Responsible marketing essential in capital investment

The average investor is in a vulnerable position. There is a constant tension between the need to save for retirement while also needing to keep up with ever-growing daily financial demands. In addition, investors are dealing with this in an environment characterised by ongoing market volatility that threatens to derail what was supposed to be a smooth journey to a comfortable retirement.

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Investment managers have a duty to act as stewards of investors' assets. This includes being responsible about marketing.

"Often, this vulnerability leads to investors taking actions that at the time may appear to make sense, but actually threaten their long term investment success," says Anet Ahern, CEO at PSG Asset Management.

The current regulatory environment has changed substantially from just over a decade ago and investors can now see what is 'in the tin'. They know what they are being charged for, they know about risk profiles, fund mandates and other aspects of investment products. However, there is still a wide range of possible future outcomes flowing from their decisions.

Panic switches in investments are counter-productive

External market and media influences make sensible investment decisions even harder. The market is configured to encourage investors to buy high and sell low – it takes effort and discomfort to do the opposite. "As if that is not enough, investors are also bombarded with marketing messages that encourage the same dysfunctional investment behaviour. Focusing on short-term performance is a key factor preventing investors from reaching their goals.

We take our role as stewards of our investors' savings very seriously. We take a long-term view, make sure we are diligent in our research and always aim to build a margin of safety into all our investment decisions but is this enough? We don't think so."

There are many examples of wealth-destroying behaviour during volatile times that are driven by marketing messages creating fear. For example, the capital flight into offshore investments early last year when the rand weakened dramatically was accompanied by aggressive advertising for these products.

However, investors who switched out of then-underperforming local equity funds into offshore accounts ended up being worse off. Although their local investment initially fell, prompting them to take their money offshore, their offshore investment suffered when the rand recovered. In the meantime, the investment they sold out of performed well, keeping its long-term track record intact and delivering on its promise.

Responsible marketing assists investors

Ahern says that responsible marketing can make a contribution to better outcomes for investors by helping them to:

- prevent unnecessary switches (selling out of one fund and buying into another),
- take a longer-term view and stick to their strategy,
- stomach shorter-term underperformance, which is often inconsequential in the long run,
- understand how their fund manager's approach works in practice so that they can make a better selection of funds from the start, and
- stick with a diversified approach based on an understanding that certain parts of their portfolio will lag from time to time, but that other parts can compensate for this underperformance.

"Investors are grownups with free choice and marketers can put their proposition forward in the way they want to. However, this does not justify exploiting the situation.

"Investment marketing messages deserve as much thought, consideration and consistency as the investment process, and should be aligned with the investment process. We need to be as serious about improving the outcome for individual investors as we are about the actual performance of the portfolios. Sadly, the two are often far apart," concludes Ahern.