that digital-advised investors may have different levels of need for advice in the first place.

We investigated this hypothesis by asking investors whether they would have time, willingness, and ability to manage their own investments without an advice service. **Figure 9** shows the results by type of advice delivery.

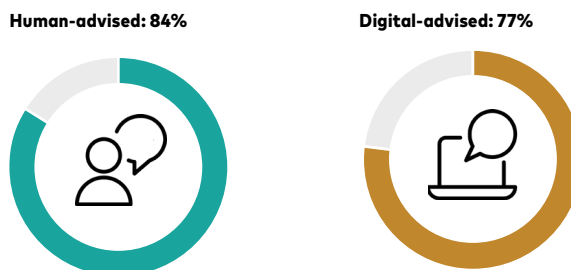
Figure 9 paints a clear picture; the majority of digital-advised investors report having time, willingness, and ability to manage their own investments, whereas human-advised investors report having less of each of these characteristics. This discrepancy suggests that the two sets of clients may have different needs.

One potential reason for these differences is that digital-advised investors may have less complex financial needs. In fact, **Appendix 2** shows that these clients tend to be much younger and thus potentially have fewer financial goals. While we did not study this hypothesis, this idea could well reconcile the findings that digital-advised clients tend to perceive less value from advice and highly consider switching to a human advisor in the future, presumably once their financial situation becomes more complex.

FIGURE 8.

Human-advised investors have higher levels of satisfaction

Question: How satisfied are you with your human advisor [digital advice service] overall?



Notes: In this figure, the sample includes all who responded to the question, for a total of 1,377 human-advised and 337 digital-advised clients. They could rate satisfaction from 0 ("No satisfaction at all") to 10 ("Completely satisfied"). They were considered satisfied if their rating was between 8 and 10.

Sources: Vanguard and Escalent, 2021.

FIGURE 9.

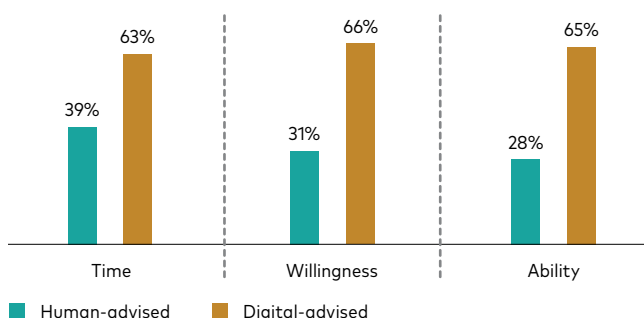
Digital-advised clients report higher levels of time, willingness, and ability to manage their own investments

Question: Imagine you did not have a human [digital] advisor and were managing investments on your own, how much would you agree with each of the following statements?

I have **sufficient time** to personally manage my investments.

I'm **willing to manage** my investments.

I feel I have the **knowledge and ability** to properly manage my investments.



Notes: In this figure, the sample includes all respondents. In total, 1,352, 1,354, and 1,351 human-advised clients and 341, 338, and 340 digital-advised clients answered the time, willingness, and ability questions, respectively. They could rate the statements from 0 ("Not at all agree") to 10 ("Completely agree"). They were considered to agree with the statement if their rating was between 8 and 10.

Source: Vanguard, 2021.

Investor preferences: Breaking down advice into the sum of the parts

In the first half of this paper, we quantified the perceived value that investors derive from advice and how that value differs based on the type of advice delivery. However, these results considered advice services in aggregate. In this section, we provide further detail by breaking down advice into discrete components and looking at them separately to investigate which services *within* advice investors prefer to be delivered by a human and which are best delivered by automation.

