Social media in investment management

Think before you tweet. A best practices framework for investment advisors.
Social media has moved from the fringes of techno geek culture to the mainstream with astonishing speed. A few years ago, this entire industry didn’t even exist. Now it’s growing and evolving at a lightning-fast pace.
Going Mainstream

During the initial period of growth, roughly 2006–2010, many investment advisors were hesitant to participate in social media for strictly business purposes. The proliferation of new sites only led to more confusion for advisors trying to find answers to two main dilemmas: which sites can be leveraged for business and how do I go about using them to my advantage? It didn’t help that regulators were slow to provide guidelines for use, leading to a third question: what is legal and what is not?

Social media’s potential value to investment advisors is enormous and continues to grow. It provides a remarkably intimate and direct—not to mention inexpensive—way to connect, build trust with, and inform a large number of customers. It also presents a range of regulatory and operational problems. They all center on the tension between the wide-open, sometimes anarchic ethos of the internet and the need of any financial business to tightly control the flow of information. The aim of this document is to identify the major pitfalls of social media use for investment managers, profile the main social media sites and their benefits, and provide some ideas toward development of best practices.

Unsure how to use social media? You’re not alone.

Advisors Dive in—Kinda

Social media has moved from the fringes of techno geek culture to the mainstream with astonishing speed. The terms “social media” (or “social networking” or “Web 2.0”) is a catch-all for a variety of digital services, usually free to users and carrying advertising, perhaps the best known of which is Facebook. The field also includes everything from individual bloggers to Twitter and YouTube, to location-based network FourSquare, reddit, Flickr, RSS and on and on. A few years ago, this entire industry didn’t even exist. Now it’s growing and evolving at a lightning-fast pace. Where all this is going to end up is impossible to predict, except to say that it is not going away, particularly given the proliferation of smartphones, tablets, and other mobile devices.

When Morgan Stanley Smith Barney announced that it would be permitting its 18,000 advisors to use Facebook, Twitter and LinkedIn, Andy Saperstein, head of wealth management for the firm, told the Financial Times, “Many of our clients have been demanding social media. Many of our advisors have been demanding it.” But if Morgan Stanley’s move indicates firms’
growing acceptance of social media, it also revealed their trepidation: all posts, tweets and IMs by Smith Barney advisors will have to be done using templates pre-approved by the firm. The reason is to make sure everything that Smith Barney advisors say online is consistent with firm policies and regulations.

Employee activity online—and how to monitor activity legally—continues to be an ongoing issue for firms. While many investment managers continue to bar their employees from using social media in connection with their work altogether, federal legislation was introduced for the first time, the Password Protection Act of 2012, which would make it illegal for an employer to request or require information such as the user name or password to access an employee’s or applicant’s personal social media sites. On a state level, Maryland became the first state to enact a law banning employers from asking for such information in May 2012. Stay tuned. The battle over what is and is not permitted will likely continue well into 2013.

Meanwhile, while a number of large firms, among them Raymond James Financial and Commonwealth Financial Network, have taken the social media plunge at least to a limited degree, hiring companies that provide social media monitoring and record-keeping services, smaller players remain more hesitant. As Doug Flynn, an advisor at Flynn Zito Capital Management, which has $275 million in assets under management, recently told Investment News, “I’d love to start tweeting to the general public once they can clearly tell me what I can and can’t do. However, putting yourself out there too much without specific guidelines is just not worth the risk.”

However, we’ve likely reached the point where the benefits outweigh the risks as many business leaders have now embraced social media as a way to communicate with immediacy and a human touch that adds personalization to their message. In the past two years many prominent CEOs and C-level executives, including Sir Richard Branson, Jack Welch and Bill Gates, have taken to Twitter to reach out to their audience and employees. For executives, social media do indeed play a valuable role in building relationships, broadening a client base and monitoring trends in the marketplace.

Technology has always outpaced regulation, and social media is no exception. But regulators have finally taken steps with regulatory guidance after years spent struggling to get their arms around the issue. After years of criticism for its failure to create any kind of regulatory framework for firms and advisors, the US Securities Exchange Commission (SEC) issued its first set of guidelines in January 2012, the “National Examination Risk Alert: Investment Adviser Use of Social Media,” to help advisors comply with strict federal securities anti-fraud, compliance and recordkeeping mandates.

