



Funds Missing Boat on Building Brand Loyalty: Study

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Most mutual fund firms are failing to address the things that matter to advisors most. That's according to Cogent Research's recent "Advisor Brandscape" report, for which the firm surveyed 1,500 advisors about their perceptions of mutual fund providers.

In today's environment, the elements that advisors say differentiate companies' brands include integrity and honesty, investment philosophy and management style, and a firm's financial stability.

"In the last 12 months, advisors have been going back to basics," says Tony Ferreira, managing director with Cogent. Consistency of fund performance, track records of five years or longer, and fees and expenses lead advisors' list of considerations when looking at a fund company. Ferreira calls these attributes "table stakes" and says the true drivers of brand loyalty make the difference.

But most companies are falling short, according to Cogent. In fact, of the 34 firms ranked in the report, 27 got "below average" ratings on their ability to demonstrate integrity and honesty. Twenty-three got below-average scores on expressing investment philosophy and management style and 22 came in below average on advisors' perceptions of their financial stability.

Dimensional Fund Advisors and Pimco scored "off the charts," according to Ferreira. BlackRock, American Funds, T. Rowe Price, The Hartford, Eaton Vance and Vanguard also scored well. The full ranking was not available. Advisors picked brands based on a list provided by Cogent, and were asked to choose one with which they do most of their fund business and one that was "non-primary." The list was based on the largest firms by assets under management. Advisors were also allowed to write in firms they use that were not represented on the list.

For its part, MainStay Funds says the financial stability of its firm and parent New York Life is a part of the sales process. "What we're hearing and seeing is that it's not only on the advisors' minds, but it's on the clients' minds as well," says Chris Parisi, national sales manager at the firm. Parisi pointed to New York Life's top ratings from AM Best (A++) S&P (AAA), Moody's (Aaa) and Fitch (AAA) along with the parent company's inclusion on *Fortune's* "Most Admired" list. "It is something we lead with," he says, and it [pays off in flows](#).

MainStay wholesalers also emphasize the firm's conservative approach to its lineup, the multi-boutique model and consistent performance. "The one thing we can say is that we do things the right way, and it's for a reason," Parisi says.

Likewise, Janus earlier this month aimed to distinguish itself among advisors with a [new website](#) that includes video and text outlining the firm's research-heavy investment approach and management philosophy. "We spend a lot of time talking to advisors about our research-intensive investment process because we believe it is the key driver of long-term investment results," says spokesman James Aber.

White papers, research and practice management advice offered on the site are likewise meant to help Janus differentiate itself. Because it is publicly traded, advisors have access to a plethora of data on the investor relations site about the financial standing of the company, Aber says.

Advisor concerns about firms' performance through the market tumult and their overall stability going forward is part of what Financial Research Corporation market research director Margaret Rorick calls "the advisor pinch." Advisors are grappling with pressure from clients, who are demanding more of their time, and lower revenues. Those depressed income streams translate into lower head count, less available research and other reports. "They really need to rely on asset managers as they rethink their [own business] strategies," she says.

In their own survey of advisors, FRC found that 51% said wholesalers have "stepped up" their support, and more than 33% said that fund companies' representatives have provided greater educational material and have been more responsive in the past year. "Advisors are in a position to need to rely on their partners. That is an opportunity for fund managers who can point to their own stability," she says.

In FRC's ranking, Pimco also fared very well. Rorick notes co-founder Bill Gross's sterling image and long, steady performance record and the firm's role as a government advisor through some of the biggest financial policy decisions in the nation's history as some of the elements that work together to build allegiance to the firm. The result is that Pimco has consistently raked in new assets over the past year.

The message for shops is that ignoring advisors' concerns about these issues will erode brand loyalty and could cost significant market share at a time when firms should be concerned about competition not only from their peers, but from other products.

In fact, according to the Cogent survey, open-end funds represent about 30% of their client's portfolios. That's down from 35% two years ago. What's more, 46% of fund users said they plan to pare back the portion of their clients' portfolios allocated toward open-end funds by 2011 in favor of exchange-traded funds, variable annuities and separately managed accounts. Advisors included in the survey spanned all major channels, and on average managed \$80 million.

Active managers especially must be conscious of how they distinguish themselves and the value they can bring to advisors, Ferreira says. "There are a lot of products chipping away at funds' share [of advisors' portfolios]," he says. "People are more aware now than before. They really want you to demonstrate your company's strength."