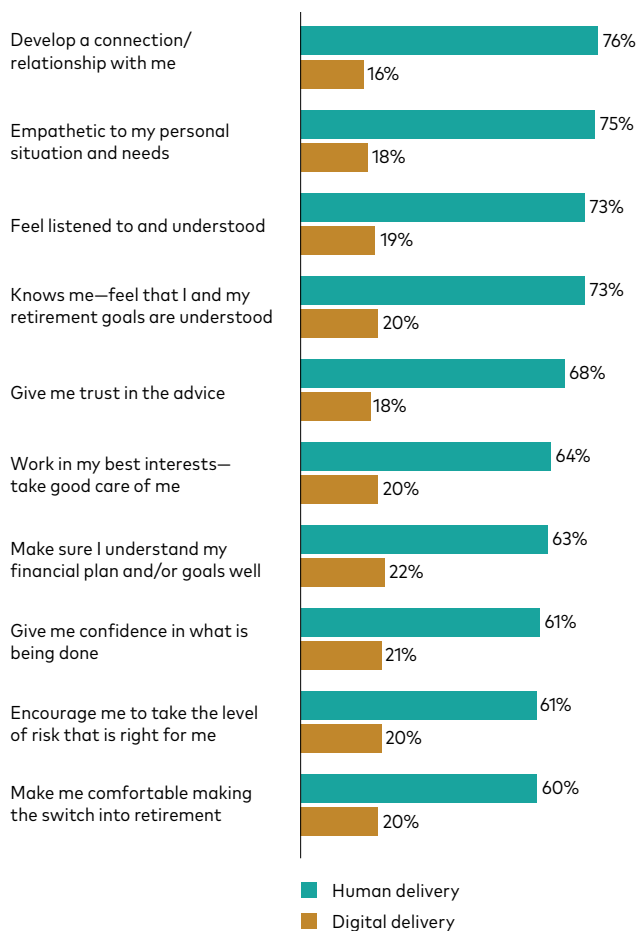
We interviewed investors and advisors to come up with a list of micro-interactions that constitute what financial advice is. We then asked investors to rate these micro-interactions based on their preferences regarding human or digital delivery. **Figure 10** displays the 10 micro-interactions for which all investors in the sample indicated the highest preference for human delivery. **Appendix 4** provides the full rating of all 42 micro-interactions.

There is a strong predilection for human delivery of many advice services; it is preferred over digital delivery by at least 40 percentage points. More important, if we go back to our value framework in Pagliaro and Utkus (2019), we find that most of these preferences align to the emotional and financial success components of the value-of-advice framework rather than the portfolio dimension.

FIGURE 10.

Investors prefer emotional and financial-planning services to be delivered by humans

Investors' stated preferences (top 10)



Notes: In this figure, all 1,518 clients answered the question. They were presented with the micro-interactions and asked to rate whether they preferred that service to be delivered by a human or a digital advisor. The ratings were presented on an 11-point scale, where 0 meant "Completely delivered by a human" and 10 meant "Completely delivered by a digital service." Clients were considered to prefer human delivery if their rating was between 0 and 4 and digital delivery of the service if their rating was between 6 and 10.

Sources: Vanguard and Escalent, 2021.

Next, we evaluate what services investors believe would be best delivered by digital advisors. **Figure 11** displays the 10 micro-interactions for which investors reported the highest preference.

We find that the services investors prefer to be delivered digitally are related to functional tasks and portfolio management, such as "Manage taxes/capital gains efficiently" and "Diversify investments." These results corroborate the findings of previous Vanguard research. Bennyhoff, Kinniry, and DiJoseph (2018) stressed how work related to portfolio outcomes has been commoditized and how advisors should focus on services in which humans excel, such as behavioral coaching.

FIGURE 11.
Investors have the highest preference for digital services for portfolio outcomes and functional tasks

Investors' stated preferences (top 10)



Notes: In this figure, all 1,518 clients answered the question. They were presented with the micro-interactions and asked to rate whether they preferred that service to be delivered by a human or a digital advisor. The ratings were presented on an 11-point scale, where 0 meant "Completely delivered by a human" and 10 meant "Completely delivered by a digital service." Clients were considered to prefer human delivery if their rating was between 0 and 4 and digital delivery of the service if their rating was between 6 and 10.

