



Performance Ads Return in Q2 As Spending Drops

By [Suzanne McCoy](#)

Even as ad budgets shrunk during the second quarter, ads touting fund performance reemerged as a top tactic at some fund firms.

That's according to **Competitrack**, which estimates the amount spent on all print and billboard advertising for mutual funds each quarter.

Last quarter, fund firms such as **Fidelity** and **Smith Barney** dramatically increased the number of ads they ran which listed returns for specific funds.

That new emphasis on performance came as total spending shrunk from roughly \$27 million in the first quarter to \$23 million in the second. That compares with \$37 million in the first quarter of 2002, and \$35 million in 2002's second quarter.

That's way down from the first quarter of 1999, when ad spending totaled more than \$1 billion.

Although Competitrack doesn't divulge the ad expenditures of individual fund firms, it does rank firms based on their approximate spending for each quarter. Last quarter, some of the biggest spenders funneled much of their ad budgets on performance-based advertisements.

For example, Smith Barney Mutual Funds moved from 72nd in overall spending for the first quarter to 14th in the second.

According to the firm, that movement was largely the result of an ad campaign featuring the return rates of specific funds. Those ads also displayed the names of each manager along with a photo.

One such ad featured Alan Blake, manager of the firm's Large Capitalization Growth Fund, which has a one-year return of negative 23.94%, compared with negative 27.05% for its **Lipper** peers.

But in addition to the fund's one-year return, the ad trumpets its four-star rating by **Morningstar** as well as its five-year and since-inception track record, which is 1.15% and 4.71%, respectively.

The uptick in equity markets spurred the ads, which ran throughout much of June in publications such as the *Wall Street Journal*.

"They thought the markets were undervalued," says spokesman Ed Giltenan of the firm's portfolio managers. "They wanted to alert people that the markets were coming back."

Giltenan said the ads were created as a short-term campaign and are no longer running. He says they were meant to emphasize the firm's fund performance, in addition to the overall boost in market performance in recent months.

"While you can't know exactly when markets are going to increase, our managers wanted to inform investors that now is the time to increase your exposure to equity markets," he says.

The firm is still considering how its advertising agenda could change if the markets shift further in the months ahead, says Giltenan.

But performance advertising has plenty of critics, who say that performance numbers can lure unknowing investors into inappropriate funds.

"Often, there's an inverse relationship between past performance and future performance potential," says John Picard, principal at marketing firm **Picard & Co.** "Markets shift, and the high-fliers can fall fast. But among mutual funds, performance numbers are used almost like brand names."

Fidelity's another firm that has started running more aggressive performance advertising. During the first quarter, the firm ran a variety of ads listing the number of Morningstar stars received by some of its individual funds. While Fidelity is still running many of those ads, it has launched new ads in recent months using specific return rates for funds. That includes an ad for the firm's international funds, which ran in *Investor's Business Daily* in June.

Fidelity made its advertising decisions based largely on its research of client and consumer attitudes and requests, says spokeswoman Ann Crowley.

"By the third year of the bear market, when funds had negative returns, it was difficult to distinguish between different fund firms," says Crowley. "Our customers indicated that third party research such as Morningstar's rankings would be useful."

Crowley says the firm looked at similar considerations when launching the new ads featuring fund returns.

"Some investors may not be aware of the impact that the markets have had on fund performance," says Crowley.

While second quarter ad budgets continued their slump, many observers say spending should pick up if equity markets remain strong. It often takes months for budget figures to mirror strong numbers in the larger economy, says Melanie Szlucha, Competitrack senior account manager.

That's usually because ads in monthly magazines must be submitted at least one month in advance, says John Lotka, CEO of advertising firm **Maximum Impact Partners**. He says he expects ads, especially performance ads, to be used more frequently toward the end of the year.

Although a few investors may be ill-served by performance-based advertisements, Lotka says that the ads can provide a much-needed boost to overall investor sentiment.

"It's easy to get locked into one way of thinking about the state of the market," says Lotka. "If you put numbers into an ad, it can show investors that there are bright spots, improving their outlook."