Why Advisors Almost Always Under-Perform the Market

(and what investors can do about it)

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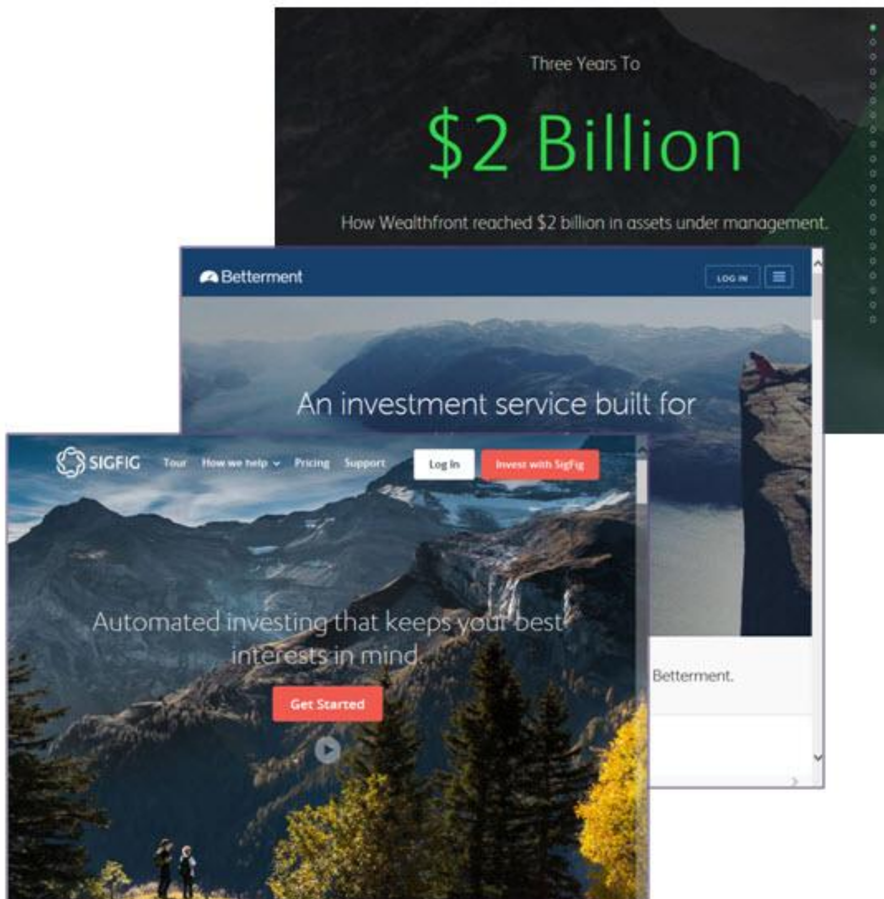
A New Way to Invest

In 2013 the Robo Advisors began appearing on the investment landscape.



For the first time in the history of investment advisory services, investors began placing their funds to be managed by algorithms run by computers.

Since the first Robo Advisor came on the scene, many more have been introduced. All of them use the same concepts.

The Robo Advisor Philosophy:

- You can't time the market

- The best you can do is diversify and try to get market returns.
- Low cost is what investors want. Returns are secondary.

We disagree with all these points and will show why, after we tell their story.

Robo Advisors use ETFs
to manage customer accounts.

Exchange Traded Funds or "ETFs" are securities composed of many stocks. The advantage is, they trade as a *single* security.
ETFs are the ideal investment vehicle. They exist for all major sectors of the market, including Bonds, Foreign investments, Currencies and other Commodities.

While ETFs are a good AVERAGE of a group of securities, they will almost always show mediocre performance compared to individual equities like Apple or Google.   But Robo Advisors do not typically trade equities – relying almost exclusively on “balancing” between ETFs.

The Robo Advisor Approach

Robo Advisors use something called "Modern Portfolio Theory" or MPT to allocate resources across ETFs. The paper on which MPT is based was published in 1953. How modern is that?

