

Trends in Advisor Behavior During Market Volatility

Week of May 26-30, 2020

Last week was one of the “slowest” weeks of the year in terms of investment activity with three noteworthy insights:

- Cash had a big move dropping from 5.9% to 5.3%, which is an 11% decrease
- Intermediate and High Yield Bonds saw strong inflows
- New clients were added at a higher than average rate, continuing a 6 week trend of good client acquisitions

Summary

Cash declined slightly from 5.9% to just below **5.3%** last week. The drop was a combination of cash being put to work and appreciation in equities and fixed income. Cash is still roughly two times the average, but **more or less flat** since early April. Net flows were **nearly zero** in both more risky and less risky assets last week. **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 strong buying of Intermediate Bond and High Yield Bond mutual fund and ETF styles. In equities, we saw broad but normal selling with no one style seeing large relative outflows.

Key Insights

- **Transaction volumes were down** last week and were nearly identical to the average in 2019
- Advisors had **net lows of zero** in both more risky and less risky asset categories. Over the past 18 months, on average, less risky assets have slightly more positive net flows than more risky assets. This is largely due to asset allocations favoring more conservative portfolios. When less risky and more risky assets have equal flows, we therefore define this as **slightly bullish** from the 18 month trend
- Intermediate and High Yield Bond fund and ETF styles saw **strong net inflows** last week
- 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 **nearly identical** to the pre-crisis levels
- **Cash in advised portfolios** is running at about 5.3% down from 5.9%
- Client contributions and withdrawals are trending slightly lower than normal, suggesting that **clients have slowed their investing and spending** activities
- Last week, we saw a **decline in client defections** from their advisor and an 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?

215.240.7063

support@envestnetanalytics.com



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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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