Trends in Advisor Behavior During Market Volatility

Week of June 8-12, 2020

Last week was a continuation of the new "normal" as advisors favored non-risky assets with increased attention centered on intermediate fixed income – even at today's historically low rates. Otherwise, advisor activity was spread across many categories with no identifiable pattern emerging.

- Cash crept up to its prior month ending watermark inching from 5.11% to 5.25%, which is a 1.67% increase.
- Advisors doubled down on non-risky assets as net inflows into non-risky asset classes persisted while net outflows from risky assets classes precipitated further.
- There was strong buying activity across all the major fixed income categories again this week with intermediate bonds garnering the largest net inflows.
- Conversely, International Developed and Emerging Markets continue to fall out of favor, an allocation trend we have observed year-to-date.

Summary

Cash **increased marginally** from 5.11% to 5.25% last week. Cash is sustaining at roughly two times the average since early April. **Advisors remained risk averse** again this week favoring less risky assets, which is a continuation of long-term investing behavior. **New client acquisitions** were noticeably higher, rising above the prior 8-week trend. Moreover, client defections were contracted again this week illustrating clients' financial advice needs amid **growing concerns over prolonged volatility.** We observed strong buying of Intermediate Bond, Short Term Bond, and Intermediate Municipal Bond mutual fund and ETF styles. In equities, **Large Cap Core funds dropped out of favor** this week, a short-term reversion from its positive YTD net inflows.

Key Insights

- Cash in **advised portfolios is sustaining** at two times long-term averages at 5.25%.
- Overall transaction volumes were **dampened slightly** from the prior week, while trending marginally above the average in 2019.
- Advisors **favored less risky assets** concentrating net positive flows into intermediate fixed income categories. We define this as slightly risk averse, which over time conforms with our findings that advisor's take a **slightly risk off** position.
- Intermediate, Short-Term, and Intermediate Muni fund and ETF styles experienced strong net inflows.
- We look at the number of client risk tolerance changes as a proxy for how advisor and clients are engaging around risk conversations. Advisors appear to be **once again actively modifying client's expectations around risk and return** as the number of changes was 41% higher this week and 25% above the trailing four weeks.
- 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?

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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.

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