Trends in Advisor Behavior During Market Volatility

Week of April 27 — May 1, 2020

Is this the new normal? The past several weeks have seen a consistent set of data trends. When comparing this period to the previous 18 months, we see overall transaction activity leveled off at roughly twice the historical levels, adjustments to clients investment objectives at roughly 45% higher, client activity back to normal, and net flows in and out of more risky and less risky investment vehicles is near zero, or flat.

Summary

Advisors left cash at 6.3% last week, still roughly **two times the average**, but roughly flat since early April. Advisors are slightly bearish on less risky assets, with **modest net redemptions**, while neutral on more risky assets as seen in zero net flows. There were no significant changes in client activity last week. Clients continue to take slightly more out of their accounts than they are putting in. We saw **strong buying** of fixed income mutual fund and ETF styles last week. Coupled with modest net redemptions when including individual securities, suggest possible **tax loss harvesting** in fixed income portfolios, OR advisors favoring **commingled fixed income vehicles** over individual securities. In equities, we continue to see a **strong bias towards growth** over value styles.

Key Insights

- Transaction volumes remained steady at **nearly double** the 18 month trend.
- Advisors were slightly bearish on less risky assets last week, with net redemptions in less risky assets and net flat in more risky assets. We define this as **slightly "risk on"** positioning.
- **Fixed income fund and ETF** styles saw strong net inflows last week, including Intermediate, Short Term, Long Term and High Yield Bond styles. **Large Cap Growth and Foreign Large Cap Growth** are attracting inflows, while most value styles are seeing significant outflows.
- We look at the number of client risk tolerance changes as a proxy for how advisor and clients are engaging around risk conversations. The number of changes this week was down 5% compared to previous week but still 43% higher than the normal number of changes. Advisors are actively modifying client's expectations around risk and return, although the rate of changes is **slowly returning to a normal rate.**
- Cash in advised portfolios is running at about 6.3% up from 6.1%. We believe this was due to a **slight net outflow** in fixed income securities.
- Client contributions and withdrawals in their investment accounts is running **slightly higher over the past 3 weeks** when compared to the past 18 months. The net withdrawal from investment accounts increased slightly last week.
- Last week, the number of new clients added and clients lost was in line with the past 18 months. We believe this data supports the theory that **clients are finding comfort in advisors calm advice in this crisis.**

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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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