The “Pitch”

Average Advisor Returns

1. “Our portfolios do better than the Average Advisor.
The average advisor returns use data from the ARC Private Client indices which provide real performance numbers delivered to discretionary private clients by participating investment managers.”

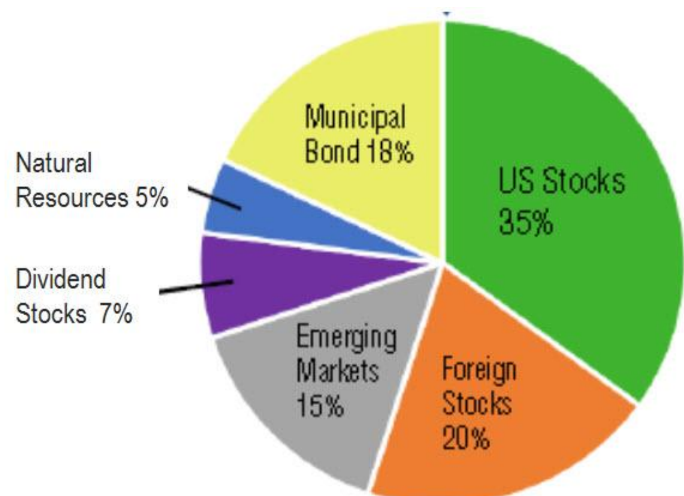
2. “Our Fees are Low.”

3. “We provide Automatic Tax LOSS Harvesting.”

The Robos also say they get superior results by applying a technique called "Rebalancing":

If an ETF LOSES value, the Robot buys more of it. If an ETF gains in value, the Robot sells a portion of it - an attempt to Buy Low and Sell High.

<u>But what if an ETF keeps going down, as in 2008? The Robo Advisor just keeps buying more of it</u>! The **red arrow** in the chart above shows what happens when you do this.



In any event, the Robo Advisors say this "Balancing" adds **0.6%** to annual return. So, even by their calculation, the effect is not very significant in terms of total return.

How it's Worked Out

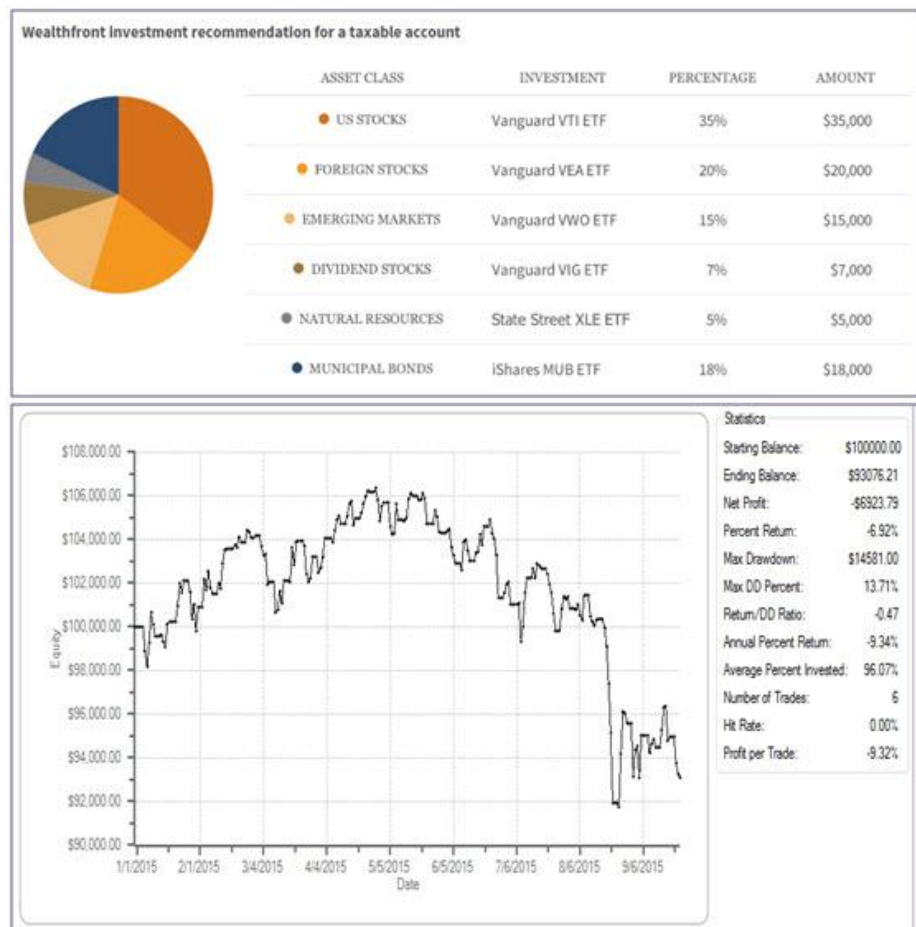
Below is a Portfolio by Wealthfront that was recommended in 2015 - their "taxable account".

