Marketing To Sophisticated Investors column
by Bruce Frumerman, CEO, Frumerman & Nemeth Inc.

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When 1 = 3: A Portfolio Manager Marketing Sin Of Omission

Tip 23: Preparing For Post-Pandemic Asset Raising

Welcome to the twenty-third of a series of articles offering insights and tips to prepare money management firms for improving their abilities to out-market competitors and attract assets from sophisticated investors in the coming post-pandemic world.

What portfolio managers know, how they codify this knowledge, how they apply that to running their portfolios, and how effective they are in educating people to understand and buy into how they invest are four different things.

When a money management firm finds it difficult to attract sticky assets there is often a disconnect between the first three points and the fourth. This is not a rare occurrence. My financial communications and sales marketing consulting firm has over 34 years of direct experience in seeing such challenges play out at investment management firms of all sizes and investment strategy types.

Today let's look at one such problem that creates barriers to asset raising. My firm refers to this issue as being one of the portfolio manager marketing sins of omission. It's the one where one really equals three.

Talking In Shorthand

Have you ever been to a gathering where a handful of portfolio managers are sitting at a table bouncing investment ideas off of each other? Have you heard how that dialogue goes among a group of experienced investment professionals and how they often communicate with each other?

What always comes to mind for me was one such group that in the earlier part of this century had a monthly lunch meet-up at the Rainbow Room in Manhattan to do just that.

As they went around the table with each money manager sharing an idea and his or her thinking, they didn't just name a security or investment instrument. They were also making reference to things such as the holding's characteristics, their valuations reasoning, the market environment, risk considerations, what swayed them to decide this was a worthwhile opportunity, and sometimes also about monitoring and managing that allocation within their portfolio.

However, in this exchange of investment ideas and the reasoning behind them, these portfolio managers were not verbally communicating *all* of their thinking. Further, they were not speaking in detailed paragraphs-worth of sentences. Nor were they mindful of communicating their research, analysis and portfolio position-taking in a clear, linear way. No. They were speaking to each other in shorthand. One sentence, or phrase, implied three additional sentences — *or more*. But these were left unspoken, because the audience of fellow portfolio managers was able to think two or more steps ahead, just like their shorthand-speaking colleague.

These fellow portfolio managers were, in real time, extrapolating the implications of their colleague's comments. Sometimes these extrapolations had to do with non-company specific risk considerations or portfolio asset allocation reweighting actions. Other times these extrapolations had to do with what might be the potential domino effect that could result from a possible legislative change, or plain and simple mean reversion considerations. In other words, the talking in shorthand was telegraphing further detailed thoughts — about a wide range of disparate subjects — to an audience that was so in the know that they were, if you will, doing, for them, what was 'mind reading' based on years or even decades-worth of portfolio management related experience.

Beware Where Inferring Fails

When portfolio managers are talking in shorthand, not to a peer but to a prospective investor who is conducting due diligence on those managers and their strategies, this can be a very grave marketing error for the money management firms to make.

The first problem that can result from having three sentences implied for every one sentence stated is what I'll call the 'miss' problem. The second is what I'll call the 'misconstrue' problem.

The prospective investor may miss out on understanding and appreciating some points the portfolio manager *could* have made clear. Unfortunately, sometimes such missed points turn out to be the underpinning to what makes a particular firm unique, or at least demonstrates the portfolio manager is cleverer and more insightful than most of his or her competitors.

Worse still is misconstruing. This occurs when people conducting due diligence attempt to interpolate based on what they are assuming *may* have been implied, and that wrong assumption turns out to not be what the portfolio manager *actually* meant. In such cases there is the possibility that the prospect may reject the investment firm based on a misunderstanding of what the manager meant to actually communicate, and instead decide to allocate to a competitor.

An Investor Base Needs More Than Just Mind Readers

Might your investment firm's asset raising efforts be suffering from the portfolio manager marketing sin of omission explained here? Consider some of the steps my financial communications and sales marketing consulting firm takes with clients when we look to uncover and correct such problems.

Ask your portfolio manager to run through a mock presentation. Note where he or she may be talking in shorthand. (Of course, you need to have a good understanding of portfolio management within that type of investing in order to identify all of the occasions where this may be occurring and be able to critique them as would a peer.) Work with your portfolio manager to decide how to communicate with consistency — to outsiders who do not share his or her profession — the portfolio manager's up-till-now missing points. Next, figure out how to properly blend this new information into your firm's detailed explanation of the investment process. Then teach this to the sales people as well. Next, see where the heretofore omitted content belongs in written marketing collateral and work it into those documents.

Taking these first steps will begin to help your money management firm eliminate this type of portfolio manager sin of omission and enable you to grow an investor base that goes beyond only mind readers.

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About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 34-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.

Frumerman & Nemeth is internationally recognized for its work in crafting for clients the beyond-the-numbers story of how they invest — content that investment committees actually discuss, debate and vote on behind closed doors when considering firms on a short list for potential investment. Importantly, this is required due diligence content that cannot be communicated in pitchbook format.

Frumerman & Nemeth's work also includes providing strategic consulting on product and strategy-specific branding, crafting the required strategy-specific content detail and designing and producing the marketing tools needed to make it through the two-month to two-year institutional selling cycle. Clients also employ Frumerman & Nemeth to help promote the intellectual acumen of management — helping them get speaking opportunities, write and give speeches as panelists or stand-alone speakers at industry conferences, and through media relations marketing services.

Mr. Frumerman can be reached at info@frumerman.com, or by visiting www.frumerman.com.