

Trends in Advisor Behavior During Market Volatility

Week of August 10-14, 2020

The major US stock indexes continue their slow march higher, recording meager gains again this past week. The S&P 500 index approached its record high set six months earlier. While the pace improvement is slowing, the historic rally reflects advisor sentiment about the future expectations for a sustained economic recovery. As the market approaches record highs, we continue to observe advisors putting cash to work by trimming down on their Large Cap Core mutual funds and ETFs as well as individual equity positions. This week, advisors appeared much more risk averse as net sales activity increased sharply for non-risky assets classes. The vast majority of purchasing of professional managers came from intermediate bond and short-term bond funds. Advisors continue to redeem from Large Cap Core holdings and trimmed down on gains from Large Cap Growth funds as well.

Summary

While cash allocations have remained slightly elevated, there has been **no meaningful change to cash allocations** since early June. Cash allocations closed at **3.93%** down from 4.0% the prior week. Advisors have remained risk averse with cash investments consistently moving into intermediate mutual funds and ETFs. Over the past month, we have also observed advisors reallocating their individual equity exposure with **large cap stocks** remaining at the top of individual holdings changes. Net **client acquisitions** have experienced positive gains over the past two weeks. Client contributions have remained slowed as net client redemptions hover around long-term averages. Overall, we observe **clients gradually drawing down** from their nest egg week-to-week.

Key Insights

- Cash allocations have continued to **trend downward** for several months. This week allocations to cash crossed **below 4% for the first time since** March closing at 3.93 from the prior week.
- Advisors continue to **favor non-risky assets** with inflows to short-term and intermediate bond MF and ETF styles experiencing the most purchasing activity for the week. Overall **advisor sentiment is risk averse**, which over time conforms with our findings that advisor's take a slightly risk off position.
- Redemptions from large cap core funds have also persisted over the past month, illustrating a **change in buying behavior** from the first half of the year.
- Advisors have been successful **gathering new client assets** for the past several 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. 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 advisors and clients are engaging around risk conversations. Advisors continue to update client's expectations around risk and return, but the **number of changes was down by 1% this week** (and only 8% 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 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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