

FINANCIAL TIMES

December 12, 2011 3:48 pm

Volatility prompts growing use of ETFs, says survey

By Chris Flood

High levels of volatility across financial markets are forcing US financial advisers to pay more attention to risk management, leading a majority to adopt blended strategies employing passive exchange traded funds and active investments, according to Invesco.

Invesco surveyed 206 financial advisory firms and found some advisers using basic strategies, such as investing more conservatively or rebalancing portfolios frequently, to minimise risk.

However, the majority (62 per cent) of advisers are now employing a blend of active investments and passive exchange traded funds to manage risks better. This approach was consistent regardless of the adviser's size or experience.

"More and more RIAs [registered investment advisers] are turning to a blended active/passive allocation strategy to help lessen risk exposure in client portfolios," said Andrew Scherer, managing director of Invesco's RIA division.

Invesco said the widespread adoption of blended active/passive asset allocation strategies was helping to boost growth for the ETF industry.

Financial advisers said they anticipated ETFs would represent 22 per cent of their clients' portfolios over the next 12 months, rising to 30 per cent over the next three years.

Almost all (99 per cent) of the financial advisers surveyed by Invesco cited market volatility as one of their top three concerns and almost half (45 per cent) said managing risk was their predominant concern in managing client assets.

Nearly a quarter (24 per cent) of advisers said wealth preservation was their primary focus and only one in 10 said that delivering positive absolute returns was their guiding investment philosophy.

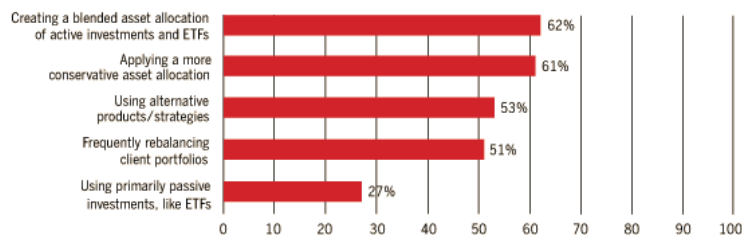
Concerns about managing risk were greatest among more experienced advisers with more than 10 years experience while less seasoned advisers were more focused on accumulating assets and building up their businesses.

Other investment products are paying the price for the growing popularity of ETFs. Nearly all (94 per cent) of advisers said they were liquidating mutual funds while 38 per cent said they were making less use of individual equities.

But the increased usage of ETFs has also resulted in a greater need for education. Of the advisers that do use ETFs for asset allocation, less than half (48 per cent) reported being confident in their ability to do so.

"Education on ETFs would not only be welcomed by advisers, it appears that it is a necessity," said Mr Scherer.

Investment Methods Used to Help Mitigate Risk



Source: Invesco

Invesco is the fourth largest ETF manager in the US. Its PowerShares range of ETFs has gathered \$2.7bn in new inflows so far this year, taking its assets to \$43.4bn at the end of November.

Invesco has stepped up its educational efforts, running "Powershares Universities" 15-20 times a year in cities across the US where advisers can talk to experts about ETFs and ETF strategies.

It has also been running a "rethinking risk programme" to help advisers develop a systematic approach to managing risk in their

clients portfolios.

Mr Scherer said the strong appetite among advisers to better understand risk management was also evident in strong inflows for Invesco's Balanced Risk Allocation fund which it launched in June 2009. This actively managed mutual fund invests in equities, bonds and commodities weighted so that each asset class contributes a similar levels of risk to the overall portfolio. It has seen assets increase to \$2.94bn from \$284m at the start of 2011 and is Invesco's best selling mutual fund this year.

"It aims to provide equity-like returns and bond-like risk," said Mr Scherer.

The "Managing risk in today's volatile market" report by Invesco is the first in a series and was carried out in partnership with Cogent Research.

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