



Will Chatbots Replace Financial Advisors - ChatGPT, Artificial Intelligence, and Investing

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By Brian Luster

On November 23, 2022, a San Francisco based Artificial Intelligence (AI) software company called OpenAI launched ChatGPT, a software application that can be used to conduct an online chat conversation via text, in lieu of providing direct contact with a live human agent. The software is designed to convincingly simulate the way a human would behave as a conversational partner. What is fascinating about ChatGPT, however, is its versatility. In addition to participating in conversation, ChatGPT can compose music, fairy tales, and student essays; answer test questions; write poetry and song lyrics; and even play games. This software has not yet been connected to the internet, and so can occasionally produce incorrect answers, and its knowledge of world events is limited after 2021.

With those limitations in mind, I decided to see how well AI could help me write a client-ready financial article, as well as help think about how best to allocate investment portfolios. To begin this experiment, I logged into ChatGPT (it took over an hour due to high user demand) and typed in the following prompt, "Write a client ready article about the current state of the financial markets," to which I received the following response:

The state of the financial markets can be described as cautiously optimistic. The global economy has shown signs of steady recovery following the challenges posed by the COVID-19 pandemic, which has led to an increase in market confidence. In the stock market, major indices have reached all-time highs, driven by a combination of low interest rates, increasing corporate profits, and positive vaccine news.

In terms of bonds, yields have remained low, reflecting the continued monetary support provided by central banks. Commodity prices, especially precious metals, have seen significant growth due to increased demand and supply chain disruptions. Cryptocurrencies have also gained popularity, with Bitcoin reaching record highs in recent months.

However, investors should still exercise caution as the path ahead remains uncertain. The ongoing COVID-19 pandemic continues to pose risks to the global economy, with new variants emerging and the pace of vaccinations varying among countries. The eventual withdrawal of monetary support from central banks could also lead to market instability.

In conclusion, the state of the financial markets is positive but uncertain. While there are many factors driving growth, it is important for investors to keep a close eye on the ongoing developments and adjust their portfolios accordingly. Seeking professional financial advice can also help to make informed investment decisions in these challenging times.

Recognizing that ChatGPT is working with data that is 2 years old, I thought this an impressive response, and was left wondering how much better it would be if the algorithm could utilize the internet to access more recent government and private sector economic reports, and financial news. Until then, I decided to ask the software something that was more timeless in nature and practical. My second prompt was “How should I invest my investment portfolio for long-term returns?” to which I received the following response:

Investing your portfolio for long-term returns requires a well-thought-out strategy. Here are some general guidelines to consider:

- 1. Diversification: Spread your investments across multiple asset classes, such as stocks, bonds, real estate, and commodities, to reduce risk. Diversification helps ensure that your portfolio is not overly reliant on any one investment.*
- 2. Consider your risk tolerance: Consider how much risk you're comfortable taking on and make sure your portfolio reflects that. Younger investors, for example, may be able to handle more risk than older investors who are closer to retirement.*
- 3. Have a long-term perspective: Invest with a long-term perspective, focusing on building wealth over many years. This can help you weather short-term market volatility and avoid making emotional investment decisions.*
- 4. Consider low-cost index funds: Index funds are a type of mutual fund that tracks a market index, such as the S&P 500. They offer low fees, broad diversification, and can be a cost-effective way to invest in the stock market.*
- 5. Regularly review and rebalance: Regularly reviewing and rebalancing your portfolio helps ensure that it remains aligned with your investment goals and risk tolerance.*
- 6. Seek professional advice: If you're uncertain about how to invest your portfolio, consider seeking the advice of a financial advisor. A professional can help you build a well-diversified portfolio tailored to your investment goals and risk tolerance.*

It's important to remember that investing always carries some degree of risk and there are no guarantees of positive returns. It is also important to keep in mind that past performance is not indicative of future results. By following a well-thought-out strategy and seeking professional advice, you can increase the chances of achieving your long-term investment goals.

