Trends in Advisor Behavior During Market Volatility

Week of September 7-11, 2020

Last week, the major U.S. stock indexes declined for the second week in a row, as the S&P 500 index fell by 2.5%. The NASDAQ also had a rocky week with sharp daily swings before retreating into correction territory. In fact, the index was down 10% from its all-time record high set just six days earlier. The negative sentiment appears to have been a response to several factors including the Senate's inability to pass another fiscal-relief package, concerns over stock valuations, and slower progress in the labor market.

Amid the market pullback, we observe advisors reducing positions in their Large Cap Core and Growth mutual funds and ETFs, as well as individual fixed income positions. Overall advisor sentiment appeared more risk averse as net sales activity for non-risky assets outpaced risky asset classes. The majority of all purchasing of professional managers came from intermediate bond funds and other non-risky mutual funds and ETFs investments. Over the past month, advisors have been successful gathering new clients, and last week marked a record high in new client acquisitions for the fiscal year.

Summary

Cash allocations remained largely unchanged from the prior week closing at **3.98%** from 3.93% the prior week. Advisors continued to favor **risk averse** investing strategies, an observable trend highlighted week-to-week. Last week was no different as advisors purchased intermediate-term bond funds and dabbled in other fixed income mutual funds and ETF styles. The top three investment styles for the year are now comprised of **fixed income bond styles,** as Large Cap Stock funds continued to lose momentum. Net client acquisitions posted its strongest positive gains reaching new heights for the calendar year. While client asset gathering was strong, overall **client activity remained negative**, which is consistent with long-term averages.

Key Insights

- Cash allocations have leveled off since early June. This **week allocations to cash maintained at 3.98%** from 3.93%, representing a 1.5% increase.
- Advisors still favor **non-risky assets** with significant purchases of intermediate bond MF and ETF styles gathered the most inflows 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 and ETFs outpaced all other asset classes. Large cap stock funds **continue to shed assets** week-to-week since the first half of the year.
- Advisors were very successful gathering **new client assets** for this week. As measured by the net of new and lost clients, this week's **net client acquisitions reached a record high** for the year.
- Clients **continue to redeem** from their accounts with net contributions retreating to long-term averages.
- We look at the number of client risk tolerance changes as a proxy for how advisors and clients are engaging around risk conversations. Advisors continue to update clients' expectations around risk and return, but the number of changes was **down 25% this week** and 20% below 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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