You can see the different ETFs representing U.S. Stocks, Emerging Markets, etc. with their allocations in an account. These ETFs were chosen according to the tenets of Modern Portfolio Theory.

Now, look at the results one would have seen in their account from January 1 through October 1, 2015. The problem with MPT is that when the market goes down, virtually all the ETFs recommended by MPT also go down.

That's not very "risk-averse". As long as the market goes up, MPT can yield positive returns. But if the market goes down - the result can be more than disappointing.

This chart shows performance of the Wealthfront Portfolio Mix in 2015 – one of our more challenging markets. With this approach, when the Market goes down, the Fund goes down..


Wealthfront investment recommendation for a taxable account

ASSET CLASS	INVESTMENT	PERCENTAGE	AMOUNT
US STOCKS	Vanguard VTI ETF	35%	$35,000
FOREIGN STOCKS	Vanguard VEA ETF	20%	$20,000
EMERGING MARKETS	Vanguard VWO ETF	15%	$15,000
DIVIDEND STOCKS	Vanguard VIG ETF	7%	$7,000
NATURAL RESOURCES	State Street XLE ETF	5%	$5,000
MUNICIPAL BONDS	iShares MUB ETF	18%	$18,000

Statistics

Starting Balance:	$100000.00
Ending Balance:	$93076.21
Net Profit:	-$6923.79
Percent Return:	-6.92%
Max Drawdown:	$14581.00
Max DD Percent:	13.71%
Return/DD Ratio:	-0.47
Annual Percent Return:	-9.34%
Average Percent Invested:	96.07%
Number of Trades:	6
Hit Rate:	0.00%
Profit per Trade:	-9.32%

IBotson's Published Record

IBotson provides the Robo Advisor system (software) that most firms rely on.

Here is THEIR published record, including a "back test" created ahead of their public launch. The back test is labeled as "HISTORICAL" in this chart, which ends October 2015.

The results are surprising. If you had just bought one ETF, "SPY", which represents the S&P 500, you would have been up 10% over using the MPT approach!

