



MACIAS PR

A Statistical Look at the Benefits of Financial PR for Private Equity and Hedge Funds

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A Statistical Look at the Benefits of Financial PR

The *Jumpstart Our Business Start-ups Act* (JOBS Act) unintentionally spawned a new industry by lifting the restrictions on hedge funds and private equity firms to advertise and market themselves. These new financial marketing opportunities led to a myriad of marketing firms who began pitching all the different ways they can help alternative investment firms. This paper will evaluate the fiscal plausibility of PR for funds, compare it to traditional marketing strategies, and provide free insider media strategies for funds to consider.

The funds that have taken the first steps towards marketing and publicity have been seeing a notable ROI, according to the New York Times article – *With Bans on Ads Removed, Hedge Funds Test Waters* - published on February 20, 2014. These returns have been building the reputation of marketing and publicity as viable new investor acquisition strategies.

Even though the idea of hedge fund publicity still stirs feelings of uncertainty in traditional hedge fund managers, its gaining ground as an industry practice. Firms like Balyasny Asset Management and Topturn Capital have been spearheading the movement. Donald Steinbrugge from Agreecroft Partners (a hedge fund consulting firm) confirmed, “The fact that they are doing that will lead to others replicating it.”

Statistics Prove Investors Make Decisions based on the News

To evaluate the plausibility of financial publicity, we should contextualize how investors react to the presence of financial firms in the media circuit. Cogent Research, an independent market research firm, took a look at the behavior of accredited investors. Their findings are based on a nationally representative survey of over 4,000 accredited investors. Here’s a quick look at some of their conclusions:

- 1/3 of affluent investors are using social media for personal finance and investing decisions.
- 70% of affluent investors changed relationships or reallocated investments as a result of media content.
- 28% of affluent investors would see a financial firm as *Innovative* and *Showing Industry Leadership* by focusing on social media.

These statistics point to the empirical observation that a significant chunk of the accredited investor pool is excited by media exposure. Remy Morrison, the Project Director, explained that, “social media is motivating investors to engage more with their advisors and investment firm representatives, which can lead to more asset gathering opportunities for providers,” according to Cogent Research paper published on 2/22/2013. Understanding how to tap into a media strategy that appeals to the niche target audience

would be an intuitive way for fundraisers of hedge funds and private equity firms to reach better results.



A publicity strategy can use the media to steer investing decisions, but many asset management and hedge fund clients still don't understand the extent to which it could be used (and in most cases didn't even know what publicity entails).

Even fundraisers and networkers who make their living from investor acquisitions don't completely understand how the media can help them attract new investors.

The Financial Sector's Secret Romance with Social Media

Social media isn't part of the 'conventional media' because it's entirely dependent on user-generated content. The direction of this world isn't orchestrated by corporate producers and journalists, but by the unfiltered whims of people. This is could be an intimidating prospect because there's no structure to direct it or it could be an exciting prospect because of the opportunity to be heard in such an open forum.

A rapidly growing amount of business-to-business communication is occurring over social media platforms like Twitter, Facebook, and LinkedIn. The Social Media Examiner found that 52% of marketers that they surveyed used social media to generate their qualified leads.

Fidelity, ING, Vanguard, USAA, and Charles Schwab are the top five brands with the highest ratio of positive impressions via social media (according to Cogent). These firms and funds are unquestionably among the biggest in the world, so if they're reallocating their resources into social media, it could be a helpful hint to the smaller players to follow suit. These companies are too big to make decisions that aren't guaranteed to show returns.

