

The Biggest Killer of Start-ups and Smaller Hedge Funds

The Non-existent or Half-assed Marketing Effort

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Most of the failed hedge funds we hear about are the high profile flameouts as a result of fraud. These are generally low frequency/high impact events precipitated by operational issues. About 14% "quietly" close or "return investor funds" each year due to lack of investment opportunities, an attempt to avoid diseconomies of scale or just fatigue of managing money and annoyance of the operational and financial burden from greater regulatory intervention. A much larger percentage of closures are funds that have been around a while and are in need of repairing a broken image or re-branding and the largest segment are those most never even hear about, because the fund was too small to start with, never raised any assets beyond personal finances, initial allocations from family/friends and was gradually abandoned without fanfare but with no less significant personal, financial and reputational damage. The latter groups are high frequency/high impact events that tend to be the product of inappropriate, inadequate, ineffective and inconsistent marketing, which can be avoided with proper planning, preparation and process.

Statistically, if you want to avoid failure, it would seem the most important thing to do is make a 100% commitment to do what it takes to succeed. Now more than ever, "**Intelligent Marketing**" is **essential** to succeed raising assets but most hedge funds don't invest in marketing. In fact, 81% of all hedge funds don't have any marketing plan, 61% of funds with less than \$100 million AUM have no marketing at all and 89% of all hedge funds fail to reach \$100 million AUM. If startup hedge fund failure were a disease, the CDC would be issuing bulletins warning people to avoid such entrepreneurial aspirations.

Recent data reveals launches are at an all-time high but so are closures! However, many of the next generation "masters of the universe" and "patrons of the arts" suffer from denial and lack of understanding of what it REALLY takes to succeed raising assets in the post-credit crisis/Madoff-world, where lack of trust and skepticism about the benefits of hedge funds are a pandemic. The denial is perpetuated and exacerbated by the erroneous and pervasive belief by many funds that the allocation decision is a one-metric criteria: RETURNS - "all I need are returns and I'll be at \$1B before you can say Christie's and Sotheby's". Such thinking is killer and typifies old-age B.C. (before crisis) thinking!

Most startups that could create a lucrative business, fail because they don't devote time to **REAL** marketing. I'm not talking about inundating prospective investors with endless and sometimes meaningless quantitative data along with qualitative information about pedigree (education, prop desk experience and progeny from a high-performing established fund). I'm talking about "**Intelligent Marketing**": The efficient identification of the **RIGHT** investors given the fund profile, effective communication, consistent and appropriate qualitative/quantitative engagement with selected investors, intermediaries and distribution channels to increase visibility and awareness in order to establish the **RIGHT** relationships to raise assets and nurturing those relationships until they are allocation ready. This requires **PATIENCE, EFFORT** and **MONEY** but the vast majority of smaller funds have the attention span and commitment for **REAL** marketing that makes a high-frequency trade seem an eternity!

Plainly, a hedge fund start-up is just like any other small business. As one new manager put it "It's a leap of faith, but you're betting on yourself," the biggest mistake you can make is not to stack the chips in your favor by giving more than a nanosecond of thought, planning and preparation to **REAL** marketing. To the extent there's a magic bullet, short-cut or secret sauce for a start-up or smaller fund in a hyper-competitive climate, it's not to be in denial about the importance of **REAL** marketing as a critical component to ultimate success.

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