This was a much better answer and highlighted many of the key points we emphasize when meeting with prospective clients. This made me wonder, could financial advisors eventually be replaced by chatbot? If so, how would they interact in an initial client meeting. So, I asked ChatGPT, “What should a financial advisor say to a prospective client?”

A financial advisor can use several different approaches when speaking with a prospective client, but the goal is typically to establish a relationship and determine the client's financial needs and goals. Here are some key points a financial advisor may want to cover:

Introduction: Introduce yourself and your firm, highlighting your experience and qualifications. Explain what your role as a financial advisor is and how you can help clients achieve their financial goals.

Assessment of financial situation: Ask the prospective client about their financial situation, including their income, expenses, debt, savings, and investment portfolio. This will help you understand their current financial situation and what their goals and priorities are.

Discussion of financial goals: Ask the prospective client about their financial goals, such as saving for retirement, paying for a child's education, or buying a second home. Discuss how you can help them achieve these goals and what the expected timeline might be.

Explanation of services: Explain the services you offer, such as investment advice, portfolio management, retirement planning, and tax planning. Explain how these services can help the client achieve their financial goals.

Discussion of fees: Discuss your fees and how they're structured. Explain what the client can expect to pay and what they'll receive in return. Make sure the client understands that they'll be paying for your expertise, time, and resources.

Next steps: Summarize what you've discussed and explain the next steps. If the client is interested in working with you, you can schedule a follow-up meeting to further discuss their financial situation and goals.

A financial advisor's goal is to build a relationship with the prospective client, understand their financial needs and goals, and explain how they can help. By doing so, the advisor can establish trust and position themselves as a valuable resource for the client's financial future.

Clearly, this 3-month-old chatbot already understands more about how to communicate with prospective clients, than many aspiring financial advisors, and has demonstrated its ability to replicate a human conversation. It also understands many of the more important aspects of what drives a client to seek out the help of a financial advisor, which is an important start. So, for my final question, I explicitly asked "Will financial advisors be replaced by chatbots?"

It is unlikely that chatbots will completely replace financial advisors in the near future. While chatbots are becoming increasingly sophisticated and can provide valuable information and guidance, there are several key areas where human financial advisors continue to add value:

Personalization: Chatbots can provide generic information, but they can't tailor their advice to an individual's unique financial situation. Financial advisors, on the other hand, can take into account a person's specific goals, risk tolerance, and investment history when making recommendations.

Complex financial planning: Financial advisors can help clients with complex financial planning issues, such as estate planning, tax strategy, and retirement planning. Chatbots are not yet advanced enough to handle these types of complex financial issues.

Emotional support: Making financial decisions can be stressful, and financial advisors can provide emotional support and reassurance to their clients. Chatbots are not yet capable of providing the same level of empathy and understanding as a human advisor.

Regulatory compliance: Financial advisors are regulated by governing bodies, such as the SEC or FINRA, and must adhere to specific ethical and legal standards. Chatbots, as AI systems, are not yet subject to the same regulations.

While chatbots may be able to provide valuable information and support in some areas, they are unlikely to completely replace human financial advisors in the near future. Instead, it is more likely that chatbots will complement financial advisors by providing additional information and support to clients.

While there is still plenty of room for improvement, it is exciting to see how much progress AI has already made with respect to searching and analyzing data, producing supporting arguments, and communicating conclusions succinctly and clearly. Still, as OpenAI CEO Sam Altman recently tweeted, “It’s a mistake to be relying on it for anything right now...we have lots of work to do on robustness and truthfulness.” Yet, I can’t help but be haunted by how fast this technology is evolving, and where a multibillion-dollar investment from Microsoft will lead it. While I do not believe AI will ever truly disintermediate an industry that relies on the multivariate analysis of behavioral economics, investment theory, complex financial, tax, and estate planning, human psychology, and intergenerational wealth transfer, I do believe that AI will serve as a valuable supporting tool for investment professionals in building personalized plans for their clients in the years ahead. And who knows, maybe in a year or two, it will help me write more interesting client-ready financial articles and market outlooks.

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