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Q&A with Avi Nachmani — Be Visible to Highlight Your Conviction

The financial crisis has changed the rules of the game for Wall Street and Main Street. Investors are more wary. Many are still anxious and the role of the investment advisor has become more complex. What are the implications for fund companies and their distribution strategy?



For this issue, I spoke with Avi Nachmany, executive vice president, research director, and the co-founder of Strategic Insight. Strategic Insight researches product trends and innovations, changing investment preferences, the evolution of distribution channels, customer retention and competitive positioning within the global asset management industry, among other critical business management issues. Avi is a well-known source for the financial news media and was named #13 on the 2009 Mutual Fund Wire's list of 40 Most Influential People in distribution.

I asked Avi to share his observations of mutual fund distribution in the wake of the financial crisis.

Q. What have we learned as an industry in the past 12-18 months?

A. In times of increased anxiety like we've experienced, whether it's anxiety about politics, investing or even soccer, people look to organizations that have conviction about what they do. It's part of the human condition to want to feel better and alleviate turmoil.

Investors want to know their money is with a manager who has conviction and is focused and adhering to their investment process.

Q. Conviction - how can a manager get that across to potential investors?

A. Be visible. An asset manager has to be in front of investors regularly with the ability to articulate his or her convictions clearly. This can be through sending regular investor communications, speaking at industry conferences, publishing position papers, taking advantage of new media, and TV appearances, online and print coverage.

This visibility has to offer insight into the manager's philosophy that the curious and thinking man or woman will understand. The message has to focus on "how we think" not just on "our results."

Q. Where do you see the opportunities for small to medium-sized mutual fund firms today?

An abundance of decisions today are made through gatekeepers, the analysts, institutional consultants and RIAs. Firms need to reach these centers-of-influence. It's far more important today than it was historically.



Avi Nachmani,
co-founder, EVP,
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Scale and brand are far less important than conviction and visibility. Improving visibility is possible here even without enormous resources. This communication needs to be dominated by the investment story as the decision-making becomes more institutional and centralized.

These decision makers and smart investors flock to thought leaders. And this leadership comes from portfolio managers, many of whom may be cerebral and introverted. Marketing can play the role of translator, but the message needs to be conviction of philosophy and process.

I believe there are relationship expansion opportunities in the US and globally for investment boutiques today. Some will be discovered, some not, but there is no substitute for visibility using all the forms of communication, particularly during this time of uncertainty.

Q. What about for a new fund?

For a new fund with no track record, you have to have a “story.” Step back, take a look at the emerging theme in the marketplace and address how your fund works in it.

For example, the majority of stock fund management is through the application of fundamental stock selection and long bias. Yet lately, we observe the emergence of a parallel universe. Some advisors and their clients search for investments less correlated to the S&P 500. To the extent that one’s investment process accommodates the increasing search for lower-risk and lower-correlation strategies, your organization may grow its relationships without a three-year track record.

Q. Looking at funds that had the highest inflows, are the investment characteristics different today than five years ago?

A. Even before the Morningstar star rating system was in place when Strategic Insight started 20 years ago, we found the best selling funds had great trailing 3-year risk adjusted performance. Still today, the trailing 3- and 5-year risk adjusted performance remains the principal filter in terms of expecting success, with only some exceptions.

For bond funds, you may hear the argument that attractive distribution rates succeed even when total return is mediocre. We have found little evidence to support that.

Clearly, certain funds have been successful on the strength of their brand. If they have a clear message, some investors may organize their selection through that filter. As I said earlier, investors will flock to thought leaders and those who are visible and strong in their conviction.

Q. Net fund flows seem to point to specific fund categories being in favor. Do specific types of funds have the opportunity to be discovered or to be more successful now?

A. Even when an entire category such as small cap value funds may experience in aggregate little net flows, many individual small cap value funds with excellent performance continue to gain significant flows while others suffer net redemptions.

Discussions centered on “aggregates” and “averages” often camouflage the opportunities available. Every year there are hundreds of billions of dollars/shares being purchased and redeemed. The industry aggregate net flow should not equate to an opportunity for a specific fund to reach out to a market place looking for dramatic growth.

Every month, even when the aggregate desire to purchase equities is muted, many asset-allocation-driven advisors and gatekeepers purchase billions in equity funds and often increase investments in out-of-favor strategies through dollar-cost averaging. Naturally, they choose funds with attractive attributes.

Q. You just finished a report on share classes. Are “A” shares dead?

A. This study has been done for about four years and tracks all the key players who offer traditional share classes to financial advisors.

“A” shares aren’t dead, but there has been a shift. Among firms selling through financial advisors, roughly 70% of the sales today are made with no-load shares or A-shares at NAV – virtually no load (where compensation to the advisor is paid through fees outside the funds’ expense ratio). Ten years ago, most of these sales were high front-load A-shares or B-shares, which offered significant point-of-sale commissions to the advisor. In addition, about 12%-13% of sales to advisors are through level-load share classes.

Q. Avi, your closing thoughts?

A. Investment companies will continue to have opportunities to expand their customer relationships in the coming years. In the past year there was a real disconnect between Wall Street and Main Street. Americans look at their own lives in their own communities and experience economic and employment difficulties, while stock markets in New York and Paris rose. Investors saw stock market gains, but felt disconnected from such in their real lives.

In looking at mutual fund data in late spring, for the first time we saw that this disconnect was lessening. We are now about 12-18 months from the crisis and there is some early evidence of confidence returning to Main St. We are seeing funds and investment companies building early traction with the RIA segment of the market, often the leading indicator of sentiment change.

We’ve found that RIAs are a good barometer; they respond to changing environments and move earlier than other financial advisors. So, if you’re a fund company, get out there and speak to RIAs and their centers of influence. Do more in more places to be visible. Build confidence and voice your convictions.



SunStar Strategic works with retail and institutional investment managers and mutual fund firms to attract investors, strengthen distribution and build brands through structured news generation programs and smart marketing. We know the industry and the reporters who cover it. We also understand the often challenging legal, regulatory and compliance issues facing clients.

Find more about smart marketing and successful public relations campaigns in our blog: FundFactor.net