# Trends in Advisor Behavior During Market Volatility

## Week of March 30 — April 3, 2020

**Advisors remain very active making small changes to client portfolios, harvesting tax losses, and fine tuning risk tolerances, while generally keeping their clients invested to meet their objectives.**

## Summary

After building up cash and rebalancing portfolios over the past 5 weeks, advisors activity moderated last week. Advisors are still working hard to help clients **update their risk tolerances.** Overall trade volume by dollar amounts is down roughly 50% but still 200% of the year to date weekly average. We still believe the majority of trading is related to advisors **helping clients be more tax efficient** by harvesting capital losses and changes to client risk tolerances. We see **no pervasive signs of irrational buying or selling** and think advisors are managing client's expectations in a very consistent way.

## Key Insights

- A pattern has emerged over the past four weeks with risk attitudes of advisors. In early March, we saw net redemptions from equities, but bonds were net flow flat. In mid-March, net equity flows came back to zero, and bonds saw net redemptions. By the last week of March, both equities and bond net flows are around zero – no major shift in risk attitude. So initially, advisors and clients redeemed equities, then they saw that bonds were not the safe haven and redeemed bonds, and now have taken a risk neutral position while the market gyrates.
- We look at the number of client risk tolerance changes as a proxy for how advisors and clients engage around risk conversations. The number of changes this week is down 50% from last week but still 2 times the average number of changes. Advisors are actively modifying clients expectations around risk and return, although the rate of changes is moderating from the high two weeks ago.
- Cash in advised portfolios is running at about 6.5% over the last three weeks. It has remained at this level now for three weeks. This is roughly double the 18-month average of 3.4% but shows that advisors are being slightly defensive while staying invested in general.
- Transaction volume was down 50% week over week but is still running at 200% above weekly average since January. Selling transaction counts outpaces buying 2 to 1, which suggests what is being sold is going into a consolidated holding. This is largely due to selling of individual securities and buying of mutual funds and ETFs. This fits tax-loss selling scenarios.

- In terms of style usage, we see a small shift from short and intermediate bonds to long terms bonds, a moderate uptick into international equities, and continued buying of Inverse equity funds.
- Clients seem unfazed by the market downturn. Client contributions and withdrawals in their investment accounts are running about average when compared to the past 18 months. We see no change in the hiring and firing of advisors, suggesting clients are satisfied with the way their advisors are working through the crisis.

### 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). Risk On also includes equity focused mutual fund and ETF styles. This includes Large Cap, Mid Cap, Small Cap, International, and Emerging Markets.
Risk Off includes 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.
Risk On & Risk Off exclude buys and sells of Cash/Money Markets, Balanced/Asset Allocated, and Alternative styles.

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