ENVESTNET

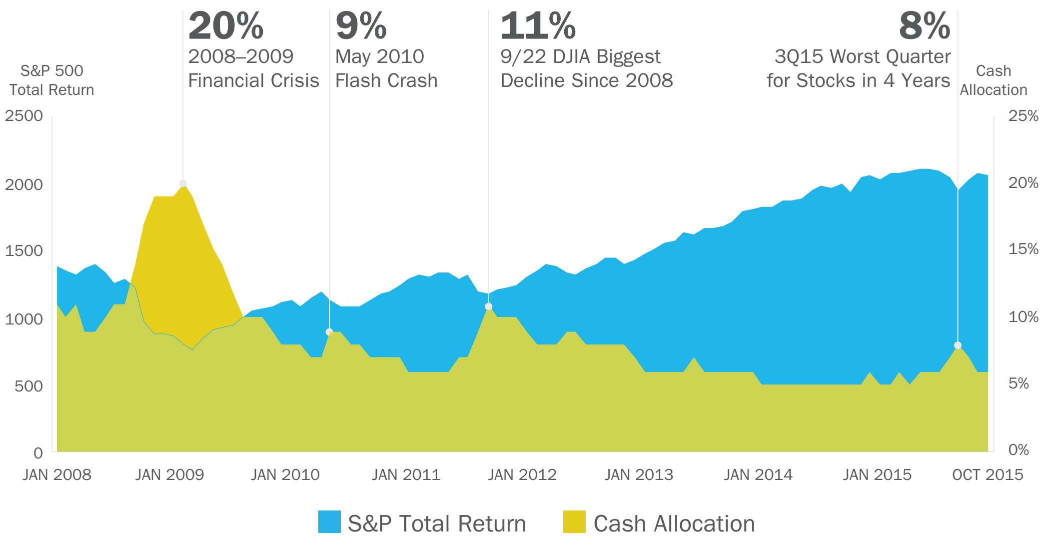
# Envestat Report

June 2016

## Are Advisors Staying the Course Amid Market Volatility?

We often hear about do-it-yourself investors who panic during periods of market volatility and dump their portfolios, thus realizing substantial losses. There is plenty of research on investor behavior to illustrate how people succumb to the pitfalls of buying high and selling low. But how does advisor behavior compare?

**Advisor Movement Into Cash Relative to S&P 500 Total Returns**
*January 2008–December 2015*




*Cash allocation is derived from all Envestnet APM accounts available on the platform between January 2008 and December 2015.*

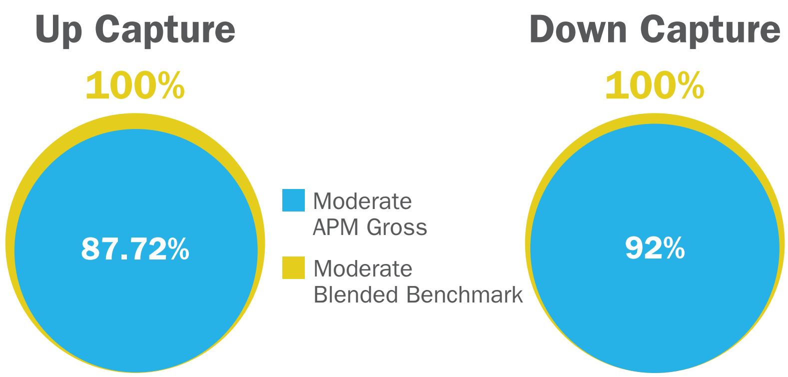
Advisor-as-portfolio-manager (APM) programs have been the fastest-growing segment of the managed accounts market. Many advisors like APM because it allows them to be more nimble and flexible in volatile markets. This month's Envestat shows that this flexibility comes with some challenges; e.g., spotting the inflection point to get back into the market.

As shown in the graph above, since 2008, in almost every period of volatility when the equity markets suffered a severe decline, we see advisors moving clients' assets to cash. While this may protect assets from the brunt of the decline, advisors are slow to get back into the market and tend to miss part of the upturn. This behavior has a detrimental effect on performance as shown on the next page. Advisors managing their own portfolios protected well during market downturns but captured just three-quarters of the market's upside as it recovered.

It is during periods of severe market volatility that advisors can add a tremendous amount of value by assuring clients they are correctly positioned. They can provide the coaching and reaffirm the need for clients to stay the course in order to achieve their financial goals. In fact, our Capital Sigma research shows that a deep financial planning process as well as continuous client coaching delivers more than 50 bps in value to the client.

### Up/Down Capture Ratios of Moderate APM Strategies vs. Benchmark

*January 2008–December 2015*




### Average Annual Total Returns

*January 2008–December 2015*

**3.55%** Moderate APM Gross

**4.64%** Moderate Blended Benchmark

*Statistics displayed are based on monthly composite results for Moderate risk tier APM accounts from January 2008 to December 2015. Blended Benchmark: 18% Russell 100 Growth, 18% Russell 1000 Value; 2.5% Russell 2000 Growth; 2.5% Russell 2000 Value; 15% MSCI EAFE; 4% MSCI Emerging Markets; 26% Barclays US Govt/Credit; 6% Barclays 1-3 Year US Govt/Credit; 8% Barclays Global Aggregate.*

**About ENVESTAT**

Envestat, Envestnet's industry analytics engine, delivers regular digests of business intelligence designed to provide context to the decisions that financial advisors and enterprise business owners face every day.

While the regular digests provide insights that revolve around a quarterly theme, our quarter-end INTERSECTION connects these insights to highlight the significance of the quarterly theme and its impact on advisory practices.



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