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Marketing To Sophisticated Investors column

by Bruce Frumerman, CEO, Frumerman & Nemeth Inc.

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Marketing To Sophisticated Investors: Defining The Marketplace

Welcome to this new Harvest Blog section on *Marketing To Sophisticated Investors*.

The primary focus of the articles you'll find here will relate to marketing actively managed hedge fund, managed account, private equity and private debt-type strategies. Some of what we address will also be applicable to marketing mutual funds, 40 Act Funds and ETFs, but the focus of what we will be addressing here is not on marketing investment products to mass market retail investors.

To help improve the focus of your money management firm's marketing efforts let's start by understanding the marketplace of prospective investors you'll find yourselves interacting with and which are best for you over the long-term.

In my 30-plus years in the financial communications and sales marketing consulting business I have seen time and again where money management firms, of all sizes, mistakenly approach their new business development efforts and one-on-one selling as if all prospective investors were the same. They are not.

Based on our experience, the prospective investors you come across can be most often categorized into three groups: Friends and Family, Performance Chasers and Sophisticated Investors.

Here is how we define each group.

Friends and Family

An important commonality shared by people who can be classified as Friends and Family is that they are predisposed to have a positive bias towards you. They have known you for some time and like you. Even if they recently met you, they may have known and liked relatives of yours for decades. Also, they may be very impressed with the firm name of your former employer(s).

Such people might claim they are investing with a money manager because they 'trust him'. Note what I did not list. I did not state that Friends and Family are educated investors, savvy investors, skeptical investors. Moreover, I did not say they have a detailed idea of what the money manager actually does.

Performance Chasers

These investors have short attention spans and are always on the lookout to see if the grass could be greener somewhere just past you and your money management firm. As a group, they'll jump on the bandwagon of an asset class, sector or money manager once they read somewhere of an uptrend in a near- to mid-term performance record. These investors tend to come late to the party and leave quickly.

Since they never spend the time and effort to learn enough about a money manager's investment process, and make a conscious decision to buy into it, when your performance lags the competition — and these occasions will arise — the Performance Chasers will pull their assets and reallocate elsewhere.

The most important point to remember about Performance Chasers is this: they are not sticky assets. Your firm's time is better spent attracting sticky assets — customers who will stay with you.

Sophisticated Investors

These investors are single and multi-family offices, endowments and foundations, institutional plan sponsors and their investment consultant gatekeepers, some financial planning/investment advisory wealth management firms, and some (but far from most) of the high net worth individual investors out there.

All articles you'll find here at this Harvest Blog section are about telling and selling your investment strategies to these folks.

Yes, all of these prospective investors in your fund would meet the SEC definitions for sophisticated investor and accredited investor, but in categorizing folks as prospective Sophisticated Investors for your money management firm I mean something else.

These are the investors who follow a money manager vetting process that they put in place. The majority of them have investment committees that discuss, debate and vote on which managers to allocate to. They are willing to pay larger fees to managers generating alpha, but they will have to be convinced your firm has a way to generate it more often than not.

The due diligence evaluations and manager analysis they conduct may differ but they share a few common traits. These folks and entities have been pitched over the years by hundreds or thousands of money management firms before you. Since they get hit on by so many money managers, and they have but a finite amount of time to spend on deciding who is good enough to warrant a new allocation, they first look for reasons to reject, not reasons to accept. These folks have developed a pretty sensitive 'red flag' detector to find just such a reason to cut off contact with you.

These investors are the educated and interested but skeptical, and sometimes ornery, prospects.

Yet, the Sophisticated Investors are going to be your stickiest assets and so should be your highest valued type of prospective investor to identify, pursue and win over.

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About the author

Bruce Frumerman is founder and CEO of Frumerman & Nemeth Inc., a 30-year-old financial communications and sales marketing consultancy that helps financial services firms create brand identities for their organizations and develop and implement effective new marketing strategies and programs. Frumerman & Nemeth's work has helped money management firm clients attract over $7 billion in new assets, yet they are not third-party marketers. The firm achieves this by helping clients create the ammunition they need to do a better job than their competitors in educating and persuading people to understand and buy into the beyond the numbers story of how they invest. This is the very content investment committees actually discuss behind closed doors and vote on when considering firms on a short list for potential investment. Mr. Frumerman can be reached at info@frumerman.com, or by visiting www.frumerman.com.