Trends in Advisor Behavior During Market Volatility

Week of August 17-21, 2020

This past week, the S&P 500 index eclipsed its recorded peak set some six months earlier. The S&P 500 advanced for the fourth straight week, supported again by technology stocks. This milestone marks the fastest bear-market plunge and second-fastest bear market recovery in US history. As the markets return to new highs, the economic recovery is still uneven. We continue to observe advisors rebalancing their portfolios by trimming down on their Large Cap Core mutual funds and ETFs as well as individual fixed income and equity positions. For the second week, advisor sentiment appears more risk averse as net sales activity for non-risky assets overshadowed risky assets classes. The majority of all purchasing of professional managers came from non-risky mutual funds and ETFs investments. Eight out of the top ten asset classes were comprised of varying bond durations with intermediate bond fund garnering most of the net inflows. Over the past month, advisors have continued to redeem from Large Cap Core and Growth holdings.

Summary

While cash allocations have **remained slightly elevated** from pre-pandemic averages, there has been no meaningful change to cash allocations since mid-June. Cash allocations closed at **3.95%** up from 3.93% the prior week. Advisors have remained risk averse with investments consistently moving into intermediate and short-term mutual funds and ETFs. Over the past month, we have also observed advisors **reallocating their individual equity exposure** with large cap stocks remaining at the top of individual holdings changes. Net client acquisitions have experienced **positive gains** over the past three weeks. Client contributions have picked up some steam in August while net client contributions remain negative (consistent with long-term averages). Overall, we observe clients **gradually drawing down** from their portfolios week-to-week.

Key Insights

- Cash allocations have stabilized in the low 4% range since mid-June. This week **allocations to cash remained just below 4%** for the second week closing at 3.95 (flat from the prior week).
- Advisors continue 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 advisors 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.
- Advisors have been **successful gathering new client assets** for the past several 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 clients' expectations around risk and return, but the **number of changes was down by 4% this week** (and only 6% above the trailing 52-weeks average).

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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