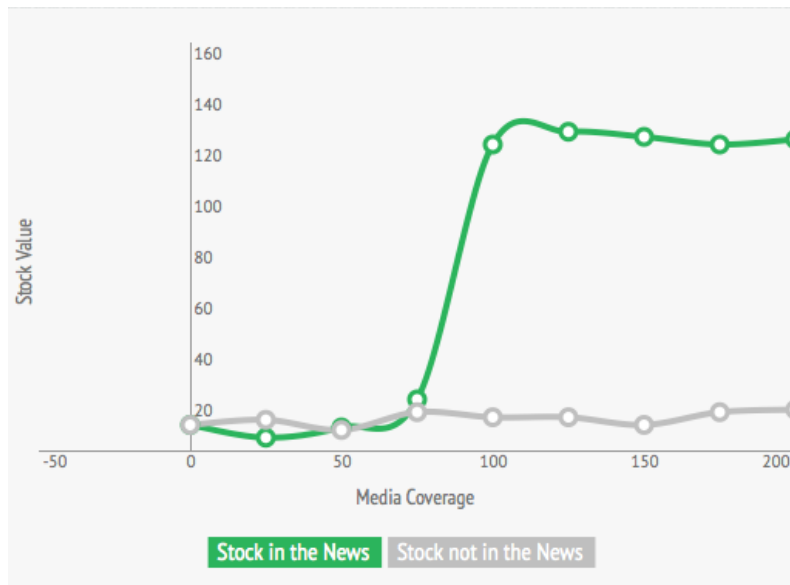
The idea that industry leaders are now leveraging social media to generate new business is compelling because it begs the question – how are they doing it? The likelihood that top management business executives are social media savvy is intuitively low. As a

result, they're increasingly resorting to hiring firms who specialize in social media publicity, which accounts for the statistic.

Direct Impact of the Media on Investment and Trading

Media coverage corresponds to empirically proven moves in stocks. Researchers out of the University of California, Irvine and INSEAD published a study detailing these trends.

Their study found that a fund, on average, buys \$100,000 more of a stock that gets media coverage than of a stock without media coverage. Even if a journalist does a basic profile on the public company, explaining what it is and what it does, the statistic is applicable. To present it visually, here's what the trajectory of the average stock looks like after media exposure compared to a stock with no media exposure.



Those researchers included almost 1,000 funds in their study that are collectively representative of the industry. To add a little more perspective, this means that out of the 1,000 funds studied, the aggregate buy of a stock because of its news coverage from this sample alone is \$100 million. That's a return of \$100 million to stocks owed to their presence in the news.

“The deliverable benefits of receiving media coverage as a public company are clear, but what does this mean for funds?”

This study uses real, tangible dollar amounts to prove that active investors pay attention to the media. It influences their decisions, whether the influence is conscious or

subconscious. We might not know *why* investors would rather invest in what they see on the news, but we do know for a fact that they do.

A different study conducted by researchers from Penn State University, UT-Austin, and Villanova University observed, “*Wide availability of media-driven information is a market-structuring mechanism that leads a subset of firms to become increasingly prominent and to have superior economic performance.*” They used a compilation of empirical data to confirm that developing a ‘media strategy’ enables entrepreneurs to boost their early market performance. The researchers claim that cumulative media coverage generates an array of valuable intangible assets for firms.

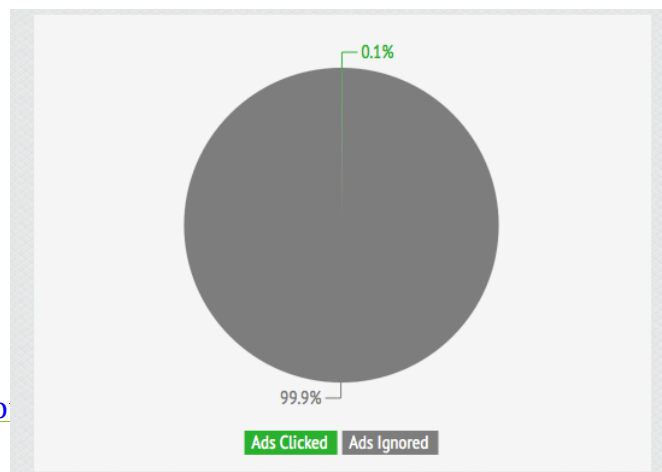
These numbers are irresponsible to ignore for anyone trying to grow their fund. As the same study concluded, “*our results show a positive association between firms’ press releases and media attention ... understanding the interactions between firm, media, and investor actions should be considered important.*”