To ensure their social media activities don’t get them into hot water with the SEC, the guidelines primarily suggest advisors take steps to do the following:

> Develop and clearly document a social media policy outlining internal and external guidelines.

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> Continually monitor their social media program and ensure compliance with new, changing regulations.

> Be certain that sensitive information is properly secured and has limited accessibility to a select group of designated employees.

Somewhat more detailed guidance has come from the Financial Industry Regulatory Authority (FINRA), one of the largest regulatory agencies of the industry, which has issued guidelines on social media for broker-dealers in 2010 (FINRA Regulatory Notice 10-06) and 2011 (FINRA Regulatory Notice 11-39) to help financial organizations use social media. Together, these notices provide the framework for regulated firms to maintain compliance while engaging in social media.

Finally, in 2012 the SEC approved rules (collectively known as the Communications Rules) that were suggested by FINRA to govern communications with the public. The Communications Rules, which took effect February 4, 2013, can be read by visiting www.finra.org/notices/12-29.

The FINRA guidelines currently cover five main areas:

> **Recordkeeping.** Recording and archiving all social media activities.

> **Suitability responsibilities.** Recommendations where firms cannot make promises through social media that they could not make via traditional communication methods.

> **Types of interactive electronic forums.** Static social media content, such as company profiles and advertising requires principal approval while interactive social media content does not.

> **Supervision of social media sites.** Firms are required to supervise interactive communication on social media sites and adopt policies to stay in compliance.

> **Third-party posts.** Posts from third parties are not considered communications from a firm. In short, firms are not responsible for what others say or claim about their products and services.

A key point to remember is that, as with other regulators, FINRA has emphasized that social media communications were subject to the same restrictions concerning advertising and suitability that cover in-person or telephone contacts between advisors and clients.

**User Beware: Recycling, Re-Posting and Re-Tweeting**

To the extent that social media is just a new forum for saying things—like newspapers, radio and television before it—it presents few new compliance issues. A broker recently ran afoul of the SEC for front running his clients using Twitter. The swindle is as old as the stock market itself and would have landed the broker in trouble had he used smoke signals or semaphore flags. But what really makes social media different is the ease with which existing material can be copied or recycled: a YouTube video may be easily reposted to a Facebook page, while a blog entry may be tweeted and re-tweeted ad infinitum. An ongoing problem for investment managers trying to stay compliant is figuring out when and if they are responsible for non-original content that their advisors may post, repost, or link to.
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The Main Social Media Channels

A quick look at the main channels of social media will illustrate some of the compliance issues managers face. Malicious or misleading posts on social media are obvious sources of trouble, as is disclosure—accidental or not—of insider information or trade secrets. More challenging, however, are problems that may arise from innocent but careless use of social media.

Like at Your Own Risk

Facebook was launched in 2004 and reached a milestone in October 2012—1 billion users. According to the company, the average user spends 405 minutes per month on the site, and more than 600 million users access Facebook via mobile devices. Despite issues with the launch of their IPO in May 2012, Facebook’s phenomenal growth has made its founders the subject of a hit movie and enriched them beyond their wildest dreams. It has also been plausibly credited with significant political and social clout, such as helping spread democratic upheaval across the Arab world.

While initially popular with individual users, Facebook has since proven hugely attractive to businesses as well—especially B2C businesses, under which financial planning services and investment management might plausibly be grouped. In fact, a Facebook search on “investment management” will turn up hundreds of firms that have already staked their claim on the site.

The biggest potential compliance problem for advisors using Facebook is “liking.” Users can signal their approval of posts, links, or comments posted by others by clicking a button, which places a “thumbs-up” icon next to the item in question. For someone using Facebook in their personal life, this is usually a highly casual matter of signaling approval of a cute baby picture or saying “Yeah, I agree” to a comment posted by a friend. For an advisor, however, this seemingly innocent action could have potentially serious consequences. For a representative of an advisor to like something on Facebook—say a link to financial commentary, an economic forecast, or a discussion of a company—constitutes, according to FINRA’s Regulatory Notice 10-06, an endorsement which means the advisor adopts whatever is being said as his or her own. And by extension this action could even be considered an endorsement by the firm that employs the advisor. If the material liked doesn’t pass regulatory muster, the advisor and the firm could have problems. For instance, if a representative were to like a friend’s status update in which a company or investment is mentioned that action could be considered an recommendation under NASD rule 2310, which requires members to take pains to make sure recommendations are “suitable” to specific customers. Because of the risk inherent in liking, some compliance consultants have recommended either using software to block the function or banning Facebook use entirely.

