



Investment Trends in the Financial Advisory Profession

By Robert Huebscher

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Advisors are optimistic about the returns Treasury bonds will provide over the next decade, but they are less sanguine about the projected performance of US equities. Their inflation expectations are consistent with the historical data. These findings and many others arise from our study, *Investment Trends in the Financial Advisory Profession: Key Implications for the Investment Management Industry*, a research report now available from Advisor Perspectives.

I'll discuss some of the key findings from our study, but first let's review the background behind our efforts.

The study's data are drawn from a survey of our readers that we conducted in September. We received 1,090 responses to our survey, of which 673 were completed and 417 were partially completed. We were pleased to [donate](#) \$3,600 to the Red Cross Disaster Relief fund – \$5 per completed response, plus a little extra on our behalf.

The goal of our survey – and the focus of our research report – was to identify the key trends among financial advisors in terms of their investment decision-making. Specifically, we answered four broad questions:

- To what asset classes and sub-classes are advisors likely to increase or decrease their allocations over the near term?
- To which investment vehicles are advisors likely to increase or decrease their allocations over the near term?
- What criteria are advisors using to make the above two decisions?
- What are the implications for asset management firms?

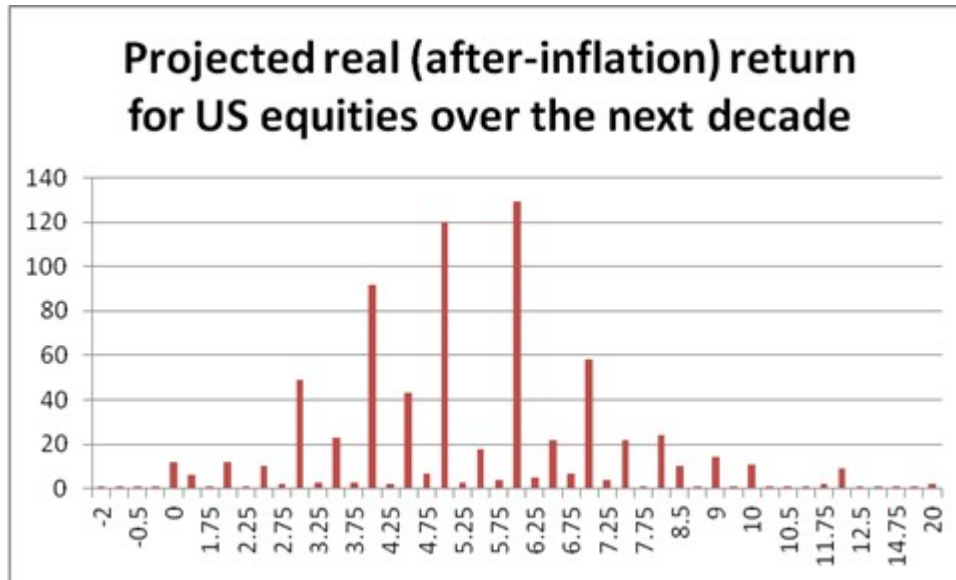
We segmented our analysis along several dimensions. For example, we examined responses broken down by firm structure (independent versus dually registered advisors), tenure (the number of years the individual has been an advisor), size of firm (AUM), and type of clients served (mass affluent, HNW, UHNW, etc.).

The target audience for this report is mutual fund companies, ETF sponsors, hedge funds, funds of funds and other manufacturers of investment products sold in the advisory channel. Specifically, directors of marketing, directors of research, directors of product development, sales managers, individual salespeople and wholesalers may find its insights useful.

If you would like to learn more about this report, please contact us [here](#).

