Trends in Advisor Behavior During Market Volatility

Week of June 14-19, 2020

Last week the Fed announced efforts to purchase individual corporate bonds, and advisors began putting the most cash back to work with fixed income asset classes again leading the way. Advisors favored intermediate bond funds again this week, a trend beginning to emerge as the investment style garners significant inflows for the third consecutive week.

- Cash experienced the most significant drop since March, declining from 5.20% to 4.09%, which is a 21.30% reduction.
- Overall advisor sentiment for the week, as measured by net sales activity, was neutral across both risky and non-risky asset classes.
- However, net sales from non-risky asset classes dipped slightly into outflow territory as advisors purchased more risky asset classes, an occurrence not observed since early April.
- There were significant net inflows into intermediate bond funds as cash moved from the sidelines. In fact, intermediate bond fund inflows were well above any other asset classes for the week, but trailing YTD inflows to Large-Cap Core by a factor of 2X.

Summary

Allocations to cash were reduced by 21% this past week, the **most significant drop in cash levels** since crisis began. Advisors had been sustaining cash levels in investor accounts at roughly two times the 2019 average since early April. However, this past week's activity **now restores cash levels** back close to pre-crisis averages. While advisors continue to remain risk averse, this week advisors put cash to work by **reallocating their non-risky assets** into intermediate bond funds with strong outflows from taxable and muni fixed income securities. As **signs of recovery start to emerge**, advisors continue to acquire new clients at slightly elevated levels again this week. Moreover, client defections were contracted illustrating clients' financial advice needs amid **growing concerns** over prolonged volatility.

Key Insights

- Cash in advised portfolios **has reduced to 4.09%**, which is marginally above 2019 averages of 3.6%.
- Advisors favored **less risky assets** concentrating their purchasing activity 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 Bond, Intermediate Muni, and Short Term Bond fund and ETF styles all 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 **were less active modifying client's expectations around risk and return** as the number of changes was 34% lower this week and only 7% above the trailing 52-weeks average.
- Last week, we saw **a continued decline in client defections from their advisor** and a modest increase in new clients. Clients continue to **draw down on their portfolios week-to-week**, continuing a long-term trend observed.

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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