Another potential compliance problem comes from the huge and growing number of add-ons—from games like Farmville and Angry Birds to business applications—made for Facebook. A firm permitting representatives to use Facebook for work will either have to review any application used by an employee for SEC/FINRA compliance or block the use of all add-ons.
The thing that makes social media different is the ease with which existing material can be copied or recycled.
To Tweet or Not to Tweet?
For immediacy, it’s hard to top Twitter. Founded in 2006, Twitter is a micro-blogging service that boasts over 555 million users around the world. Users get personal web pages on which they may post items—either their own thoughts or links to other web pages—of no more than 140 characters. They can post as many of these “tweets” as they like, sign up to receive the tweets of other users they wish to follow, and then comment on others’ tweets or re-tweet them to their own followers.

Due to the limitation on the length of posts, Twitter is often considered a mobile service, with users posting from smartphones or other mobile devices, although you can also post from your desktop PC.

The Twitter concept at first seemed so limited that it was hard to believe there was an audience for it—much less a business case to be made for it—but today Twitter claims that users worldwide send some 400 million tweets a day. Its legitimacy in the business world has moved beyond the realm of publicity-hungry Hollywood stars, athletes, and politicians to become yet another marketing arrow in the quiver of many companies and organizations.

While individual companies are subject to the vicissitudes of the market and may come and go like other Internet start-ups, the phenomenon of micro-blogging is clearly here to stay, raising questions for advisors and firms considering using this new communications tool.

Tweeting poses many of the same potential pitfalls as Facebook posts. FINRA says that tweeting or re-tweeting constitutes an endorsement and could constitute noncompliance with its rules if the content is false, misleading, or otherwise inappropriate for an advisor. As with Facebook, Twitter users can like items that other people have posted. If an advisor were to like a tweet by a friend saying “XYZ is a great company” the SEC might consider that action to be an investment recommendation made without due consideration of whether it was suitable to any of clients or others who might be reading. Hence, it’s generally considered prudent to tread carefully through the Twitter landscape and to think twice about what you’re tweeting or re-tweeting.

Social Networking Goes Pro
LinkedIn may be the most advisor friendly of the major social networking services. According to Socialware, 57 percent of advisors who say they use social networking for business use LinkedIn.

Founded some ten years ago, LinkedIn is a business and professional networking service used primarily by job seekers and recruiters. As of November 2012, LinkedIn claimed more than 187 million registered users around the world, putting it far ahead of its nearest comparable competitors. Users can post their employment histories, resumes and links to examples of their work. Like Facebook, they can also link by mutual agreement to the pages of other users, thus widening their circle of potential contacts.

Perhaps because of its more clearly professional (as opposed to personal or entertainment) focus, LinkedIn appears less likely to attract mischievous or careless posting by advisors than other social networking channels. Nevertheless, prudence and good judgment must be employed when using the service in a professional capacity.

As with other social media, it is the question of endorsing things or people that presents the most potential compliance danger. According to FINRA, a recommendation of someone on LinkedIn constitutes is “static” content and therefore an advertisement. As an ad it is subject to Rule 206 (4)-1 of the Investment Advisors Act of 1940, which bars testimonials—and what is a recommendation if not a testimonial? If an advisor were to recommend, say, his brother-in-law as an “expert stock picker...
with a stellar track record,” FINRA and other regulators could be expected to take a dim view of the matter. Here again, consider the ramifications of a post on LinkedIn before making it and err on the side of caution if you’re unsure whether it could cross a regulatory line. It’s also wise to use a disclaimer or clearly identify comments as your personal opinions, rather than those of your employer.