Financial PR vs. Advertising Buys

Accredited investors don’t turn on the news, open the newspaper, or conduct a web search to read the ads – they do it to read the stories. Ads carry a stigma of annoying persistence and obstructiveness when watching TV or browsing the web. The wide range of services that marketing firms offer their clients include *search engine marketing, PPC (pay per click), shopper marketing, creative brand placement, strategic sponsorship*, and many others. A client may think this is a well-diversified pool of unique strategies, but all these terms are different ways of referring to the same exact strategy – paying marketers to buy paid ads for you.

These traditional marketing strategies are all time-tested and proven ways to get a message out there and if this didn’t yield a notable ROI, there wouldn’t be thousands of marketing firms out there competing for clients. However, as with any educated decision, we should compare and contrast publicity with marketing to see the advantages and disadvantages of both.

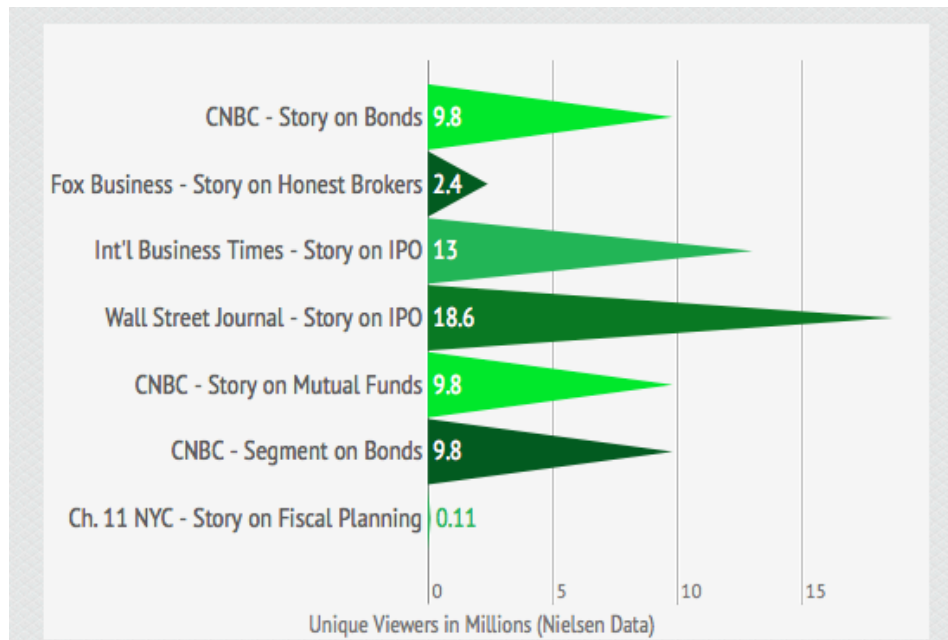
To begin, any preliminary research on these marketing strategies instantly presents some meek figures. Brian Morrissey, a journalist with Digiday, reports that the average click-through rate of online ads is 0.1%.



Here's a visualization of what the click-through rate looks like, but the actual figure is even lower because about 50% of these clicks are *by accident*, according to Digiday.

You are more likely to summit Mt. Everest, survive a plane crash, or get a full house in poker than have someone click on your ad.

Lets compare this to a publicity campaign executed by Macias PR using financial publicity. In a publicity campaign for an asset management client in 2014, Macias PR secured prominent news stories about their client in the following media outlets. The graph also shows the amount of viewers each story reached (in millions).

