

Trends in Advisor Behavior During Market Volatility

Week of June 1-5, 2020

Last week was a marked change for advisors with investment activity shifting back to fixed income categories.

- Cash continued its gradual downward trend from the preceding weeks dropping from 5.3% to 5.11%, which is a 3% decrease.
- Advisors shifted their focus to bonds this week with strong activity across all the major bond categories.
- Overall trading activity diverged with net inflows into non-risky asset classes and net outflows from risky assets classes.
- Both short-term bond and emerging markets bond funds gained significant traction from the prior week.

Summary

Cash declined slightly from 5.3% to just below 5.11% last week. The drop was a reflection of cash being put to work into fixed income as **yields rebounded** amid better-than-expected data on the U.S. labor market. Cash is still roughly two times the average, but roughly flat since early April. From the prior week, net flows diverged from net neutral territory with **less risky assets gaining favor** over more risky assets. **Client contribution activity** was noticeably higher from the prior four weeks. However, clients continue to take slightly more out of their accounts than they are putting in. We saw strong buying of Intermediate Bond, Short Term Bond, and High Yield Bond mutual fund and ETF styles. In equities, Large Cap Core and Foreign Large Value dropped out of favor with Mid-Cap Value stock funds trailing closely behind.

Key Insights

- Transaction volumes popped up slightly last week, while still trending **closely to the average** in 2019.
- Cash in advised portfolios is running at **about 5.11%** down from 5.3%.
- Advisors had net positive flows into less risky assets. We define this as **slightly risk averse**, which over time conforms with our findings that advisors' take a slightly risk off position. (Less risky assets are slightly favored over risky assets.)
- Intermediate, Short-Term, and High Yield Bond fund and ETF styles saw **strong net inflows** last week.
- We look at the number of client risk tolerance changes as a proxy for how advisors and clients are engaging around risk conversations. The number of changes this week was **nearly identical** to the pre-crisis levels.
- Client contributions are trending slightly higher than normal, suggesting that clients have taken **more interest in their investment activities** this past week.
- Last week, we saw a continued decline in client defections from their advisor and a modest increase in new clients. Clients continue to show **strong loyalty** to their current advisor.

Interested in learning more about our Advisor and RIA Analytics Tools?

215.240.7063

support@envestnetanalytics.com



CONTACT US

About the Data

Our goal with this weekly compendium of industry metrics and indices is to inform the report's consumer about the investment, risk and business activities executed by RIAs across the nation. We believe this information will provide advisors with near real time insights that may help them improve their business and client outcomes.

The data included in the RIA Pulse metrics comes from our wealth management solutions databases, which include Envestnet and Tamarac data. We filter the data those firms and advisors who we have segmented as Registered Investment Advisors (RIAs). The data is de-identified and aggregated to create a representative set of metrics and indices.

We curate the data to eliminate data which we deem to be incomplete, having insufficient history, or have minimal contribution to the metrics. We reevaluate the components and qualifiers of the metrics and indices on at least an annual basis in an effort to keep our RIA index representative of advisors' inferred attitudes and actual behaviors.

Risk On includes all individual equities (stocks).

We define risky assets as equity focused mutual fund and ETF styles. This includes, but is not limited to US Large Cap, Mid Cap, Small Cap, International, Emerging Markets Equities, Emerging Market Bonds, and High Yield Bonds.

We define non-risky assets as all individual fixed income instruments. Risk Off also includes fixed income focused mutual fund and ETF styles. This includes Taxable, Muni, Bank Loan, and International Fixed Income.

We define risk neutral assets as Cash/Money Markets, Balanced/Asset Allocated, and Alternative styles.

DISCLOSURE:

The information, analysis, and opinions expressed herein are for general information only. Nothing contained in this document is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. Investing carries certain risks and there is no assurance that investing in accordance with the portfolios mentioned will provide positive performance over any period of time. Investors could lose money if they invest in accordance with the portfolios discussed herein. Past performance is not indicative of future results.

Index performance is presented for illustrative purposes only and does not represent the performance of any specific investment product or portfolio. Fees and expenses are not included in the performance of an index. Fees and expenses will reduce performance. An investment cannot be made directly into an index. The information contained herein has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. News feeds, data feeds, market quotes, and other links on this Envestnet Enterprise Portal are provided by independent third parties and are not guaranteed to be accurate, complete, or timely (including any information or data sources provided by Advisor or provided by third parties at the direction of Advisor). The news, market quotes, and links provided are shown for your convenience only. Linked web-sites are independent and are not owned or operated by Envestnet Financial Technologies. Envestnet Financial Technologies does not endorse any linked web-sites, nor does Envestnet Financial Technologies guarantee the timeliness, accuracy, completeness or adequacy of any information posted on the linked web-sites. Envestnet Financial Technologies does not necessarily agree with any opinion, outlook, or forecast stated on any linked web-site.

Envestnet Financial Technologies reserves the right to terminate, modify, or change the links, news sources, and market quote sources at any time without notice.