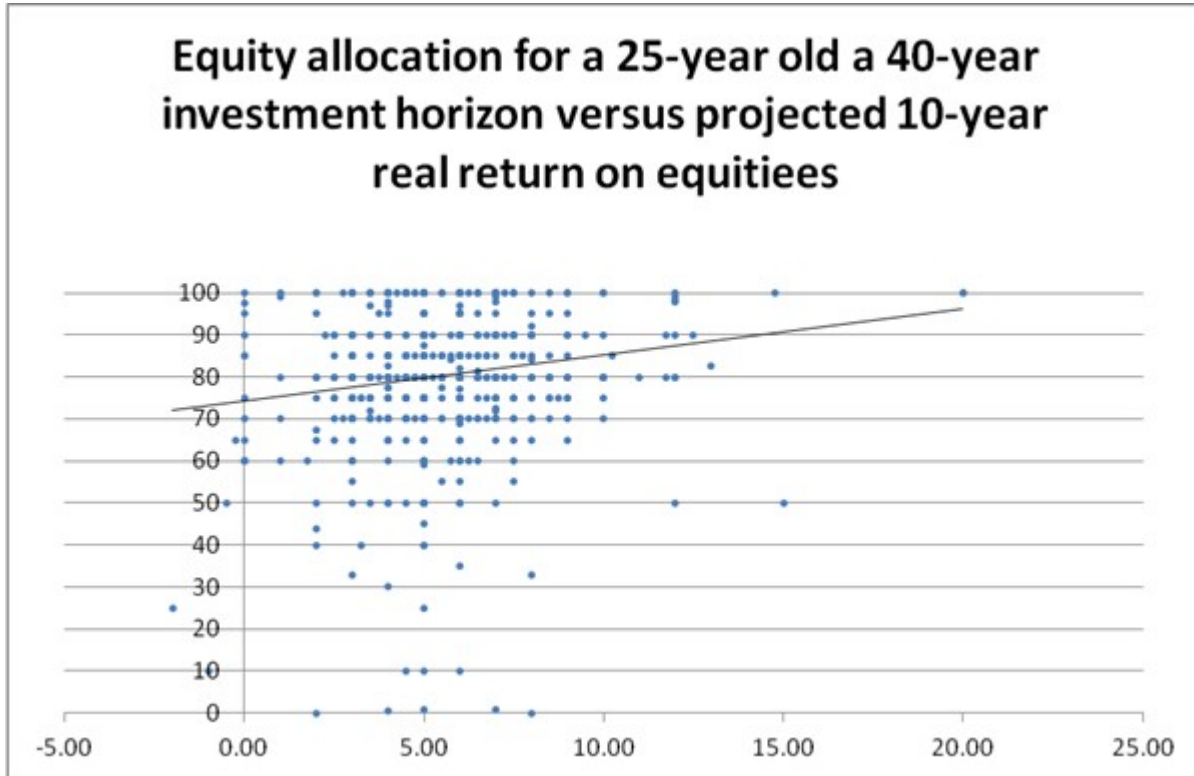
Capital market and inflation expectations

Given the uncertainty arising from the European sovereign debt crises and the weakness of the US economic recovery, we asked readers to forecast real (after-inflation) returns for US equities over the next decade. Those data are below:



