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The New Realities of Communicating With The Retail Investor

In the aftermath of the dot-com bubble, retail investors pulled out of the market in droves. For a while, a US Savings Bond became the equivalent of a hot new technology stock, as investors craved safety for what remained of their portfolios. Then retail investors return to the equity markets after a much briefer sojourn than pundits expected. Many are trying to make up for their prior losses. While brokerage firms and mutual funds welcome their return, some are worried that investors are setting themselves up for the next big fall.

Manage Investor Expectations

Communicators should be prepared for this eventuality by doing all they can to manage investor expectations, and ensure that their firms have been proactive in educating clients about risk/reward trade-offs. We believe that securities industry leaders will see this as an opportunity to seize the high ground with investors by:

1. Helping retail investors nail down their risk profiles – and reminding them of it each time they invest.

Securities industry leaders should use all of their available resources to ensure that retail investors know how much downside risk they are truly capable of absorbing, and choose assets that match that tolerance level. It may be time for firms to clearly categorize investments as being appropriate for certain risk profiles, and flag mismatches in investor choices. This should not be seen as a risk of losing a sale - alternatives can be suggested in the event that a customer indicates interest in an inappropriate investment. Interactive investment websites are ideally suited to this purpose, and we believe most CRM systems could be adapted to supply this information if they do not already do so.

2. Disclosing, disclosing, disclosing -- beyond the required legalese.

Let's face it -- investors just do not read the prospectus. And when they do, they tend to skip over disclosure statements that they see as being required by regulation and not material to the investment decisions that they make. Communications professionals need to find a way to disclose and make relevant the specific risks of an investment as well as the potential rewards. "Plain English" summaries of investment pros and cons might be a starting point. We believe that this will encourage investors to "own" their investment decisions, rather than looking for someone to blame if things turn out poorly.

3. Knowing the customer.

Many brokers call clients only when they have a product to push, whether or not it's appropriate for those clients -- and the clients know it. Alternatively, the most successful financial advisors tend to know each client so well that they can anticipate needs of which the clients themselves are not yet aware. Customer service professionals, brokers, and advisors should be trained to take the relationship to the next level: to make the general specific and the abstract personal. In this way rather than telling all customers about the importance of a diversified portfolio, firms must focus on telling each customer how and why to achieve his or her optimal diversification. The industry leaders will begin to address each investor's need for counsel in a way that recognizes their individual goals and investment horizons.

4. Customizing customer information.

Mutual funds regularly contact investors with quarterly reports that are rarely read by the recipients. On monthly brokerage statements, investors get detailed information on their positions, earnings, gains and losses <ETH> but nothing is said about what it all means in the context of the investor's goals and the economic outlook. Technology provides the capability to issue communications broadly, yet in a highly personalized way. The options for delivering information are now much more extensive than they used to be. E-mail is pervasive, but some people still prefer snail-mail. The winners will be the ones who provide the information that clients want in a timely manner, in the format and context that they want it.

5. First walk the walk -- then talk the talk.

Financial services organizations must demonstrate allegiance to the idea that the organization's success is inextricably linked with that of its clients, and that the interests of one group of clients does not take precedence over another. The climate of cynicism that brokerage firms face with their retail clients is real and ongoing, and the implementation of the global settlement's structural reforms presents an opportunity to address that negativity. Clients must be made aware of the specifics of the actions taken, as well as their importance in protecting client interests. When brokerage firms and asset managers identify the specific ways in which they have aligned their interests with the investor, they will have the ammunition they need to convince more clients to return to the market with them.



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Contact Scott Tangney
212.508.9661
stangney@makovsky.com

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575 LEXINGTON AVENUE, NEW YORK, NY 10022

212.508.9600 P 212.751.9710 F

WWW.MAKOVSKY.COM