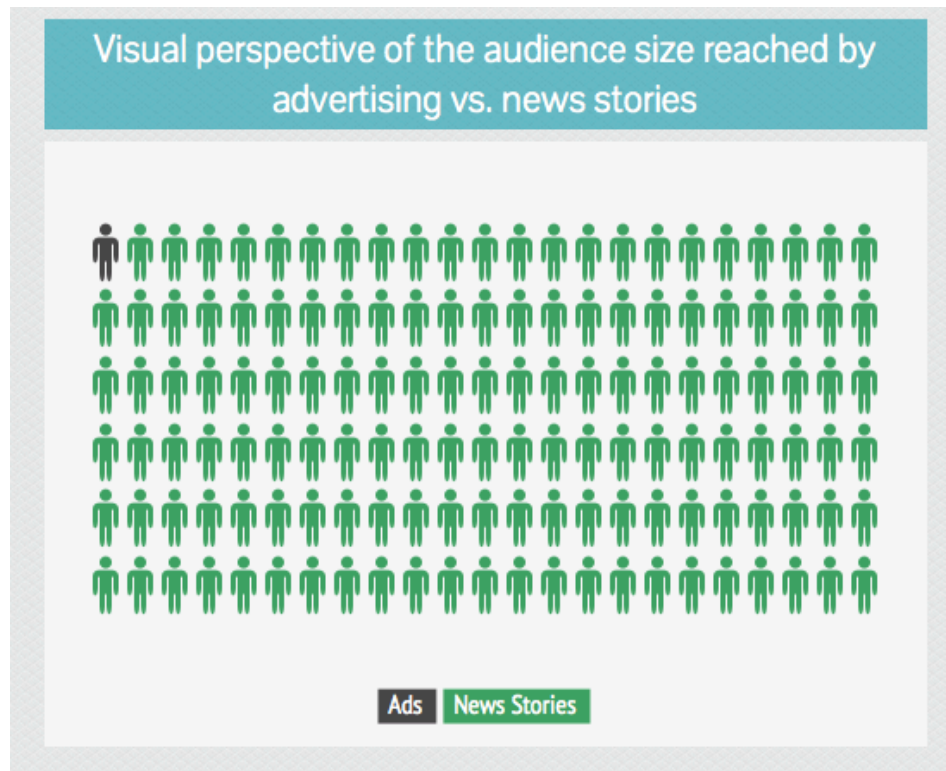


As part of the strategy, we also positioned this client into First Business News (an international briefing network for investors) and the Long Island Business News (a business publication reaching one of the wealthiest communities in the USA). These audiences were not factored into the case study here.

If we add up all the positive-publicity stories by the number of people they reached, we arrive at 63.5 million viewers. Out of all these viewers, an average of 31% of them earn over \$100k per year, meaning that 19.6 million people in our audience are very likely to be potential investors.

If our asset management client bought ads with the same outlets instead of had journalists write stories about him, he would've reached only 430,000 people. If you compare the size of the audience that hears your message between a publicity approach and a

marketing approach, it would be 63.8 million from publicity versus 430 thousand from marketing.



Conclusion: A New Investor Acquisition Strategy

This asset management firm paid significantly less for a financial publicity strategy than he would have for paid ads, while reaching more potential investors.

Contextualizing financial publicity with historical trends could help fund managers form a better strategy for finding new investors. As firms like Balyasny Asset Management and Topturn Capital are beginning to enjoy the benefits of this strategy, they are profiting from something that most others haven't caught onto yet.

Many funds stay away from publicity at all costs because they value an atmosphere of exclusivity and prestige. If that's the case, neither publicity nor marketing are a viable strategy for them. However, if you're interesting in exploring a breaking new trend in business development, we recommend leveraging the news cycle to get your fund into the conversation.

The case study we outlined above with one of our clients and the corresponding comparison to marketing is a valuable tool in understanding how the two different

approaches function and play out. Our conclusion focuses on how we can use these insights to help funds grow by gaining more visibility and trust in front of a targeted investor audience.

This case study is the first of its kind to statistically explore the trials and tribulations a fund may have engaging publicity or marketing. We encourage those associated with funds to continue research in this newly developing field and to talk to those who specialize in financial publicity to discuss if a publicity campaign is something that can work for your fund.