Trends in Advisor Behavior During Market Volatility

Week of July 13-17, 2020

Stocks finished higher again this week amid positive coronavirus vaccine news and economic data. In fact, the S&P 500 approached break-even territory returning close to its level at the end of last year. Although we observe weekly shifts in style usage and asset-class leadership, advisors appear to be staying the course with strong inflows into non-risky assets. This week's activity shows strong outflows from individual fixed income and muni fixed income securities. Advisors appear to have rebalanced their exposure to individual fixed income instruments by a margin of 2:1 relative to intermediate bond funds and ETFs. Advisors also redeemed heavily from individual stocks as well as Large-Cap core funds this week. In aggregate, we observed net outflows for both non-risky and risky assets.

Summary

Allocations to cash have stabilized over the past few weeks with allocations hovering down to 4.17% from 4.29% the prior week. Advisors remain **risk averse** as flows into intermediate bond styles continue to trend week-to-week by a wide margin. However, this week we observed advisors **rebalancing portfolios with strong inflows into intermediate bond funds** and outflows resulting from muni and fixed income instruments and individual stock positions. New business development efforts showed that advisors were very successful acquiring new clients as net **new clients reached new peaks** for the week. Clients were also **active this week** as observed by the dramatic shift in net client contributions. Client **redemptions traced downward** for the second consecutive week reaching a new weekly low for the year.

Key Insights

- Cash allocations have stabilized, hovering in the **mid 4-percent range** for the past three weeks. This week allocations to cash closed the week at 4.17% representing a 2.80% decrease from prior week.
- We continue to see **advisors favor non-risky assets** with net inflows to intermediate bond MF and ETF styles amassing the most significant inflows this week. Overall advisor sentiment is still risk averse, which over time conforms with our findings that advisors take a slightly risk-off position.
- Advisors appear to have taken the opportunity to **rebalance their fixed income portfolios** with large outflows coming from individual fixed income and muni fixed income positions (roughly 2:1 relative to inflows into intermediate bond MF and ETF funds).
- Similar to last week, advisors have been successful gathering new client assets. This week advisors reached a **new high watermark with net client acquisitions** (as measured by the net of new and lost clients) measuring a new peak for the fiscal calendar year.
- Conversely, clients continue to redeem from their accounts as net contributions hit a dramatic trough this week. We observe **clients gradually drawing down on their portfolios** week-to-week. However, this week clients drew down from their portfolios acutely – measuring the second lowest point since Jan 2019.
- We look at the number of client risk tolerance changes as a proxy for how advisor and clients are engaging around risk conversations. Advisors continue to update client's expectations around risk and return, but the number of **changes inched up by only ~9% this week** (and ~6% above 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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