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MARKETEERING

Growing Assets Beyond Friends and Family

By Bruce Frumerman, President of Frumerman & Nemeth Inc., a communications & sales marketing consultancy that has helped money management clients attract over $7 billion in new assets.

There are thousands of hedge funds; more than enough to clutter the competitive landscape. The number of hedge funds making some data public soared last year as a combination of new launches and more transparency lead to the identification of more than 13,600 funds and approximately 6,100 Fund of Funds — up two-thirds on the previous year, according to a new study. The research, by Pertrac, found almost 4,900 hedge fund managers up from 3,500 in 2005. “There appears to be no shortage of new entrants into the marketplace,” said a Pertrac representative. The study found about 250 funds with more than $1 billion, but more than a third had less than $25 million — a size industry participants warn is too small to survive.

As for the non-hedge fund space, the number of emerging managers with less than $2 billion in assets under management, as tracked by Northern Trust, rose to 1,636 firms as of December 2006, up from 1,249 in 2005.

While some of the new firms will prosper, many will not.

So, what is it that enables one money manager to grow and retain assets while a competitor cannot?

Is performance the sole answer? Of course not. If that were so there would be but a fraction of the number of money management firms there are. While performance is a significant ingredient in the formula for success in attracting assets, it is just part of the equation.

As an institutional investor was quoted in the financial trade press as saying, “*I am not going to buy a track record. I want to buy an investment process.*” Remember that comment. It lies at the heart of what you are selling.

Is access to distribution channels the key to success? That’s important, too, but just because a money management firm’s products are available through a distribution channel doesn’t make demand pull exist for those products or mean that the channel is proactively soliciting for investors in the firm’s products.

Marketing is the other major factor that impacts a money management firm’s ability to grow and retain assets. Marketing does more than “get the word out”. It’s what gives a firm its identity and positions it in the eyes of the marketplace of investors, advisors and the media. When marketing is given short shrift by a money management firm, its ability to attract and retain assets suffers.

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There are two parts to marketing: sales marketing and communications marketing. Sales marketing is about the process of selling to prospects and their advisors. A salesperson or team, whether in-house, third-party marketers or broker/advisors, is identifying prospects, making contact, giving face-to-face presentations and managing follow up throughout the selling cycle for turning prospects into investors. But what is it that the target audiences are told? That's communications marketing.

While good communications marketing cannot help improve your investment performance, it *can* help you have higher impact selling.

What does a firm's communications marketing consist of? The storylines and language it uses in its verbal and written contacts with clients, prospects and those who influence them. Communications marketing is what is used to get people to buy into the investment products the firm is selling and the *process* it uses to manage money. This includes everything from verbal sales presentations and marketing collateral to letters to investors and interactions with the press.

Most boutique money management firm owners begin by having investors who are friends and family; people who already thought well of them and trusted them. Once these money managers begin marketing to strangers, however, they often find themselves getting a much chillier reception.

As one boutique money management firm owner confided in me, now that he has seen how tough it is to interest strangers in his firm and convert them into investors he realizes that he could have talked Jabberwocky to some of his friends and family investors and they still would have invested. They knew him and, in their minds, that was enough. Selling to institutions, family offices, fund of funds, endowments and foundations, High Net Worth investors and financial planning and investment advisory firms that invest on behalf of their clients, however, is another story altogether.

Most money management firms don't put in the time and effort needed on planning their efforts to sell strangers on investing with them. If you are willing to be a contrarian (as all good investors are supposed to be) you can use this to your advantage.

In future articles I'll be offering communications and sales marketing insights, tips and tactics that can help you out-market competitors that deliver similar performance and make investing with you a more defensible decision.

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