**Advertising hedge funds** Jun 8th 2013 | The Economist

Bull marketing: **Alternative-investment firms are preparing to pitch to the public**

TOBACCO and alcohol brands face heavy restrictions when it comes to advertising. Hedge funds and other purveyors of alternative investments have suffered similar prohibitions on marketing their products. That ban may soon be lifted in America. (Europe’s pending new regime for alternative investments is stricter, although it has lots of loopholes.) Long consigned to silence, the money men are starting to practice their sales pitches. Change is expected as part of the JOBS act, a 2012 bill designed to make it easier for smaller American businesses to raise cash. Hedge funds, private-equity firms and others piggybacked on the reforms in the hope of widening the pool of investors they can pitch to. The Securities and Exchange Commission (SEC) is busy writing the rules that would put the bill into practice. That process has been bedeviled by delays but it seems inevitable it will overturn a Depression-era ban

Under the current regime, alternative-investment firms are not only banned from advertising, they cannot do or say anything that could be taken as an inducement to raise money. In theory, that means they cannot even tell curious onlookers—including, often, your correspondent—how their funds are faring. Only the most general waffle about market conditions is tolerated by twitchy compliance lawyers.

Critics of laxer rules say it will overturn the grand bargain under which high financiers gained regulatory leeway in return for not peddling whizzy products to widows and orphans. But restrictions on who can actually put money in will remain: most funds can accept money only from “accredited investors”, defined as those with $1m in investible assets or regularly earning $200,000 a year. It is merely the duplication of regulating both marketing and sales which will be done away with, says Brian Lane, a former SEC official now at Gibson Dunn, a law firm.

The change will mean plenty of dentists and lawyers becoming fair game for Wall Street’s marketing wizards (at the moment, these investors have to find their own way to funds). Carlyle, a big private-equity firm, estimates accredited investors have $10 trillion at hand, twice the value of all the money tied up in hedge funds and buy-out funds put together. Along with many of its rivals, it has recently launched vehicles allowing people to invest just thousands of dollars, a fraction of the $5m-or-so minimum usually required to gain access to such funds. Executives salivate at the prospect of pitching to future pensioners investing their retirement pots.

Those expecting to see Beyoncé laud Moore Capital’s risk-adjusted returns in TV ads are likely to be disappointed, however. Hedge funds will still have to abide by an existing ban on using gimmicks like celebrity endorsements to sell financial products. In any case established hedge funds, in particular those with good records, are typically closed to new money. The main beneficiaries are likely to be up-and-comers that struggle to get noticed.

On the buy-out side, big diversified asset managers such as KKR and Blackstone, whose profits correlate with the amount of money they manage, will welcome any chance to attract fresh cash. Firms that sell both mutual funds and hedge funds under the same brand will find it easier to steer their richer clients towards the latter, generating fatter fees. The losers will be managers which wrap fancy hedge-fund strategies into mutual-fund structures; some of their clients will be lured to the real thing.

What of investors? Those that don’t qualify for “accredited” status will hear a lot more about funds they cannot buy. That may grate. They shouldn’t fret too much. A sensible blend of off-the-shelf bond and equity products has comfortably outperformed the average hedge fund in recent years. Advertising may even be a signal to sell. A recent [study](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2260370) found that hedge funds that advertised indirectly (by sharing a brand with a mutual fund which placed ads) underperformed in the immediate aftermath of a marketing blitz.