

Trends in Advisor Behavior During Market Volatility

Week of July 6-10, 2020

In market-moving news, stocks finished modestly higher for the second week in a row. While technology and long-term growth stocks pushed major indices up, advisors reverted their attention back to non-risky assets. Advisors appeared risk-averse even amid continuing yield compression. This trend began to emerge last month as advisors became less sanguine given uncertainty about the market recovery. We observed typical trading volume, which tracked closely to 2019 averages. However, both non-risky and risky assets experienced net outflows for the week. Advisors favored Intermediate bonds styles and continue to withdraw from Large Cap Value mutual funds and ETFs. The number of asset allocations changes last week were up roughly 30%, and only 7% lower than the trailing 52 weeks.

Summary

This week, we observed advisors exhibiting **behaviors consistent with longer-term trends**. Allocations to cash remained largely unchanged inching up to 4.29% from 4.08% the prior week. Client activity was consistent with averages in terms of contributions and withdrawals. Clients continue to take more money out of their accounts than they are putting in. Once again this week, advisors **avored Intermediate Bond styles** by a wide margin. We observed strong buying of Intermediate Bond mutual fund and ETF styles. In equities, we continue to see selling out of Large Cap Value mutual fund and ETF styles as well as individual equities.

Key Insights

- For the second week in a row, **cash allocations** remained largely unchanged – inching up modestly to 4.29% representing a 5.32% increase week-to-week.
- Amid continuing yield compression, advisors still **avored non-risky assets** with net inflows to **intermediate bond styles** garnering the largest net flows this week. We define this as slightly **risk averse**, which over time conforms with our findings that advisor's take a slightly risk off position.
- In terms of net outflows, advisors continue to shed their exposure to their individual equity and Large-Cap Value holdings. Year-to-date, Large Cap Value mutual funds and ETFs have experienced the **largest net outflows** from client's portfolios netting over \$1.5B in outflows. The investment style is running at a 12.3% redemption rate on an annualized basis.
- This week advisors worked hard gathering new client assets. In fact, **net client acquisitions** (as measured by the net of new and lost clients) was the highest we have observed for the fiscal calendar year.
- 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 **more active modifying** client's expectations around risk and return as the number of changes was 30% higher this week and 7% above the trailing 52-weeks average.
- As mentioned, there was sharp **reduction in client defections** from their advisors and only a moderate 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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