
Bank of Montreal introduces Smart Folio, a robo-advice solution

By Editorial Staff Thu, Jan 28, 2016

Disruption of the financial advice market is occurring in Canada too, with the same drivers: technology, demographics and regulation.

Facing competition from independent online advice startups and the approach of stronger fee disclosure requirements this summer, the Bank of Montreal has become the first of the major Canadian banks to offer a “robo-adviser.”

Called “SmartFolio,” the financial advice service, developed in-house at BMO, directs online customers to a portfolio of exchange-traded funds depending on their income, investment horizon and tolerance for risk.

The other four big Canadian banks—Royal Bank, Toronto-Dominion, Bank of Nova Scotia and Canadian Imperial Bank of Commerce—are expected to develop their own robo-advice solutions, but BMO is first on the market.

The target customer for SmartFolio is someone who is ready to start investing, but not yet prepared for a full-fledged financial plan. Prospective clients access SmartFolio through a computer, tablet or smartphone. They fill out an online questionnaire that gathers information about their investment goals, their time horizon and their tolerance for risk.

After some online explanations of volatility and the relationship between risk and reward, the client is enrolled in one of five model portfolios made up of BMO’s own exchange-traded funds, or ETFs. More options may be available in the future, according to Charyl Galpin, head of BMO Nesbitt Burns, a part of BMO Wealth Management.

Customer support is provided via live chat, email and telephone. The minimum account size for SmartFolio is \$5,000 and fees are charged as a percentage of assets under management, starting at 70 basis points for the first \$100,000 and gradually moving lower to 40 basis points for amounts above \$500,000.

For a \$5,000 account, which is the minimum to invest, the annual fee comes out to \$60, according to an online calculator featured on the SmartFolio site. There may be additional management expense ratio fees on the ETFs offered.

Although BMO is touting the service as low cost, its fees are somewhat higher than those

offered by some of the independent Canadian robo-advisors. There are numerous standalone robo-adviser services in the Canadian market, including WealthSimple, NestWealth and WealthBar.

Wealth Simple and WealthBar offer free accounts for those investing less than \$5,000. At WealthSimple, clients whose accounts are between \$5,000 and \$250,000 pay 50 basis points, while WealthBar charges 60 basis points.

The arrival of fee transparency in Canada is also driving the development of robo-advice offerings. Beginning July 15, Canada's investment brokers and dealers will have to itemize the annual costs of the service fees, embedded commissions, and referral fees and report them to their clients.

Galpin says BMO started SmartFolio as a way to fill a "gap in the market." She estimates the demand for online portfolio management will reach \$300 billion a year in North America by 2020.

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