Sources: Vanguard and Escalent, 2021

Optimizing human and digital delivery for business growth

In the previous section, we asked investors their absolute preferences for human or digital delivery of specific advice services. Unsurprisingly, some investors prefer most services to be delivered by humans, whereas others prefer digital delivery. However, these investors do not prefer one or the other delivery equally for all services. In this section, we investigate investors' relative preferences for human or digital advice.

Knowing relative preferences for service delivery is important for two reasons. First, it helps advisors optimize their service and ensure they are pursuing the right clients based on their service model. Advisors must still be cognizant of their overall cost-to-serve model and recognize that all delivery channels may not be a fit for all clients as they look at segmenting their business. Second, since advisors' time is a scarce resource, it is beneficial for them to understand which services can be outsourced to automation to help scale their practices in a cost-efficient manner.

In this section of our survey, all investors—both human- and digital-advised—were presented with four micro-interactions at a time and asked which ones they prefer to have delivered by a human and which by a digital service. By repeating this task multiple times with different micro-interactions, we can calculate both the rank of preferences and their relative importance.

Figure 12 presents the ranking of micro-interactions from most preferred to least preferred to be delivered by a human advisor. We also include the relative-preference score for each micro-interaction. See the note below Figure 12 for how to interpret the scores. **Appendix 5** provides the full ranking and relative scores of all 42 micro-interactions.



Figure 12 confirms that clients prefer emotional and financial outcomes to be delivered by humans and portfolio and functional tasks digitally. What differentiates these findings from the previous section is that we can quantify by how much clients prefer emotional and financial outcomes to be delivered by humans.

Let's compare the relative scores of two services, such as micro-interaction #2, "Develop a connection/relationship with clients," an emotional task, and #41, "Diversify investments," a portfolio task. Their relative-preference scores are 218 and 32. This means that investors prefer 6.8 times (218 divided by 32) more that a human establish a connection than that a human diversify investments.

By looking at the ranking of micro-interactions and their relative scores, we confirm that investors prefer emotional and financial outcomes to be delivered by humans by large margins. Of course, this could change for different demographics. One of the most discussed new trends in advice is what type of delivery millennials would prefer.

FIGURE 12.

Human advisors should focus on delivering emotional and financial outcomes while automating portfolio construction and functional tasks

| Preference | Rank | Micro-interaction | Relative preference (average index = 100) |
|---|-----------|---|---|
|  Human | 1 | Know clients—feel that they and their retirement goals are understood | 220 |
| | 2 | Develop a connection/relationship with clients | 218 |
| | 3 | Work in clients' best interests—take good care of them | 204 |
| | 4 | Make clients feel listened to and understood | 185 |
| | 5 | Is empathetic to clients' personal situation and needs | 181 |
| | 6 | Make sure clients understand their financial plan and/or goals well | 169 |
| | 7 | Give clients trust in the advice they're given | 158 |
| | 8 | Coach clients to do, or not do, things across many financial areas of their lives (including while in retirement) | 151 |
| | 9 | Support clients through market downturns, volatility, and life events | 149 |
| | 10 | Reach out to clients proactively | 140 |
|  Digital | 33 | Keep clients informed on market insights and what they mean for them | 54 |
| | 34 | Validate the right decisions are being made over time | 53 |
| | 35 | Access the clients' most appropriate funds (including while in retirement) as they are needed | 51 |
| | 36 | Manage taxes/capital gains effectively | 49 |
| | 37 | Motivate clients to budget to retire well without running out of money | 47 |
| | 38 | Gather accurate inputs for clients by helping them understand how to answer | 43 |
| | 39 | Account for scenarios of different market conditions or life events (what-if) | 37 |
| | 40 | Prevent details, or entire accounts, from being overlooked | 32 |
| | 41 | Diversify investments | 32 |
| | 42 | Simplify for organized, cohesive management | 23 |

