ENVESTNET

Envestat Report

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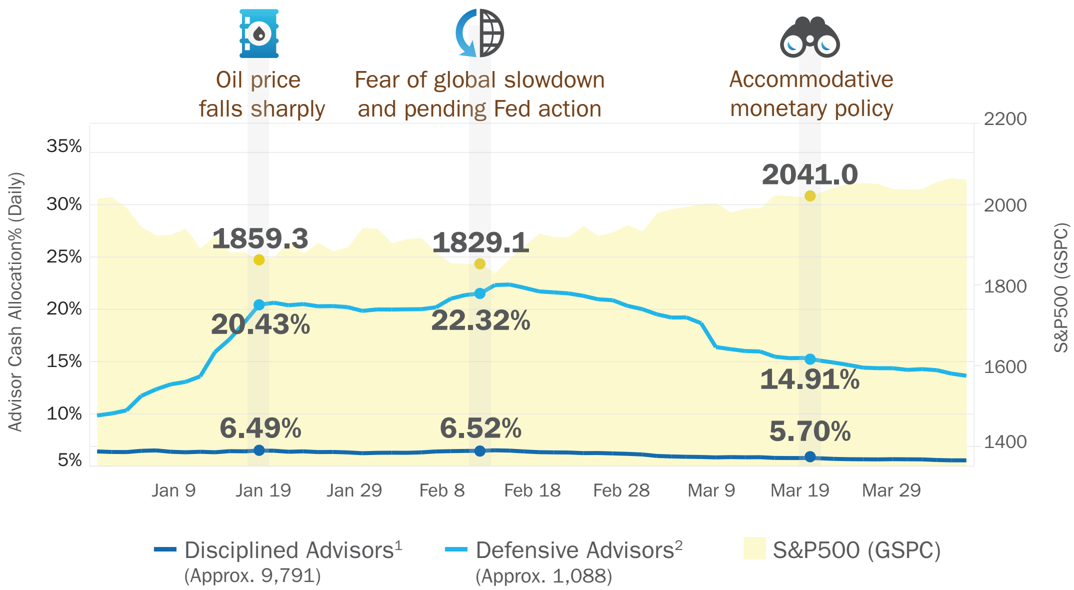
When the Market Swings, Advisors Who Hold Steady Outperform

Volatile markets were a persistent concern for advisors during the first quarter of 2016 amid continued uncertainty over Brexit, an economic slowdown in China and a steep decline in oil prices. Should advisors raise their cash allocations and adopt a more defensive approach, or are they better off riding out market volatility by staying invested? This Envestat explores how advisors on Envestnet's platform changed their cash allocations in response to market volatility and why it makes sense for advisors to stay invested.

1Q Market Conditions Caused Some Advisors to Flee to Cash

Advisor Cash Allocation Relative to S&P 500 Returns (1/4/16-3/31/16)



January 20, 2016: Oil sank below $27 a barrel to its lowest level since September 2003
February 11, 2016: Pending actions of the Federal Reserve, fear of slowdown in China and falling oil prices
March 16, 2016: Stocks and oil rise; dollar falls on dovish outlook

More than 90% of the advisors in the analysis group* remained disciplined and chose to ride out market volatility during 1Q16.

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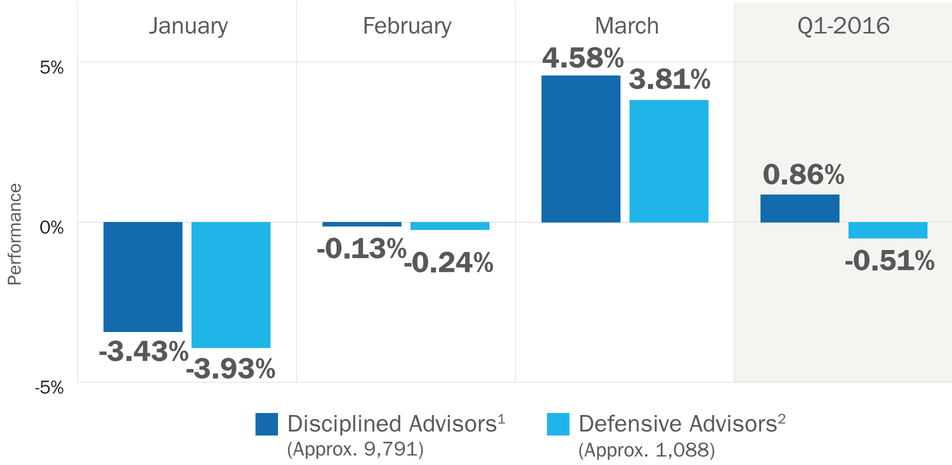
[1] *Disciplined Advisors: Advisors whose maximum cash allocation exceeds their cash allocation on 1/4/16 by less than 10%*
[2] *Defensive Advisors: Advisors whose maximum cash allocation exceeds their cash allocation on 1/4/16 by more than 10%*
* *Statistics displayed here are based on 10,879 advisors and 613,639 accounts on Envestnet's platform. Includes only advisors who were 'active' throughout the analysis period and whose daily cash allocations were available. Active includes those Advisors who were available on the platform on the first day of trading (1/14/16) and the last day of trading (3/31/16).*

Performance of Disciplined and Defensive Advisors During 1Q16**



On the other hand, defensive advisors increased their cash allocations with each successive period of market volatility, maintaining between 20–23% of their assets in cash. They were also slow to reduce their cash allocation when volatility declined and maintained a higher level of cash compared to their disciplined peers at all times. As a result of having a smaller proportion of invested assets, they missed the benefit of the market rally that ensued, underperforming disciplined advisors by 1.37% over the first quarter of 2016. The consistently high cash allocation defensive advisors maintain more likely is a sign of indecision that could hinder their long term portfolio performance. (Refer to Envestat: In Good Times and Bad, Coach Your Clients to Add Value.)

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** *Analysis period 1/4/16–3/31/16.*

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.

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