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Turbulent markets continue to trouble investors, prompting financial advisors to rank "managing market volatility" as their top concern for Q1 2016. The 123.8 reading on the Advisor Top-of-Mind Index (ATOMIX) survey is the highest ranking since the index originated in April 2014.

Eighty percent of financial advisors reported that fear is the primary motivator for their clients, up from 51% in Q1 2015, reflecting escalating concerns over the steep increase in volatility across global markets. Additionally, nearly half (44%) of financial advisors polled believed that the likelihood of a U.S. recession by year-end is either moderate or high, underscoring their growing trepidation over the pace and direction of global growth.

John Moninger, managing director at Eaton Vance, believes the volatility spike in the latter part of 2015 and the emotional reaction many investors had to it may be leading to investment actions that work against their long-term goals.

"Market volatility is an output of investor sentiment and history suggests that dislocations caused by volatility can present compelling opportunities for investors who remain calm, evaluate the fundamentals and take a long-term approach to their portfolios," said Moninger. "It's critical for financial advisors to work with clients to understand their life goals and then develop and follow an investment plan together."

The Q1 2016 ATOMIX survey also revealed that despite high concerns about volatility, nearly half (47%) of advisors counsel clients to stay the course through volatile periods and adhere to established plans.

"Tax management consistently ranks lowest on the ATOMIX survey, suggesting that many investors do not fully understand the impact taxes can have on total return," Moninger said.

In fact, six out of 10 advisors (61%) reported that they do not believe their clients even know the effective tax rate on their investments.

"Tax loss harvesting is one way to minimize the investment tax burden," said Moninger.
"Tax-conscious investors should consider how they can get ahead of tax bills and focus on tax management throughout the year instead of only in the fourth quarter or around Tax Day."

While 45% of advisors stated they harvest client losses annually, only 3% do so monthly and 17% do so on a quarterly basis.

Interest rates
While interest-rate speculation contributed to market volatility in 2015, the December rate hike has led to general consensus among advisors about the pace of future hikes. Seventy-two percent believe there will be several small rates hikes in 2016.

Yet advisors diverge on how to best prepare client portfolios for a rising rate environment, identifying multisector, municipal, floating rate and high-yield bonds as potential solutions for their clients. Fifty-five percent also noted that they are moving their clients into equity strategies in an effort to combat the impact of rising rates.

"Ultimately, clients are telling their advisors that they are nervous about the economy, interest rates and what market volatility will do to the assets they have spent a lifetime working to accumulate," said Moninger. "Financial advisors can