

Trends in Advisor Behavior During Market Volatility

Week of August 3-7, 2020

Major US stock indexes pushed higher again this past week. In market moving news, the NASDAQ topped the 11,000-point range for the first time ever. The record setting move was driven up again by strong earnings results from many technology stocks. As the market slowly improves, we continue to observe advisors putting cash to work into short-term and intermediate mutual funds and ETFs. This week, advisors appeared to be slightly more aggressive on a relative basis as net sales activity for both risky and non-risky assets converged. However, both non-risky and risky assets dipped into negative territory to close out the week. This week, the vast majority of redemptions from professional managers came from Large Cap Core funds for the fourth consecutive week. While advisors continue to redeem from Large Cap stocks, they also appear to be reallocating portfolios from fixed income and municipal bond securities as well.

Summary

For the second straight month, there has been no meaningful change to cash allocations, which has remained largely unchanged since early June. Cash allocations closed at **4.0%** down from 4.05% the prior week. Advisors have **remained risk averse** with cash investments consistently moving into intermediate mutual funds and ETFs. Over the past month, we have also observed advisors reallocating their individual equity exposure with **technology stocks** remaining at the top of individual holdings changes. Net client acquisitions have trended downward for the past several weeks, but popped modestly for the first time in four weeks. Clients **contributed less to their portfolios** as net client redemptions hover around long-term averages. Overall, we observe clients gradually drawing down from their nest egg week-to-week.

Key Insights

- Cash allocations continue to **inch downward** from the low 4-percent range over the past two months. This week allocations to cash closed at 4.00% representing a 1.24% decrease from the prior week.
- Advisors continued to favor non-risky assets with inflows to short-term and intermediate bond MF and ETF styles experiencing the most purchasing activity for the week. Overall **advisor sentiment is risk averse**, which over time conforms with our findings that advisor's take a slightly risk off position.
- Redemptions from large cap core funds have also persisted over the past month, illustrating a **change in buying behavior** from the first half of the year.
- New client acquisitions have accelerated this week. Advisors have been **successful gathering new client assets** for the past four weeks. This week's net client acquisitions (as measured by the net of new and lost clients) ended again in positive territory.
- Clients continue to redeem from their accounts with net contributions retreating to long-term averages. We observe **clients gradually drawing down on their portfolios** week-to-week.
- We look at the number of client risk tolerance changes as a proxy for how advisor and clients are engaging around risk conversations. Advisors continue to update client's expectations around risk and return, but the **number of changes was down by 9%** this week (and only slightly above the trailing 52-weeks average).

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.