

Trends in Advisor Behavior During Market Volatility

Week of May 18-23, 2020

Last week was a return to “normal” for advisor activities. Trading volume was close to the average seen in 2019. Advisors were neutral on risk – more risky and less risky investments were both near net zero in flows. Cash levels remain twice the long-term rate at 5.93% of investment accounts. Advisors favored Intermediate and High Yield Bond styles last week, and continued to withdraw from Global and International Equities. The number of asset allocation changes last week were only 17% higher than the average for the past 52 weeks.

Summary

Cash declined slightly from 6.1% to 5.9% last week, **still roughly two times the average**, but roughly flat since early April. Advisors remained neutral on risky assets and slightly favored **less risky assets** which is a pattern that we saw consistently on 2019. 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 solid buying of Intermediate Bond and High Yield Bond mutual fund and ETF styles. In equities, we continue to see a moderate selling out of Global Equity and International Equity mutual fund and ETF styles.

Key Insights

- Transaction volumes were **down last week** and were roughly 10% higher than the average in 2019.
- Advisors slightly favored **less risky assets** last week, with neutral flows in less risky assets and risky assets. We define this as risk neutral, while over time, we generally see a slightly risk off position. (Less risky assets are slightly favored over risky assets.)
- Intermediate and High Yield Bond fund and ETF styles saw **solid net inflows** last week. Global and International equity value 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 25% compared to previous week and only 10% 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 5.9% down from 6.1%.
- 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. Clients continue to show **strong loyalty to their current advisor**.

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 Investnet 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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