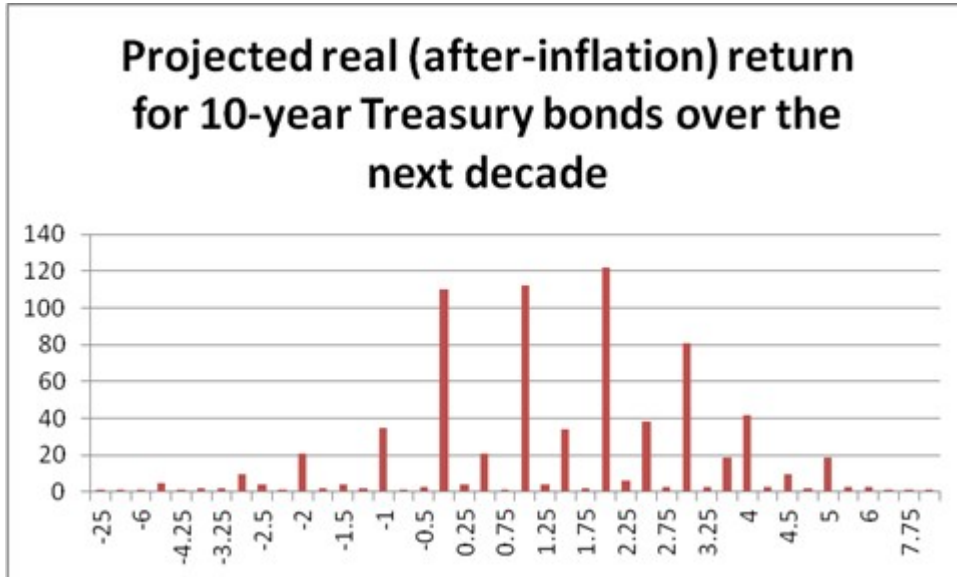
The responses clustered around 6%, which is slightly below the historical average. But those responses are several percent better than what PIMCO has forecast through its “new normal” model. Most advisors have not bought into this paradigm of slow growth and muted returns.

We asked what advisors’ equity allocations would be for a 25-year old with a 40-year investment horizon, and we compared those responses to advisors’ equity return forecasts. In the graph below, each dot represents an advisor’s equity allocation (on the vertical scale) and their equity return forecast (on the horizontal axis).



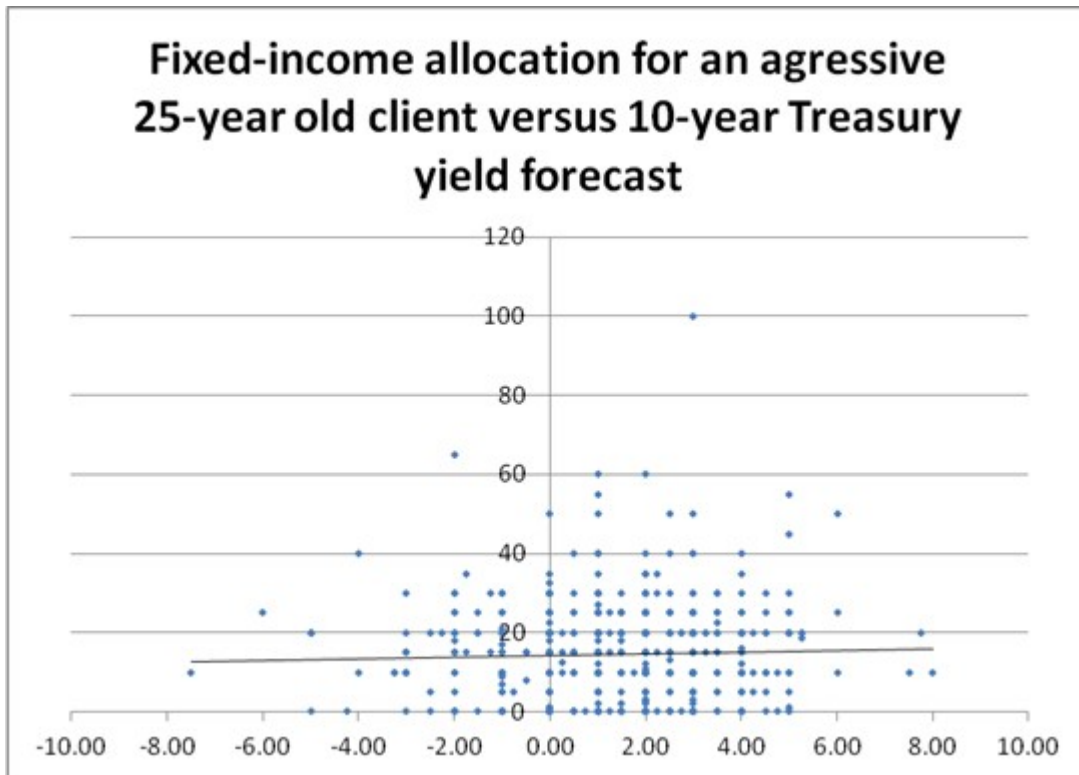
One would expect equity allocations to increase along with advisors' expectations of equity returns. They do, but only modestly. Our report identifies one key reason for this: Advisors are managing their portfolios more tactically than ever before, and their asset allocations are more reflective of near-term than long-term forecasts.

