

June 2019

The Stock Picker vs Portfolio Manager Communications Challenge



Is your firm's money manager coming across as a stock picker or as a portfolio manager? Is your investment strategy being marketed as if it is a serendipitous assembly of a bunch of onesie stock picks, or as a thoughtful assembly of a basket of holdings? Is your portfolio manager giving the impression in sales meetings that she just has the mindset of a sell-side research analyst or a day trader rather than a portfolio manager?

This difference can impact your money management firm's branding, as well as whether it is given the opportunity for a second meeting with a prospective sophisticated investor.

So, what are your portfolio managers and sales people saying in the time they are allotted at their first in-person sales meeting with a prospective investor? My financial communications and sales marketing consulting firm has heard time and again, for decades, from sophisticated investors about how those sellers frequently misuse their time. One often made communications error that does not typically occur to money management firms can taint the perception the prospective investor is forming at this first face-to-face due diligence encounter.

There tends to be a fixed amount of time that the family office, endowment, foundation, institutional plan sponsor or RIA firm grants to the money management firm for an initial in-person due diligence meeting. Most often this is a 45 to 60 minute session.

How do the portfolio managers and sales people tend to divvy up their 'presentation' time? *Here (again) is our performance. Here is the portfolio manager's bio. Here, (detailed one at a time), are some holdings in the portfolio and why the portfolio manager likes them.* This third topic is where the 'countdown clock' for the presenting money management firms seems to speed up, and their presentation time slips away from them. In the worst cases the portfolio manager finds the prospective investor interrupts his or her pitch, explaining that the allotted meeting time has run out, and showing the presenter to the door.

The Stock Talk Trap

For sake of argument, let's say the money management firm presenter is the portfolio manager. This is what the stock talk trap looks like. The portfolio manager names the first stock he wants to talk about. Then starts the drill down into details about the company and its industry, with supporting evidence displayed with page after page of charts and graphs. Because the portfolio manager had not worked out in advance when in his narration he should stop talking about the first holding, he keeps talking, stealing away time that could have been used to communicate about other important topics. Worse, the immediate follow-up to that first stock monologue, more often than not, is a repetition — but now about stock number two.

As institutional investors in the family office and endowment and foundation worlds have shared with me, it is not unusual for them to watch a money management firm burn 80% of its introductory meeting time talking up stock picks. This can be interpreted by sophisticated investors as being how the portfolio management firm approaches investing: taking a 'onesies', stock picking approach to running a portfolio.

To paraphrase what more than one allocator has rhetorically asked me, "Why are so many portfolio management firms pitching me as if they are sell side research providers pushing a few hot stock trades?"

Market Intel On Allocators' Thinking

As quite a few institutional investors have commented to investment management firms over the years when speaking at industry conferences: they are not looking to hire a stock picker or day trader, they want to invest with a portfolio manager. These sophisticated investors want someone, or a team, that can effectively assemble a basket of holdings and successfully navigate through changing market conditions.

What are they looking to hear about? They would like a detailed explanation about the investment beliefs and the investment process being followed that, in turn, triggers the portfolio manager's decision as to which stocks are good enough to add to the portfolio. Also of interest is an explanation about how the manager implements risk management protocol steps for everything from diversification and position sizing to taking tactical actions in portfolio management to dampen volatility when market gyrations might kick in, regardless of any continued soundness in the fundamentals of companies in which the money management firm may have significant positions.

Stock Talk Tips

Providing prospective investors with detail about a money management firm's company research and the decision making behind taking a position in a stock certainly has its place at the initial get acquainted meeting. But how much should be delivered when, and in what format?

My firm counsels money management firm clients to structure the topic order for their initial in-person due diligence meeting with a prospective investor so that they address investment beliefs and investment processes before naming and giving details about a holding in the portfolio. By bringing up stock holdings at this stage, rather than leading off the meeting talking stocks, it is possible to demonstrate how these holdings have the needed characteristics previously described.

Rather than winging it, it is important that a money manager writes up talking points about particular stock holdings, and knows at what point to stop speaking about the company. This builds a beginning, middle and end of this segment of the sales meeting, making it easier for the money management presenter to transition to the next topic, before the time allotted by the prospect runs out.

Another means of communicating that a money management firm is taking a portfolio manager rather than a stock picker approach to its investing is through the creation and dissemination of company research reports on key holdings. This should include commentary that demonstrates perspective from a portfolio management level of thinking, and not just address the holding in isolation. At the initial sales meeting these research reports can be among the leave behind documents provided for the prospective investor to read through when time comes to further evaluate the thinking behind your investing.

Don't let the sands of time run out and force you to abruptly end your initial in-person meeting with a prospective investor. Before your firm schedules an introductory meeting with the next sophisticated investor write out at least an outline of what topics you will cover, in what order, and for how long. And when you present your portfolio holdings, make a point of getting across that there is structured thinking behind each stock choice, and about its impact as part of the total portfolio.

#

© **Frumerman & Nemeth Inc.** 2019

About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 31-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.