Notes: In this figure, all 1,518 clients answered the question. They were presented with 4 micro-interactions at a time, 12 times in different screens, and asked which they most preferred to be delivered by a human or digital service so that we could rank each micro-interaction as well as relative preferences. The statistical technique used to calculate the rank and relative preference scores is called MaxDiff. The relative-preference score should be interpreted as follows. Take the micro-interactions ranked #8—"Coach clients to do, or not do, things across many financial areas of their lives (including while in retirement)," and #36—"Manage taxes/capital gains effectively," for example. Their relative-preference scores are 158 and 49. This means that investors prefer that micro-interaction #8 be delivered by a human 3.2 times (158 divided by 49) more than micro-interaction #36.

Sources: Vanguard and Escalent, 2021.

To address this question, we perform the same statistical technique as in Figure 12 to come up with ranks and relative scores for clients in different generations, with differing wealth levels and types of advice delivery. **Figure 13** shows the correlation matrix of ranks and relative scores for these demographic breakdowns. A high correlation means there is little difference in preferred delivery.

Surprisingly, we find both rank and relative-preference scores to be highly correlated, with all correlations above 0.90 and most at least 0.97.

This means that demographics are not an important factor when considering relative preference for delivery.

Contrary to popular belief, we do not find that millennials have distinct preferences that differ from other generations when it comes to automation of service *within* advice. Thus, advisors do not need to customize the delivery channel of their offerings based on perceived generational differences.

FIGURE 13.

Demographics do not change the relative preference between human and digital delivery

Panel A. Correlation of ranked preferences for human and digital delivery among demographic groups

| | | Generation | | | | Wealth | | | Advice delivery | |
|-----------------|----------------------|------------|------------|-------|--------|---------------|----------------|----------------------|-----------------|-----------------|
| | | All | Millennial | Gen X | Boomer | Mass affluent | High net worth | Ultra-high net worth | Human-advised | Digital-advised |
| Generation | All | 1.00 | | | | | | | | |
| | Millennial | 0.97 | 1.00 | | | | | | | |
| | Gen X | 0.99 | 0.97 | 1.00 | | | | | | |
| | Boomer | 0.99 | 0.95 | 0.99 | 1.00 | | | | | |
| Wealth | Mass affluent | 0.99 | 0.97 | 0.99 | 0.99 | 1.00 | | | | |
| | High net worth | 0.99 | 0.96 | 0.99 | 0.99 | 0.99 | 1.00 | | | |
| | Ultra-high net worth | 0.97 | 0.95 | 0.96 | 0.97 | 0.97 | 0.97 | 1.00 | | |
| Advice delivery | Human-advised | 0.99 | 0.96 | 0.99 | 0.99 | 0.99 | 0.99 | 0.97 | 1.00 | |
| | Digital-advised | 0.97 | 0.99 | 0.97 | 0.95 | 0.97 | 0.96 | 0.94 | 0.96 | 1.00 |

Panel B. Correlation of relative-preference score of human versus digital delivery among demographic groups

| | | Generation | | | | Wealth | | | Advice delivery | |
|-----------------|----------------------|------------|------------|-------|--------|---------------|----------------|----------------------|-----------------|-----------------|
| | | All | Millennial | Gen X | Boomer | Mass affluent | High net worth | Ultra-high net worth | Human-advised | Digital-advised |
| Generation | All | 1.00 | | | | | | | | |
| | Millennial | 0.97 | 1.00 | | | | | | | |
| | Gen X | 0.99 | 0.97 | 1.00 | | | | | | |
| | Boomer | 0.99 | 0.95 | 0.99 | 1.00 | | | | | |
| Wealth | Mass affluent | 0.99 | 0.97 | 0.99 | 0.99 | 1.00 | | | | |
| | High net worth | 0.99 | 0.96 | 0.99 | 0.99 | 0.99 | 1.00 | | | |
| | Ultra-high net worth | 0.98 | 0.95 | 0.98 | 0.98 | 0.98 | 0.98 | 1.00 | | |
| Advice delivery | Human-advised | 0.99 | 0.97 | 0.99 | 0.99 | 0.99 | 0.99 | 0.98 | 1.00 | |
| | Digital-advised | 0.98 | 0.99 | 0.98 | 0.96 | 0.98 | 0.97 | 0.95 | 0.97 | 1.00 |

Source: Vanguard, 2021.