The OmniFunds Approach

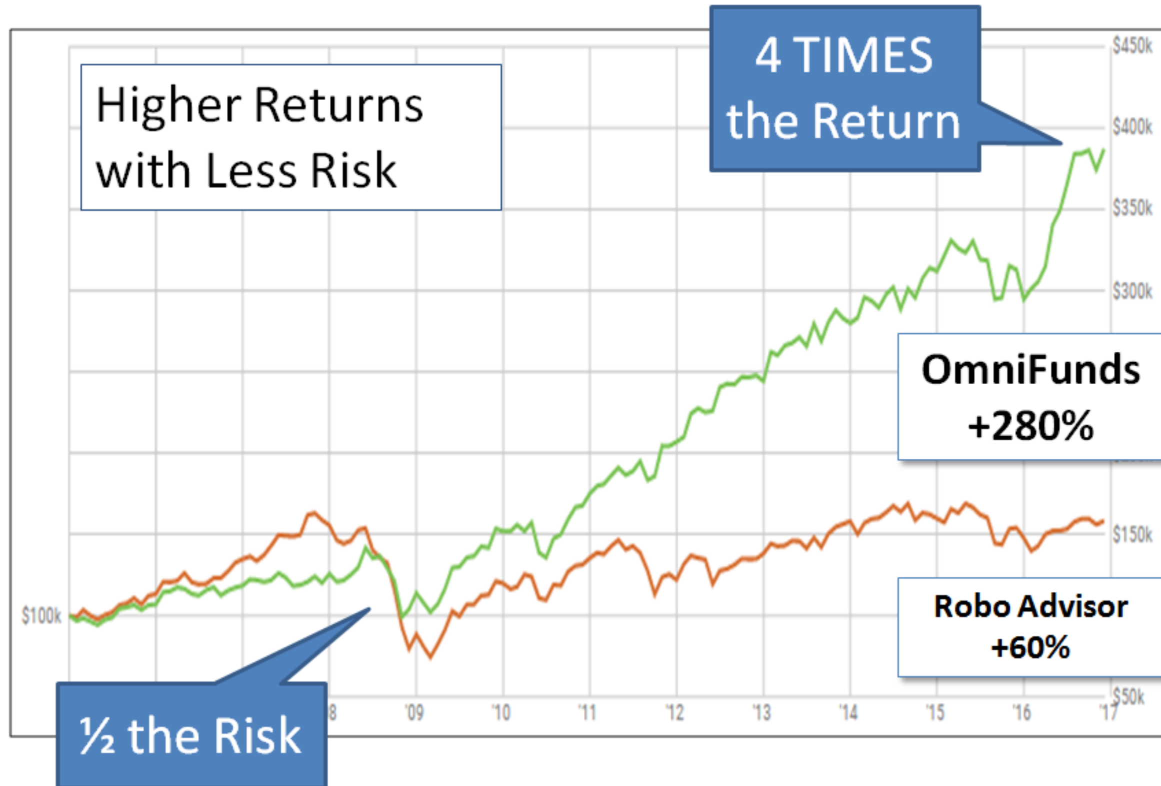
We believe in switching between equities, in the direction of the Market. To do this, we use Technical Indicators to determine Market State. Then we select prudent mixtures of equities (Stocks) based on measuring the likely direction of the individual securities.

The idea is simply to LOOK AT WHAT THE MARKET IS DOING and adjust holdings based on that.

If the market is trending up (green zones), you can be LONG Equities. But if it turns sideways, becomes volatile or starts moving down, you should be in Cash and defensive assets, like Gold. Or even Inverse ETFs, which we will discuss shortly.

This is the fundamental difference. Based upon our 30 years of experience developing and providing indicators, systems and strategies for individual investors, we believe you CAN time the market. And we are proving that tenet to be true every day.

"OmniFunds has Proven that you CAN Time the Market."



Higher Returns. Less Risk.

Th above OmniFund approach beat the Robo Advisor index by a factor of 4, with draw downs reduced by half, yielding an overall improvement of 800%.

The only way to get these results is by doing the following on a periodic interval (typically one month):

- **Analyzing the personality of the market and selecting classes of securities that align with the market.**
- **Switching into the securities with the highest potential for appreciation according to our proprietary Probability Analysis.**

Switching vs. Buy and Hold

The average Robo Advisor will keep you invested in a very specific mix of ETFs, which will almost always follow the market down. Many of them have a vested interest in using specific funds (like the Vanguard ETFs) which is good for them, but in our opinion not so great for the investor.

Switching into different equities periodically does incur commission cost, but staying aligned with Market's "Personality" and trading into the strongest securities or ETFs on a periodic interval can generate much greater returns and avoid some of the really large draw downs typically seen.

Returns Matter. It is not what you save, but what you take home that counts!

It’s all about Higher Returns with Less Risk.
That’s the OmniFunds goal.