

# Trends in Advisor Behavior During Market Volatility

Week of June 29 — July 3, 2020

As stocks finished higher this week, advisors' attitude towards risk shifted to a more "risk-on" position. While weekly trading volume remained unchanged, overall net sales activity into equity-based asset classes outpaced their less-risky counterparts. Advisors still favored intermediate and short-term bonds styles, but redeemed almost twice as much out of individual fixed income and municipal bond holdings. In equity-based trading, advisors reduced positions in individual stocks while showing strong inflows into Large Cap Core fund and ETF styles.

## Summary

Advisors have been very slowly reducing cash levels. Cash allocations in advised portfolios remained largely unchanged from last week at 4.08%. In general, we observed that advisors were **slightly more risky while remaining defensive** by anchoring net sales activity to Intermediate and Short Term Bond funds and ETFs. However, advisors favored Large Core (and Growth) over Large Value equity styles. All three investment styles have garnered the most significant net sales over the past six weeks. Client flows popped modestly from the prior week, but **net client flows remained neutral** in terms of contributions and withdrawals. Clients continue **to take more money out** of their accounts than they are putting in. Advisors were unsuccessful retaining clients this week as **client defections** overtook new client acquisitions.

## Key Insights

- Cash allocations remained unchanged - leveling off at **4.08%** for the second week in a row.
- Overall, advisors favored **more risky assets** this week. In addition, net inflows to intermediate and short-term bond styles were the top two investment styles. We define this as **slightly risk averse**, which over time conforms with our findings that advisor's take a slightly risk off position.
- However, advisors continue to purchase Large Cap Core equity-based investment styles this week. Both **Large Core and Large Growth** categories appear in the top ten investment styles year-to-date (ranked 1 and 3 respectively).
- Advisors also **modestly redeemed exposure to balanced funds** this week. Year-to-date, the asset class has experienced the third largest net outflows from clients' 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 **much less active modifying client's expectations around risk and return** as the number of changes was 35% lower this week and only 30% above the trailing 52-weeks average.
- This week advisors were unsuccessful acquiring new clients with **client defections** overshadowing new clients.
- There was no observable pattern in client defections from their advisors and only a modest decrease in net new clients. Clients continue to draw down on their portfolios week-to-week, continuing a long-term trend observed.

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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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