Implications

Insights from our study have important implications for the financial advice industry. First, our findings represent good news for advice of all forms, because investors perceive substantial value across portfolio, financial, and emotional outcomes.

Second, human-advised investors are substantially more likely to say they do not have the time, willingness, or ability to manage their investments on their own. This finding supports framing an advice offer as a potential way for clients to free up time, leave behind an undesirable task, and improve their portfolio, financial, and emotional outcomes.

Third, across all generations, wealth levels, and advice-delivery types, clients suggest that human financial advisors should consider automation to outsource portfolio construction (for example, tax management, diversification, and performance) and functional tasks (such as account setup and consistent monitoring). This is good news for advisors as it will allow them to scale technology to their entire client base. Investors also agree that human advisors excel in helping them achieve financial success and providing emotional piece of mind. By outsourcing portfolio construction and functional tasks, advisors can scale their business models and focus on delivering uniquely human skills.

Finally, we showed that advisors are not under threat from robo-services. Client loyalty to human advisors is durable, while investors choosing robo-services are open to selecting a human advisor in the future. Human advisors should leverage both automation and upskilling about emotional needs of clients to optimize their value, scale their practice, and target the unmet needs of current robo-advised clients who would be willing to switch their business in the future.

Conclusion

We conducted a survey of 1,518 U.S. investors to understand whether technology and digital advisors are a threat to human financial advisors. We found that digital services do not pose a threat to an advisor's existing book of business, as nine out of ten human-advised clients would not consider switching. However, we found the inverse for robo-advised clients, 88% of whom would consider switching to a human.

We then quantified the value that investors perceive in human and digital advice services across our three-pillar framework of portfolio, financial, and emotional outcomes. We found that human agents excel in all dimensions by providing an additional perceived 5% in returns, \$160,000 in financial success toward goals, and three times the emotional support as compared to investors managing their investments on their own.

Breaking down advice into discrete components, we found that investors prefer that parts of portfolio management and functional tasks be automated and that human advisors excel at delivering emotional outcomes. Overall, our results provide evidence that human advisors should leverage technology to scale their business while strengthening their uniquely human value proposition to address investors' emotional needs.

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Appendix

APPENDIX 1. Demographics

| | | Number | Percentage |
|-------------------------------------|--|--------|------------|
| Sample size | Total | 1518 | 100% |
| Advice delivery | Human-advised only | 1175 | 77% |
| | Digital-advised only | 135 | 9% |
| | Both human- and digital-advised | 208 | 14% |
| | Human-advised | 1383 | 91% |
| | Digital-advised | 343 | 23% |
| Gender | Male | 924 | 61% |
| | Female | 593 | 39% |
| | Nonbinary/fluid | 1 | 0% |
| | Another gender not listed | 0 | 0% |
| Generation | Gen Z | 7 | 0% |
| | Millennial | 292 | 19% |
| | Gen X | 424 | 28% |
| | Boomer | 795 | 52% |
| Household income | Less than \$50,000 | 23 | 2% |
| | \$50,000–\$74,999 | 229 | 15% |
| | \$75,000–\$99,999 | 288 | 19% |
| | \$100,000–\$149,999 | 550 | 36% |
| | \$150,000–\$249,999 | 321 | 21% |
| | \$250,000–\$299,999 | 45 | 3% |
| | \$300,000 or more | 62 | 4% |
| Investment segment | Mass affluent (less than \$1M) | 1106 | 73% |
| | High net worth (between \$1M and \$5M) | 379 | 25% |
| | Ultra-high net worth (more than \$5M) | 33 | 2% |
| Self-reported risk tolerance | Very conservative/conservative | 449 | 30% |
| | Moderate | 805 | 53% |
| | Aggressive/very aggressive | 264 | 17% |

Source: Vanguard, 2021.

