Do clients want to buy high and sell low? When markets correct, ROBO can help advisors ease investor fears

By Chris Buck and Andrew Martin

One of every advisor's biggest challenges is keeping your clients invested for the long run and sticking to the plan. Behavioral finance helps to explain why investors want to buy high and sell low. "Investors are 'normal,' not rational," says Meir Statman, one of the leading thinkers in behavioral finance. Frame dependence is a concept that refers to the tendency to change risk tolerance based on the direction of the market. For example, your willingness to tolerate risk may fall when markets are falling. Alternatively, your risk tolerance may rise when markets are rising. This change is why we tend to sell at the bottom and buy at the top.

No matter how many times you've been down this road before, once a client begins to feel the future is unsafe, it can be an uphill battle to keep them on track. One tool that can help you win that crusade is a compelling story that illustrates to your clients why investing for growth in a down market is a valuable opportunity and, even more, how to do so while being disciplined at managing risk.

The ROBO Global Robotics & Automation Index is that story. It's about an investment discipline that focuses on buying low and selling high in a growth theme that is on one of the most dramatic skyward trajectories seen in decades. The ROBO story contains three points that can help put even the most wary investor—and every advisor—at ease:

1. **Quarterly rebalancing to smooth the ride and capitalize on shifting and emerging trends**
   While 'set it and forget it' is rarely a wise investment strategy, that fact is particularly true in RAAI where extremely rapid development means that the growth leaders are changing nearly as quickly as the technology itself. To respond to this reality, the ROBO index rebalances on a quarterly basis back to the appropriate % benchmark weights. This means we are trimming the stocks that go up and adding to the stocks that go down. The ROBO Index also goes through a quarterly reconstitution by adding companies that show new potential for growth, and deleting companies who have lost market

leadership—always relying on the unique insights of our research team to select even those companies that may be less than obvious to industry outsiders. In the past two quarters, there have been 4 additions to the index and 3 deletions. It's a careful, deliberate process that helps ensure the index includes new market leaders at the right time. Here are just two examples:

- **Ocado was added to the ROBO index in 2Q18** after the British online grocer and market leader announced a partnership with US-based Kroger, who will invest $9B in the construction of robotically operated warehouses. Kroger's goal? To compete effectively with industry disruptor Amazon. Just four months after the partnership was announced, Kroger announced impressive progress in identifying locations for the first of 20+ sites for planned automated warehouses across the US. The Kroger partnership is the biggest yet for Ocado, which has similar projects in place with grocery retailers in Britain, France, Canada, and Sweden.

- **Illumina was added to the ROBO index in 3Q18** in response to the company's success in lab automaton, reducing the time and cost of human genome sequencing—one of the most important breakthroughs in the high-performing healthcare industry. Less than a decade ago, sequencing one human genome cost $10M and took several months of computing power to complete. Today, the cost is approximately $1,000 and requires less than a day. Within a few years, the process is expected to drop to $100 and take just minutes. Illumina is one of the companies that is making that progress possible. Thanks to breakthroughs associated with Illumina's Hi-Seq X-10, capacity is now in place to sequence 684,000 human genomes in a single year. Illumina's recently announced acquisition of Pacific Biosciences is expected to accelerate progress—and revenues—to an even faster pace.

2. **A market sector poised for unprecedented growth**
   Technologies have advanced dramatically over the past five years, leapfrogging to create almost unimaginable breakthroughs in capabilities and applications. Industry disruption has become the new normal as companies who fail to adapt their technologies and business models fall—and those who do rise. This level of change and growth is happening in every industry and every region of the world.

   Healthcare leads the pack, not only in RAAI-focused investments and revenue growth, but also in tangible results that are visible to investors. Progress in genome sequencing is changing how we diagnose and treat disease. Robot-assisted surgeries are improving patient outcomes and reducing healthcare costs. Exoskeletons are improving patient mobility and helping caregivers lift patients to provide better care. In food and agriculture, robots are feeding, watering, and picking crops to increase output from limited resources. In logistics, AI and automation are accelerating supply chains and dramatically increasing speed-to-delivery. In manufacturing, cobots are increasing factory efficiency and decreasing costs. And in every one of these industries, failure to adopt means failure to compete. Robotics, automation, and AI have become a must-have for companies to thrive in the future.

3. **Multi-pronged diversification targeting multiple subsectors and market caps**
   Invested entirely in leaders and emerging playing in robotics, automation, and artificial intelligence—or 'RAAI'—the ROBO Global Robotics & Automation Index uses a rigorous Industry Classification process that is designed to provide multiple levels of diversification. Starting with a universe of more than 1,000 global innovators, we narrow that down to include only those companies that fit into 1 of the 12 subsectors we've identified as growth leaders, that meet our requirements for robotics and automation revenue, and that adhere to our ESG policy. We then turn to the research and insights of our Strategic Advisory Board—including a team of 7 PhDs, professors, and researchers who are each recognized experts in their fields—to evaluate the technology and market leadership of each company.

   The result is a mix of 80 or more companies that span the entire RAAI supply chain. Of those companies, more than half are mid-caps, with the remainder split between small-cap and large-cap companies. This is a major contrast to some newer indexes that target the RAAI opportunity by grabbing only the best-known, largest cap players in the space. While these newcomers consistently overlap with broad-market indices like ACWI, S&P and NASDAQ, ROBO offers less than 2% overlap with the larger indexes.

In today's volatile market environment, an advisor's job is to keep clients from abandoning their investment strategies due to fear. No growth strategy is entirely free of risk, and there is no silver bullet. But for advisors who understand the balance between risk and reward and who are seeking a way to use lower prices and higher market volatility to their advantage, the ROBO Global Robotics & Automation Index may be the ideal solution. And telling the ROBO story may just be the key to helping you succeed in keeping your clients invested and on track toward their long-term financial goals.