Trends in Advisor Behavior During Market Volatility

Week of July 27-31, 2020

The major US stock indexes finished the week slightly higher on positive earnings news including several big tech names. Additionally, there is growing nervousness on the next round of fiscal relief, which stalled to reach terms. As concerns over the rebound start to grow, the 10-year yield closed the month at near record lows. We observed advisors tweaking portfolios with a mix of non-risky asset classes garnering the most flows. This week, advisors gravitated toward the shorter end of the yield curve with flows into short-term taxable bond funds amassing the most significant flows. This week, the vast majority of redemptions came from Large Cap Core funds for the third consecutive week. While advisors continue to redeem from Large Cap Core, they also redeemed from short-term municipal bonds funds as well.

Summary

In addition to minor tweaks in asset class exposure, there was no meaningful change in cash flows, as allocations to **cash have remained unchanged** for almost two months. Cash allocations leveled to 4.05% from 4.14% the prior week. Given uncertainty over the recovery, **advisors remain risk averse** as flows into fixed income funds and ETFs continue to trend week-to-week by a wide margin. Over the past few weeks, we have also observed advisors trimming their **individual equity exposure** (with several big tech stocks experiencing net weekly redemptions). Net client acquisitions has trended downward for several consecutive weeks, while still recording net positive results. Clients were less active from the prior two weeks, with **net client redemptions migrating back** to long-term averages. We have observed quarterly spikes in client withdrawals occurring at quarter ends, while clients continue to drawdown gradually week-to-week.

Key Insights

- Cash allocations have stabilized, hovering in the **mid 4-percent range** for the past seven weeks. This week, allocations to cash closed the week at 4.05% representing a 2% decrease from the prior week.
- While interest rates trend at historic lows, advisors continue to **favor non-risky assets** with net inflows to short-term and intermediate bond MF and ETF styles garnering 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' sentiment towards **large cap core** has taken a short-term turn over the past few weeks with redemptions from the style persisting for the third straight week.
- New client acquisitions have slowed this week, but advisors have been successful gathering **new client assets** throughout the month. This week, net client acquisitions (as measured by the net of new and lost clients) ended again in positive territory.
- Clients continue to **redeem from their accounts** with net contributions retreating to long-term averages. We observe clients gradually drawing down on their portfolios week-to-week.
- 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 clients' expectations around risk and return, but the number of changes inched up by **only 4% this week** (and ~22% 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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