APPENDIX 2. Demographics by advice delivery

| | | Human-advised | Robo-advised |
|-------------------------------------|--|---------------|--------------|
| Gender | Male | 60% | 70% |
| | Female | 40% | 30% |
| | Nonbinary/fluid | 0% | 0% |
| | Another gender not listed | 0% | 0% |
| Generation | Gen Z | 0% | 1% |
| | Millennial | 17% | 46% |
| | Gen X | 27% | 43% |
| | Boomer | 56% | 10% |
| Household income | Less than \$50,000 | 2% | 0% |
| | \$50,000–\$74,999 | 16% | 6% |
| | \$75,000–\$99,999 | 19% | 13% |
| | \$100,000–\$149,999 | 35% | 45% |
| | \$150,000–\$249,999 | 21% | 27% |
| | \$250,000–\$299,999 | 3% | 4% |
| Investment segment | \$300,000 or more | 4% | 5% |
| | Mass affluent (less than \$1M) | 72% | 85% |
| | High net worth (between \$1M and \$5M) | 26% | 13% |
| | Ultra-high net worth (more than \$5M) | 2% | 2% |
| Self-reported risk tolerance | Very conservative/conservative | 30% | 29% |
| | Moderate | 54% | 45% |
| | Aggressive/very aggressive | 16% | 26% |
| Measured risk tolerance | Very conservative/conservative | 9% | 35% |
| | Moderate | 59% | 50% |
| | Aggressive/very aggressive | 32% | 15% |

Source: Vanguard, 2021.

APPENDIX 3:

The 42 micro-interactions obtained from the qualitative study

1. Gather complete info from me through a personalized probing discussion
2. Gather accurate inputs from me by helping me understand how to answer
3. Make sure I understand my financial plan and/or goals well
4. Account for scenarios of different market conditions or life events (i.e., what-if)
5. Bring needs to my attention that I may not have been aware of
6. Give me peace of mind that I will be able to fund my goals
7. Is empathetic to my personal situation and needs
8. Achieve positive returns (i.e., make me money)
9. Align with me on the investment philosophy/approach
10. Encourage me to take the level of risk that is right for me
11. Personalize my portfolio to my unique situation and goals
12. Give me confidence in what is being done
13. Manage taxes/capital gains effectively
14. Give me trust in the advice
15. Prevent details, or entire accounts, from being overlooked
16. Understand the full, bigger picture across all my investments
17. Walk me through and/or assist with each step of the process
18. Simplify for organized, cohesive management
19. Make me feel relieved—less to worry about
20. Diversify investments
21. Help me take actions that will keep me on track to meet my goals
22. Reach out to me proactively
23. Know my investments are consistently paid attention to
24. Keep me informed on market insights and what they mean for me
25. Relate past experiences as context to compare and inform my investments
26. Develop a connection/relationship with me
27. Is readily available—there for me when I need it
28. Feel listened to and understood
29. Validate the right decisions are being made over time
30. Verify or adjust my thoughts/assumptions
31. Have the flexibility to make the adjustments I want or need
32. Work in my best interests—take good care of me
33. Anticipate my future needs
34. Apply judgement on future social, political, legal, or other external factors
35. Support me through market downturns, volatility, and life events
36. Make me comfortable making the switch into retirement
37. Ensure sufficient, consistent income streams in retirement
38. Motivate me to budget to retire well without running out of money
39. Access the most appropriate funds (including in retirement), as they are needed
40. Knows me—feel that I and my retirement goals are understood
41. Coordinate between family members or beneficiaries regarding estate planning
42. Coach me to do, or not do, things across many financial areas of my life (including in retirement)

Sources: Vanguard and Escalent, 2021.

