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MUTUAL FUNDS

Define Aggressive: Fisher Sales And Marketing Practices

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When it comes to managing money, Ken Fisher can make some impressive boasts. As the stock market was nearing a peak in early 2000, for example, Mr. Fisher went from 100% bullish to 100% bearish, protecting his clients from the start of the long slide that followed.

And when it comes to trying to attract customers to open accounts with his firm, Mr. Fisher is far from shy about promoting his accomplishments. With the help of extensive mass mailings, ubiquitous pop-up ads on the Internet and regular columns in Forbes magazine, Fisher Investments has had explosive growth in assets, going from \$4 billion under management in 2000 to around \$20 billion today.

Also helping Mr. Fisher's rapid expansion is that his firm, based in Woodside, Calif., mostly caters to rich, or "high net-worth," individuals with at least \$500,000 to invest -- one of the fastest growing segments of the money-management business. In addition, Mr. Fisher has notable investing roots -- he is the son of investing pioneer Philip A. Fisher, who is often cited in Fisher Investment's marketing materials as an influence on the investing strategies of Warren Buffett.

But according to interviews with current and former Fisher employees and numerous e-mails and other documents reviewed by The Wall Street Journal, Fisher Investments is highly aggressive in its marketing material and sales practices used to gain clients. Among the firm's practices:

- The firm's long-term performance numbers combine separate and not compatible investment styles. The 10-year figures, which show the firm handily topping the returns of its benchmark, are based on a combination of the firm's institutional accounts prior to 1995 and on the performance on the accounts of high-net worth individuals since then.
- After his prescient call in early 2000, Mr. Fisher was dead wrong in May 2002 when, in the span of just a few days, he put his clients back into the market at what turned out to be the brink of a significant market slide. While Mr. Fisher's correct market call in early 2000 is highlighted in the firm's marketing material, reference to the May 2002 miscall is omitted.
- Salespeople are encouraged to go to great lengths to pursue clients. According to an internal e-mail, one


Fisher salesman landed an account after pretending he didn't receive a message from a potential client to cancel a planned meeting and knocking on the door of the prospect's house until he got an answer, allowing the meeting to proceed.



Ken Fisher

Mr. Fisher, 53 years old, strongly defends his firm's sales practices. "To say we are aggressive, definitely, but to say we're deceptive, that is blatantly false." Mr. Fisher added that "our firm is based on the highest standards of professionalism and integrity."

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He also says the firm is proud to have become a leader in direct-marketing techniques among asset managers. In using junk mail and Internet ads, "we are the biggest in the world of money management, the biggest direct marketer of separately managed accounts for high net-worth asset management," Mr. Fisher says. "We're cutting out the intermediaries."

Mr. Fisher first got into money management in the early 1970s and up until 1995 his firm mainly worked for institutional clients such as pension plans. Then Fisher Investments switched gears and began targeting high-net worth individuals, who now account for three-quarters of the firm's business. (Mr. Fisher also runs three tiny mutual funds carrying the Purisima Funds brand name, but those are not actively marketed; Mr. Fisher, in an interview, derides mutual funds as "slimy," a view he said he held long before probes into fund wrongdoing were disclosed five months ago.)

Rather than mutual funds, clients are put into so-called separately managed accounts holding stocks chosen by Mr. Fisher or other managers at the firm. Mr. Fisher started off as a small-cap value-stock investor, but changed gears in the mid-1990s. Today, the firm's strategy relies largely on the ability of Mr. Fisher and two younger associates to make correct predictions on whether the overall stock market will rise and fall and also on which segments of the market will perform the best on a relative basis.

In early 2000, Mr. Fisher began lessening his clients' exposure to technology stocks and by the end of the year, accounts of most clients also included short positions -- bets that the major market indexes would fall. "We were good and we were lucky," Mr. Fisher says in an interview.

In late 2001, as the bear market wore on, Mr. Fisher's marketing materials for potential clients stressed why investors shouldn't wait for the return of the bull market to hire the firm. "If you don't hire Fisher Investments in advance of the market bottom, you won't participant in the significant upside potential of the early days of the next bull market," one piece of Fisher literature said.