Along the same lines, we asked advisors to forecast the real (after-inflation) return on 10-year Treasury bonds over the next decade. Those forecasts, shown below, average approximately 1%.



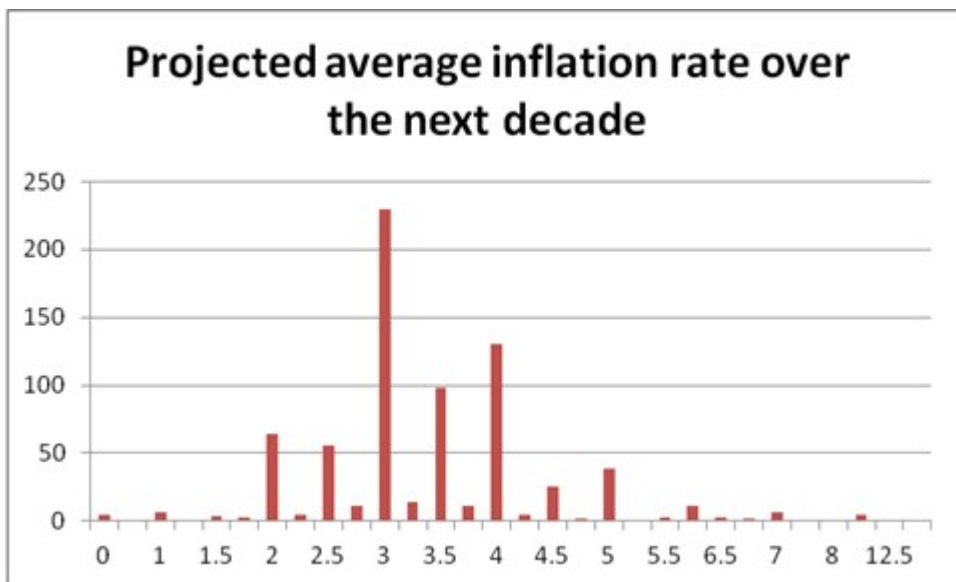
That is well above the current real return on 10-year Treasury bonds, which is now negative (a nominal return of approximately 2%, less inflation of just over 3%). It is also above the real return in the TIPS market, which is approximately zero for 10-year maturities.

We compared those forecasts to advisors' fixed-income allocations for the same 25-year old investor with a 40-year time horizon.



Here, there was no correlation between interest rate forecasts and bond allocations. One explanation, supported by data in our report, is that advisors are investing more tactically with equities than they are with bonds.

Finally, we asked advisors for their inflation forecast over the next decade.





The average inflation expectation was just above 3%, which is remarkably consistent with the data we obtained when we last surveyed advisors (see [here](#)), as it is with historical average inflation over the last century – that’s about 3.1%.

Our report also shows whether advisors plan to increase or decrease their exposure to various inflation-protection strategies:

- Commodity futures-backed or physically backed funds or ETFs, such as USO or OIL
- Commodity-oriented funds, such as the PIMCO Real Return Commodity fund
- Resource-oriented funds or ETFs, such as the RS Global Natural Resources fund
- Gold, either as a physical asset or through an ETF such as GLD

Gold was the only category correlated to inflation expectations. Advisors who planned to increase their allocations to gold had inflation forecasts that were 78 basis points higher than those who planned to decrease their allocations to gold.

If you would like to read an excerpt from the executive summary of the report, please contact us [here](#).

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