APPENDIX 4:

The absolute preference for human and digital delivery of all 42 advice micro-interactions

| Micro-interaction | Delivered by human | Delivered by digital |
|--|--------------------|----------------------|
| Develop a connection/relationship with me | 76% | 16% |
| Is empathetic to my personal situation and needs | 75% | 18% |
| Feel listened to and understood | 73% | 19% |
| Knows me—feel that I and my retirement goals are understood | 73% | 20% |
| Give me trust in the advice | 68% | 18% |
| Work in my best interests—take good care of me | 64% | 20% |
| Make sure I understand my financial plan and/or goals well | 63% | 22% |
| Give me confidence in what is being done | 61% | 21% |
| Encourage me to take the level of risk that is right for me | 61% | 20% |
| Make me comfortable making the switch into retirement | 60% | 20% |
| Support me through market downturns, volatility, and life events | 60% | 21% |
| Coach me to do, or not do, things across many financial areas of my life [including in retirement] | 59% | 24% |
| Walk me through and/or assist with each step of the process | 59% | 26% |
| Reach out to me proactively | 58% | 27% |
| Verify or adjust my thoughts/assumptions | 57% | 26% |
| Make me feel relieved—less to worry about | 56% | 24% |
| Personalize my portfolio to my unique situation and goals | 56% | 25% |
| Give me peace of mind that I will be able to fund my goals | 56% | 23% |
| Coordinate between family members or beneficiaries regarding estate planning | 56% | 25% |
| Understand the full, bigger picture across all my investments | 55% | 25% |
| Gather complete info from me through a personalized probing discussion | 55% | 27% |
| Validate the right decisions are being made over time | 54% | 23% |
| Align with me on the investment philosophy/approach | 53% | 23% |
| Anticipate my future needs | 50% | 28% |
| Bring needs to my attention that I may not have been aware of | 48% | 27% |
| Help me take actions that will keep me on track to meet my goals | 45% | 29% |
| Relate past experiences as context to compare and inform my investments | 45% | 31% |
| Gather accurate inputs from me by helping me understand how to answer | 45% | 35% |
| Is readily available—there for me when I need it | 44% | 32% |
| Know my investments are consistently paid attention to | 44% | 35% |
| Motivate me to budget to retire well without running out of money | 43% | 28% |
| Apply judgement on future social, political, legal, or other external factors | 42% | 33% |
| Have the flexibility to make the adjustments I want or need | 41% | 31% |
| Ensure sufficient, consistent income streams in retirement | 40% | 31% |
| Keep me informed on market insights and what they mean for me | 39% | 36% |
| Account for scenarios of different market conditions or life events [i.e., what-if] | 39% | 36% |
| Access the most appropriate funds [including in retirement], as they are needed | 37% | 38% |
| Diversify investments | 35% | 38% |
| Achieve positive returns [i.e., make me money] | 35% | 35% |
| Prevent details, or entire accounts, from being overlooked | 34% | 41% |
| Manage taxes/capital gains effectively | 31% | 40% |
| Simplify for organized, cohesive management | 28% | 42% |

Notes: In this figure, all 1,518 clients answered the question. They were presented with the micro-interactions and asked to rate whether they preferred that service to be delivered by a human or a digital advisor. The ratings were presented on an 11-point scale, where 0 meant "Completely delivered by a human" and 10 meant "Completely delivered by a digital service." Clients were considered to prefer human delivery of the service if their rating was between 0 and 4 and digital delivery if their rating was between 6 and 10.

Sources: Vanguard and Escalent, 2021.

