

Quick & Dirty Q&A with Isaacson on CTA marketing:

Q: Can you tell me about CTA EXPO?

A: Frank Pusateri and I started **CTA EXPO** two years ago because we were both founders of the predecessor of the managed funds association. When the managed funds association first started it was all CTA's. Gradually it evolved in a **CTA/Hedge Fund** organization and now it's transitioned to an almost all hedge fund organization. They don't pay much attention to **CTA's**. Two years ago we created **CTA EXPO** as a reason to invite our friends to get together in Chicago and at the same time to provide a platform for emerging CTA's to present what they're doing to capital sources that might come. We weren't sure how many people would show up, we expecting 20 or 30 and just from word-of-mouth 170 showed up that first year. The second year we also held it in Chicago with a "sold out" crowd of about 250. This year we've added New York, and the expo in New York drew 270 participants and we had to turn people away. We'll be in Chicago again this fall, and in 2011 we're planning to hold CTA Expos in Chicago, London, and New York.

Q: It seems that CTA's lack a trade organization of their own. Why do you think that is?

A: I've been involved with the start up of AIMA and the start of the MFA, and for a trade organization to be effective you have to have a substantial budget. You can't do industry wide PR on a minimal budget, if you don't have the money, it's just a bunch of people sitting together. You've got to be able to hire someone to reach out and do PR for the industry. It's tough for the bulk of CTA's who are smaller to properly fund a trade organization. Small CTA's find it difficult to come up with the cash it takes to ensure success for a trade organization, they'd probably find it more cost efficient to head to New York and spend the money on a trip to meet allocators.

Q: So would you say CTA's don't have enough market representation?

A: If you look at the traditional sources of capital for CTA's; Family offices, funds of funds, institutions all of them are aware of CTA's. And they're all aware of the role a CTA can play in their portfolio. If you go to FCM's who have a large CTA component they know to promote emerging CTA's. All the places where a CTA can go to get capital know about CTA's. I think the problems for CTA's are twofold, they spend plenty of time on the trading, but not enough time on the business aspect of the company. And they don't direct nearly enough resources to marketing. The business plan can't stop at the trading. It's got to address how you're going to develop personal relationships with allocators, you've got to think about how you're going to spend enough time on the road to talk to allocators. There are a couple of ways to get the marketing done; you can do it yourself, you can hire a third party marketer who'll take 20-30% of the fees, or you can go to an incubator to do it for you.

Q: So the advice you'd give to CTA's, whether they're emerging, or whether they've cleared the first hurdle of around 10 million under management would be?

A: I think if you look at any business plan that I'd ordinarily look at, it includes a piece on how you're going to market and raise money. CTA's seem to think that once they've got the disclosure document done, they're finished. But what allocators are going to look at includes whether or not the business is viable, they'll want to make sure there's enough money for the CTA to live on, and there are enough reserves or income to make it for a while. There are a surprising number of CTA's with mediocre track records with a lot of money under management, and plenty of CTA's with great track records with not much money under management and the difference is marketing.

Q: Has there been a shift in the type of trader that people are looking for? Is there still room for individual traders?

A: I don't see a change. I think some people will rise to the top. I think some traders will be able to scale up, and grow, and others won't be able to. Some CTA's have no idea how to meet people. You've got to run a CTA like any other business.

Q: So you might say: " get the trading in line, but find someone in the organization to mind the marketing and relationship end of things"?

A: Look at the list of people who are potential capital sources, do some research and find the allocators who are allocating to your type of CTA. If you're a fundamental trader, work the list of allocators who work with fundamental traders, watch the size trader they allocate to, do you match their desired size? You'd be surprised how many people begin and end their marketing with a power point presentation. You can just stop at one visit and think you're done. Make the effort to connect with the allocators, it builds the relationship and underscores your survivability.

Q: Based on the mantra about liquidity, transparency and reduced third party risk we keep hearing about a potential inflow of cash to CTA's, but it always seems just out of reach, why?

A: I think the amount of money allocated to CTA's is relatively constant as a percentage of all alternative investments, around 15%. I think if you want to talk to an allocator about what transparency means, I think it means that when an allocator looks at your position they can tell your trading in line with your stated objectives. Transparency can be a two-edged sword, in a fund of funds, it can lead to increased liability if there's style drift and you, as the fund manager, you're responsible for picking that up. Awareness is equal to responsibility. I think it goes back further than most people think. In the 60's and 70's the equity exchanges spent time marketing equities as an investment. At the same time, the futures exchanges were marketing individual contracts. I think that difference in focus cost futures a place as an investment class.