Trends in Advisor Behavior During Market Volatility

Week of August 31—September 4, 2020

Last week, the equity market saw a return of volatility with Thursday's trading session experiencing the largest declines. The NASDAQ fell by more than 3%, and the S&P 500 indexes also migrated down by around 2%. The weekly declines of both indexes marked the ending of a five-week rally. Many investors took the opportunity to lock in gains following the lengthy winning streak since late March.

As the impressive market rally starts to lose some steam, we continue to observe advisors reducing their positions of Large Cap Core mutual funds and ETFs. While mega-cap stocks continue to advance this year, last week advisors sold positions in top-tech names like Apple and Microsoft. Advisors were more active this past week as observed by an increase in trading volume. Increased trading activity reflects the broader market sell-off with advisors taking gains in other well-known tech stocks as well. Overall advisor sentiment does not appear to have shifted, as net sales activity to non-risky assets still outpaces more risky assets. The majority of all purchasing of professional managers came from non-risky mutual funds and ETFs investments. Over the past three weeks, advisors have also been successful gathering new client assets.

Summary

Cash allocations inched forward, mostly due to the decrease in equity market values, closing at **3.93%** from 3.78% the prior week. Advisors continue to stay the course with risk averse investing strategies. Last week, advisors purchased **intermediate-term and short-term fixed income** mutual funds and ETFs. Both investment styles lead the year amassing the most significant flows YTD. Over the past month, we have also observed advisors selling individual equity positions and Large Cap Core funds. **Net client acquisitions** continue to post strong positive gains over the past three weeks. **Client contributions** have also proven strong while **net client activity** remains negative (consistent with long-term averages).

Key Insights

- Cash allocations **increased slightly** for the first time in 8 weeks. This week allocations to cash inched forward to 3.93% from 3.78% representing a 3.8% increase.
- Advisors still **favor non-risky assets** with significant purchases of intermediate bond MF and ETF styles gathered the most inflows followed by short-term bond for the week. Overall advisor sentiment is **risk averse**, which over time conforms with our findings that advisors take a slightly risk off position.
- Redemptions from **large cap core funds and ETFs** outpaced all other asset classes. The asset class continues to shed assets week-to-week since the first half of the year.
- Advisors have been **successful gathering new client assets** for the past three weeks. This week's 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. Client contributions have also remained strong the past three weeks.
- 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 was flat this week** (and only 6.6% 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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