Survey shows how advisors generate income for clients

By Editorial Staff   *Thu, Dec 13, 2018*

A survey by bond dealer Incapital LLC showed that 51% of financial advisors generate income for clients from dividend-paying stocks, 43% from equity income mutual funds, and 43% from annuities.

Over 70% of financial advisors believe it will take a significant correction in the equity markets to wake all investors up to the portfolio benefits of fixed income investing, according to a new survey released today by **Incapital LLC**, an underwriter and distributor of fixed income securities.

The survey of 200 financial advisors found that investors generate income primarily from dividend-paying stocks and equity income mutual funds.

The average asset allocation among the clients served by the advisors surveyed was:

- Equities: 46%
- Fixed income: 27%
- Cash: 14%
- Alternatives: 9%
- Other: 4%

Half of the surveyed advisors expect their clients to increase allocations to fixed income or cash over the next 12 months; 29% expect an increase in equities. Principal protection has become a top priority for their clients, according to 76% of the advisors surveyed.

"With increased volatility in the market, we believe investors will now be far more receptive to assessing some of the potential benefits that are typically associated with fixed income. This is especially true among investors who have taken equity risk for income, and those who now may be focused on principal protection and a fixed and predictable stream of income," said Paul Mottola, managing director and head of capital markets at Incapital, in a release.

Advisors surveyed seek three top benefits from fixed income investing for clients:

- A predictable rate of income: 53%
- Portfolio diversification: 51%
- Return of principal at maturity: 38%

Eighty percent of advisors surveyed said they were bullish on bond ladders as an aid to managing interest rate risk. The risk of rising rates was the advisors' top-ranked concern with fixed income investing, followed by finding attractive yields and generating income without adding portfolio risk.

Almost two-thirds (64%) of advisors said that bond ETFs (exchange-traded funds) have changed the definition of fixed income investing away from predictable income and return of principal to fixed income exposure. But bond ETFs do not provide all of the benefits of individual bonds, Mottola said.

"Most bond ETFs provide many important benefits, such as portfolio diversification and market liquidity. However, their income is generally not fixed, and in many cases their interest rate sensitivity remains constant over time, unlike a bond, which declines over time as the maturity date grows closer. This is an important consideration, especially given the risk of rising interest rates," he said.

Among the investments typically used by advisors to generate income for clients, dividend-paying stocks led the way at 51%. Individual bonds were used 38% of the time.

- Dividend-paying stocks (51%)
- Equity income mutual funds (43%)
- Annuities (43%)
- Bonds (38%)
- Bond mutual funds (39%)
- Bond ETFs (29%)

Asked what would get them to use more individual bonds in their clients' portfolios, 38% of advisors surveyed said "a rate increase." They also want:

- A simplified process to access bonds (32%)
- Access to better online tools for evaluating bonds (28%)
- Better education on bond investing (24%)

Almost two-thirds of the advisors surveyed (63%) believe that the bull market in bonds is over, or will be within 12 months.

Q8 Research LLC conducted the online survey for Incapital. A total of 200 financial advisors across channels completed the survey between September 20 and October 1, 2018. Advisors from wire houses, regional dealers, independent dealers, banks and registered investment advisors were surveyed. All respondents had three or more years' tenure as financial advisors and were involved in portfolio construction decision-making with clients.