Trends in Advisor Behavior During Market Volatility

Week of June 22-26, 2020

While the stock market continues to seesaw in June, advisors appeared unfazed last week. Overall trading volume was close to 2019 averages. Throughout June, advisors have been risk averse, and this week was no different. Less risky assets outpaced risky assets in terms of net flows. Cash levels remained slightly elevated - although trending down month-to-date. Advisors favored Intermediate and Short-Term bonds styles and continue to withdraw from International Equities. The number of asset allocations changes last week were down roughly 9%, and only 2% higher than the trailing 52 weeks.

Summary

Advisors exhibited behaviors consistent with longer-term trends across the board. Allocations to cash remained unchanged this week at 4.09%. Client activity was consistent with quarter-to-date 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 favored **Intermediate Bond styles** by a wide margin. We observed strong buying of Intermediate and Short-Term Bond mutual fund and ETF styles. In equities, we continue to see selling out of International Developed Market mutual fund and ETF styles.

Key Insights

- Coming off the dramatic decrease two weeks prior, **cash allocations remained unchanged** - leveling off at 4.09% for the second week in a row.
- For the fifth consecutive week, **advisors favored non-risky assets** with net inflows to intermediate and short-term bond styles once again paving the way. We define this as slightly risk averse, which over time conforms with our findings that advisors take a slightly risk-off position.
- Conversely, advisors continue to shed their exposure to International Developed Markets. Year-to-date, the asset class has experienced the **largest net outflows** from client's portfolios.
- Interestingly, advisors have also **slowly been withdrawing from Large Cap Core** (LCC) style for past two consecutive weeks. LCC mutual fund and ETF styles have garnered the most significant inflows YTD.
- Advisors continue to be successful **acquiring new clients**, while their existing clients gradually draw down on their portfolios.
- 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 **less active modifying client's expectations** around risk and return as the number of changes was 9% lower this week and only 2% above the trailing 52-weeks average.
- There was no observable pattern in client defections from their advisors and only a modest decrease 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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