Express Yourself via D-I-Y Journalism
A “blog”—a neologism formed by blending the term “web log”—is simply a web page maintained by an individual or organization that is periodically updated with new information, links, diary entries, video clips or the like. Blog posts, which are typically displayed in reverse chronological order, may range from highly professional to very informal to completely scurrilous. Blog visitors can usually leave comments or messages as well, and it’s this interactive dialogue capability that sets blogs apart from static websites.

Blogging has experienced exponential growth lately, following the typical trajectory from individual users to groups and companies. As of October 2012 the two largest blogs were Tumblr and WordPress, with WordPress now in use by nearly half of the top 100 blogs in the world.

Today a growing number of investment advisors have taken up blogging to posting their thoughts and opinions on the economy, markets, investing trends—as well as commenting on other blog posts. FINRA regards blogs as static content—that is to say advertisements, and subject to the SEC restrictions like those on testimonials and claims of future performance.

For all of the benefits, blogs do pose certain dangers, especially if the individual posting is a CEO or other high-level executive. They’ve proven a dangerous temptation to some executives who were inclined to dismiss their competitors or hype their own shares. For example, between 1999 and 2006 Whole Foods Market CEO John Mackey used the screen name “rahodeb” (an anagram of his wife’s first name) to post over 1,000 entries talking up his company’s prospects and trashing those of rival Wild Oats on a Yahoo financial discussion board. Using this pseudonym, Mackey predicted the competitor would go bankrupt to drive down its stock price and then bought Wild Oats stock at prices as low as $5 a share. Shortly thereafter, in February 2007, Whole Foods announced that it would buy Wild Oats for $18.50 a share. The SEC investigated Mackey’s posts but took no action, and he eventually posted a long defense of his actions on his own blog.

Go Pro, Not Viral
It’s easy to see why YouTube continues to grow—many people would rather learn about products and solutions by seeing them, rather than reading about them. Founded in 2005, YouTube now claims over 800 million unique user visits each month and has evolved into a cost-effective platform for business marketing. For some it is a free medium where brief, low-cost productions garner millions of views and (hopefully) get picked up on newscasts. For an advisor, however, there is a different goal in mind: chances are you don’t want your video to appear on a national news program due to outrageous or humorous content. You want your customers, not the SEC, to notice your business.

For most businesses, clips end up on YouTube in the form of product demos or executive presentations at conferences and other events. Panel discussions, Q&A sessions, interviews with industry experts, and fireside chats also present a great forum for businesses to outline their solutions and engage with their clients while humanizing their executives. PowerPoint presentations and slide shows, if kept brief, also provide an avenue to promote a new release or provide a hands-on product demonstration.

In keeping in line with other social media trends, YouTube reports that mobile usage of YouTube tripled in 2011 and continues to grow internationally with 70% of videos now viewed outside the US.

For advisors unfamiliar with how easy it is to record and upload a video, consider these helpful tips:

> Keep it brief. Two to three minutes is ideal. Viewership tends to drop off significantly after four minutes.

> Include a call to action at the end of each video. Determine what you want your audience to do after watching the video. Visit your website? Call your toll-free number? Redeem a special offer?

> Quality counts. Lighting and sound are often overlooked but are key to creating a high-quality video.

> Take advantage of the opportunity to cross promote your videos elsewhere—tweet about them, upload to Facebook or mention them on your blog.

> Animated videos are acceptable, and sometimes preferred, as a means of conveying complex information about products and services in an appealing way.

> Don’t forget about Search Engine Optimization (SEO) for videos. Take time to optimize your descriptions associated with the videos with keywords and links back to your site.

Finally, if you take the time to upload a video be smart, keep it professional and remember that you’re targeting a specific audience, not the entire world.

One Picture is Worth a Thousand Words
Though a relative newcomer on the social media scene, the growing traffic reported by Pinterest cannot be ignored. Founded in 2010, the online pinboard where users can “pin” theme-based images they want to share was the fastest website to reach 10 million unique visitors. Unlike LinkedIn and Twitter, Pinterest is a highly visual community where users post and subscribe to picture boards. The financial services
industry has been slow to embrace the site but growth has been seen recently in certain areas—notably those promoting retirement services and credit card reward programs.