APPENDIX 5:

The relative preference for human and digital delivery of the 42 advice micro-interactions

| Preference | Rank | Micro-interaction | Relative preference (average index = 100) |
|------------|------|---|---|
| Human | 1 | Knows clients—feel that they and their retirement goals are understood | 220 |
| | 2 | Develop a connection/relationship with clients | 218 |
| | 3 | Work in clients' best interests—take good care of them | 204 |
| | 4 | Make clients feel listened to and understood | 185 |
| | 5 | Is empathetic to clients' personal situation and needs | 181 |
| | 6 | Make sure clients understand their financial plan and/or goals well | 169 |
| | 7 | Give clients trust in the advice they're given | 158 |
| | 8 | Coach clients to do, or not do, things across many financial areas of their lives (including while in retirement) | 151 |
| | 9 | Support clients through market downturns, volatility, and life events | 149 |
| | 10 | Reach out to clients proactively | 140 |
| | 11 | Personalize clients' portfolios to their unique situations and goals | 137 |
| | 12 | Encourage clients to take the level of risk that is right for them | 125 |
| | 13 | Walk clients through and/or assist with each step of the process | 124 |
| | 14 | Understand the full, bigger picture across all of a clients' investments | 115 |
| | 15 | Helping clients become comfortable making the switch into retirement | 115 |
| | 16 | Gather complete info for clients through a personalized probing discussion | 108 |
| | 17 | Make clients feel relieved—less to worry about | 107 |
| | 18 | Coordinate between family members or beneficiaries regarding estate planning | 105 |
| | 19 | Know clients' investments are consistently paid attention to | 102 |
| | 20 | Give clients confidence in what is being done | 101 |
| | 21 | Give clients peace of mind that they will be able to fund their goals | 92 |
| Digital | 22 | Align with clients on the investment philosophy/approach | 87 |
| | 23 | Bring needs to clients' attention that they may not have been aware of | 86 |
| | 24 | Help clients take actions that will keep them on track to meet their goals | 83 |
| | 25 | Is readily available—there for clients when they need it | 81 |
| | 26 | Ensure sufficient, consistent income streams in retirement | 68 |
| | 27 | Achieve positive returns (i.e., make clients money) | 68 |
| | 28 | Apply judgement on future social, political, legal, or other external factors | 67 |
| | 29 | Verify or adjust clients' thoughts/assumptions | 65 |
| | 30 | Relate past experiences as context to compare and inform clients' investments | 56 |
| | 31 | Have the flexibility to make the adjustments clients want or need | 56 |
| | 32 | Anticipate clients' future needs | 56 |
| | 33 | Keep clients informed on market insights and what they mean for them | 54 |
| | 34 | Validate the right decisions are being made over time | 53 |
| | 35 | Access the clients' most appropriate funds (including while in retirement) as they are needed | 51 |
| | 36 | Manage taxes/capital gains effectively | 49 |
| | 37 | Motivate clients to budget to retire well without running out of money | 47 |
| | 38 | Gather accurate inputs for clients by helping them understand how to answer | 43 |
| | 39 | Account for scenarios of different market conditions or life events (i.e., what-if) | 37 |
| | 40 | Prevent details, or entire accounts, from being overlooked | 32 |
| | 41 | Diversify investments | 32 |
| | 42 | Simplify for organized, cohesive management | 23 |

Notes: In this figure, all 1,518 clients answered the question. They were presented with 4 micro-interactions at a time, 12 times in different screens, and asked what micro-interactions they most prefer to be delivered by a human or digital service. We then calculated the rank of each micro-interaction as well as their relative preferences using a statistical technique used called MaxDiff. The relative preference score should be interpreted as follows. Take the micro-interactions ranked #8 ("Coach clients to do, or not do, things across many financial areas of their lives (including while in retirement)") and #36 ("Manage taxes/capital gains effectively"), for example. Their relative preference scores are 158 and 49. This means that investors prefer micro-interaction #8 to be delivered by a human 3.2 times (158 divided by 49) more than micro-interaction #36.

Sources: Vanguard and Escalent, 2021.

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