Trends in Advisor Behavior During Market Volatility

Week of May 1-8, 2020

Last week was closer to "normal", if we define normal as 2019 and early 2018 trends. This week, trading activity and changes to client's goals and objectives were both down significantly. Less risky asset styles saw modest inflows and more risky assets flows were flat. Cash levels are still slightly high at 6% of investment accounts. There were no significant changes to style flows last week as flows of mutual funds and ETFs continue positive into fixed income and US growth styles, and negative in international and value styles.

Summary

Cash dropped from 6.3% to 6.0% last week, still roughly two times the average, but roughly flat since early April. Advisors moved from slightly bearish to **slightly bullish on less risky assets**, with modest net purchases, while neutral on more risky assets as seen in zero net flows. **Client activity was down slightly** last week in terms of both contributions and withdrawals. Clients continue to take slightly more out of their accounts than they are putting in. We saw **modest buying** of fixed income mutual fund and ETF styles last week. In equities, we continue to see a strong bias towards **growth** over value styles. We saw no meaningful changes in client loyalty metrics last week, with very few clients leaving their advisor.

Key Insights

- Transaction volumes **dropped 25%** last week and now are 35% higher than the average in 2019.
- Advisors were slightly bullish on less risky assets last week, with net purchases in less risky assets and nearly net flat in more risky assets. We define this as **slightly "risk off"** positioning and is consistent with all of 2019 trends.
- Fixed income fund and ETF styles saw **modest net inflows** last week, including Intermediate, Short Term, Long Term and High Yield Bond styles. **International equity styles** continue to lead net redemptions.
- We look at the number of client risk tolerance changes as a proxy for how advisor and clients are engaging around risk conversations. The number of changes this week was down 13% compared to previous week but still 35% higher than the normal number of changes over the past 52 weeks. Advisors are actively modifying client's expectations around risk and return, although the rate of changes is slowly returning to a normal rate.
- Cash in **advised portfolios** is running at about 6.0% down from 6.3%. We believe this was due to a slight net inflow into fixed income funds and ETFs.
- Client contributions and withdrawals in their investment accounts was slightly lower last week, suggesting that clients have also **slowed their investing activities.**
- Last week, the number of new clients added and clients lost was in line with the past 18 months. We believe this data supports the theory that **clients are finding comfort in advisors calm advice** in this crisis.

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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