For advisors, one could argue it’s already a challenge using Facebook and Twitter and staying compliant while doing so. But there is value to be realized and it requires little effort to post images to engage clients and prospects. These include visual advertisements aimed at target markets (such as pre-retirees), photos that appeal to clients’ target lifestyles from sponsored events such as concerts or partner venues, or even pinboards to show how they’re engaged in community service or outreach. Think of it as an easy way to spread awareness about your services and engage clients visually.

In addition, if advisors are looking to market to women, Pinterest is a great option as it’s estimated 85% of users are women. And as Pinterest is largely image-driven, consider that creativity is key. In addition to posting photos—charts, videos and info-graphics also offer value. If your company invests a significant amount of money in printed marketing and collateral materials, consider posting those images on a Pinterest board instead.

And remember that Pinterest is about driving traffic and growing your brand. You can use it to get closer to customers, show them a lighter side of your business and engage their interest. As with other social media, be sure to post regularly and with a consistent message in mind. The key is finding a healthy balance that speaks to an advisor’s background and experience and also serves as a source of education.

At this early stage of the game, there isn’t much information from the standpoint of regulations. Pinterest is still a relatively new site and both the SEC and FINRA are likely monitoring the site to determine best practices for advisors. But as is always the case, be careful what you post as it represents your brand and your brand’s image.

As recently as 2011, Pinterest barely registered a blip on the screen of investment professionals. Advisors need to be open to new platforms that are going to come out—and there will be more. The flavor of the month in social media can change quickly so advisors need to ask how their business fits with the platforms that are popular today.

Best Practices: Framework for a Comprehensive Social Media Policy

Although the regulatory picture is constantly evolving, some consensus has been found among regulators and there is now a fair degree of consensus around best practices for social media. The main goals for advisors are to integrate social media into a coherent overall risk management strategy, avoid problems with the SEC and FINRA, and reassure investors that their best interests come first. A few general rules:

> Using good judgment is paramount. Anything said, posted or shared via social media should be assumed to be governed by existing rules for written, electronic or in-person communication. In other words, if an advisor wouldn’t say it face-to-face to a client, they shouldn’t tweet it.
Create a written social media policy consistent with your firm's own procedures and values. An off-the-shelf, "canned" document won't pass muster. Employees permitted to use social media in their work should be trained in it and sensitized to concerns and potential problem areas.

A chief compliance officer should be named to monitor compliance. That means being responsible for keeping the firm up to date on all regulations and reviewing "static" material for compliance before it is posted online and periodically reviewing "interactive" material after it has been posted. It also means archiving in an easily discoverable form everything that goes online.

Only employees specifically authorized to use social media should be allowed to do so. Some firms have also put some restrictions on advisors personal use of social media during off-hours, prohibiting from them from discussing company business or posting company logos and asking them to add disclaimers on personal blogs. If a firm is not able to monitor a particular social media channel, employees should not be allowed to use it in their work.

Keep records of all firm social media activity. While it is so far unclear how long such records will have to be kept, regulators have been asking investment advisors for them. There is no reason to think that records of social media activity should not become discoverable evidence (just like IMs, emails, and telephone records) in administrative or legal proceedings.

Leverage technology to ensure compliance. A number of companies now offer software platforms designed to monitor, archive, and filter social networking communications in accordance with a firm's policy and federal regulations. Some companies in this space include Socialware, FaceTime Communications, and Arkovi.

Additionally, linkedFA, a social networking service launched last year (despite the name it is not affiliated with LinkedIn), is aimed directly at financial advisors and offers archiving service as well as compliant email templates for client communications.

The key concept for firms willing to break into social media is, as with all their other client-facing communications, control. Ethical, responsible firms that have good control over how their people use social media—that is to say, firms with sensible, well enforced, and well explained policies—should have nothing to fear from the use of these new technologies. And as regulation inevitably catches up with technological advances, clearly defined best practices and rules of the road will become codified to guide investment advisors and their firms in the use of social media.

Finally, remember that your readers and followers include current clients, potential clients, as well as current, past and even future employees. So have something to say—social media will more likely pay dividends for your business if you consistently add value for your followers.
Who We Are

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