Mr. Fisher maintained that bearish stance until mid-May 2002. Then, in just the space of a few days, Fisher clients were taken from 100% bearish to 100% bullish -- a shift that was completed virtually the day before the Standard & Poor's 500-stock index began a five-month slide, according Andrew Teufel, director of research at Fisher. The market, as measured by the S&P 500, didn't regain those May levels until December 2003. In 2002, most of Fisher's clients suffered a 24.1% loss, while the benchmark index against which Fisher measures their performance lost 19.9%, according to Fisher's performance data. In 2003, Fisher's performance bounced back and his main investment strategy gained 33.8%, beating the firm's benchmark.

But prospective clients would be hard pressed to learn of the misstep in 2002. The current marketing materials, which the firm provided in response to a request from The Wall Street Journal, include a booklet titled "Ken Fisher's 'Market Calls' " featuring 21 of Mr. Fisher's columns from Forbes magazine. The most recent piece in the booklet is from Feb. 4, 2002, carrying the headline, "2002: Another Down Year." Mr. Fisher says the firm isn't trying to hide the 2002 performance. "I don't think we've ever suggested we've made perfect market calls," he says.

In scripts prepared for prospective clients, the Fisher Investments salespeople are also instructed to mention that the elder Mr. Fisher's writings on growth stocks were an influence on Mr. Buffett, even though the Fisher firm's investment strategy differs significantly from Mr. Buffett's value-investing style. Mr. Fisher says the firm isn't intending to imply the firm uses the same investment strategy as Mr. Buffett. A representative for Mr. Buffett declined to comment.

Mr. Fisher also defends the firm's depiction of its long-term track record. Those figures combine returns dating back to 1990, even though the strategy for most of his high net-worth clients today is significantly different than the one used for most of Fisher's institutional accounts prior to 1995. The bulk of the firm's institutional clients in the early 1990s were invested in U.S. small-company stocks, while the firm today buys mostly large-company stocks and invests around the globe for its high-net worth clients. In addition, the long-term performance numbers and the returns from the early 1990s are both compared against a market index comprised mostly of global securities.

To be sure, accounting for the performance of individuals' accounts is complex and the linking of various types of investment strategies can meet Securities and Exchange Commission rules. But many money-management firms overseeing separate accounts voluntarily measure their performance according to standards created by the Association for Investment Management and Research, a professional group for money managers and analysts.

Fisher Investments cautions its sales personnel against saying that the firm is AIMR compliant, which it isn't. Salespeople, in a November 2003 e-mail reviewed by The Wall Street Journal, were told to say that Fisher Investments doesn't seek AIMR compliance, in part because of "the broad array of customized portfolios we offer." Messrs. Teufel and Fisher say their methods "are in line with the industry norms."

The harder a Fisher sales representative pushes to get clients, the higher the praise, according to some former and current employees. Thomas Ek, a salesman based in Maine, recounted a story in an e-mail last summer of how he told a potential client he didn't get a message canceling an appointment and "showed up anyway" and landed the account. A Fisher sales executive, Deglin Keneally, according to a

copy of the e-mail reviewed by the Journal, praised Mr. Ek for having "great spirit" and forwarded Mr. Ek's account of the episode to the firm's sales force as an example to follow. Mr. Keneally wasn't available to comment and Mr. Ek declined to comment. Mr. Fisher says that the e-mail wasn't meant as praise for misleading the client about the appointment. The client, informed Thursday by a reporter about the e-mail, also says she didn't feel deceived about the meeting.

However, there are certain clients that Fisher doesn't necessarily want: lawyers and investors who have been involved in any sort of lawsuits.

In December, the Fisher sales force received an e-mail walking them through how to raise the "litigation question," a matter it said was "definitely a requirement for qualifying" a prospect as a client. The e-mail suggested salespeople tell prospective clients that the reason for asking whether they have sued anyone was because litigation "can have a material impact on your financial situation."

Mr. Fisher, in an interview, says the reason the firm screens out potential clients who have been involved in lawsuits was because they are more likely to file suits in the future. However, Mr. Fisher doesn't think that the sales force was misleading clients by following the suggested script in the e-mail.

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