



## Tweet Success

Social media can raise compliance risks

BY ED MCCARTHY

Social media are on a roll. LinkedIn has more than 75 million users in more than 200 countries. Facebook has more than 500 million active users, 50 percent of whom log on to the site in any given day. People are watching 2 billion videos per day on YouTube, and Twitter has more than 190 million users tweeting 65 million times per day.

And young people aren't the only ones using these technologies. The Pew Internet & American Life Project's recent report "Older Adults and Social Media" found that social networking use among internet users ages 50 and older rose from 22 percent in April 2009 to 42 percent in May 2010. The adage that wealthy investors don't go online isn't holding up well either. The Institute for Private Investors (IPI) surveyed its ultra-high-net-worth members in May 2010 about their online habits. According to Charlotte Beyer, IPI's CEO, 38 percent of the respondents actively participate in social media, 33 percent participate passively (reading posts, etc.), and 28 percent did not participate.

### The Business Case

Social media advocates maintain that the technologies can improve an advisory firm's marketing efforts. The potential benefits include increased credibility and a positive impression of your firm among prospects. The technologies can also drive traffic to your blog or website. Stephanie Sammons is founder and CEO of Wired Advisor, a Dallas-based social media consulting and training business that helps advisers construct what she calls a social media portfolio.

Sammons believes "social media has the power to completely shift the way that we communicate just like e-mail did when e-mail was rolled out."

The idea of treating social media technologies as a portfolio results from the underlying Web 2.0 framework. The early Web was a one-way dialogue: visitors passively consumed a site's content. In contrast, Web 2.0 applications—blogs, social media, wikis, video-sharing sites, etc.—can be linked to allow content creators and consumers to collaborate and syndicate (i.e., distribute) content.

The goal of search engine optimization also favors using social media. Google search rankings are based partly on your site's content, but the number of sites linking to yours is also important. According to Google, "In general, webmasters can improve the rank of their sites by increasing the number of high-quality sites that link to their pages." Using social media to increase the number of links to your site can improve its Google rank. In turn, higher rankings on the search-results page increase the likelihood a viewer will click through to your website.

Even if most of your new clients come from referrals, those prospects are likely to go online to learn about your business. A well-designed website, insightful blog, and links to other relevant sites or blogs where you are quoted or cited help create a positive initial impression.

### Does It Work?

William Valentine IV, CFA, president of Valentine Ventures in Bend, Oregon, says using social media brings in new clients. He was an early adopter of the technologies and currently blogs, uses Facebook, and produces videos that he distributes over YouTube and

### KEY POINTS

- Participation in social networking technologies continues to grow rapidly, even among older and wealthier people.
- A properly designed and implemented social media policy can support a firm's marketing efforts.
- Investment advisers should be aware of compliance concerns involving social media and recently issued guidelines for advisers.

Vimeo. His goal is to drive traffic to his website, and he says virtually every client his firm has today came through the company's site. "My entire marketing effort is driven by the desire to have people go through the website, click on 'prospective clients,' and send us their financial information," he says. "Then we take it from there."

Valentine estimates that he spends about five hours per week on social media, with an intern spending another 10 hours. He recognizes that there is a drawback to giving away high-quality content online. Most of the consumers are self-directed investors who generally aren't in the market for his discretionary investment management service. Nonetheless, he says, it takes only a small response for his online efforts to pay off. "If 98 percent of the people who get our content are either do-it-yourselfers or simply don't meet our minimum, I'm OK with that," he says. "The game then becomes expanding the number of people I'm in front of so that that a small percentage of key clients will come toward us."

Ara Oghoorian, CFA, started ACap Asset Management in Beverly Hills, California, in July 2009. He uses LinkedIn to generate prospects and referrals and Facebook to stay at the forefront of clients' and prospects' minds. He's linked those accounts with Twitter to syndicate his content. "When I put something on my Facebook fan page, it automatically updates my LinkedIn page and my Twitter account," he says. "I don't

have to go and update each one of those individually. All I have to do is update Facebook, and it does the other two automatically.”

Most of Oghoorian’s clients are younger physicians. Although he can’t say exactly how much of his business results from social media, he believes the time he spends on social media (about 10 hours a week) is vital. To ramp up his firm’s growth, he plans to increase that allocation to 20 hours per week. “The majority of my clients are under the age of 37,” he says. “I think that demographic tends to use social networking a lot

put representatives and their firms at risk. Investment recommendations must be suitable for all recipients and posting certain content may either be prohibited or require special disclosures (e.g., testimonials, performance, etc.) depending on which regulations the representatives fall under. Further, firms and representatives must be mindful that any content could be used against them in any regulatory matter or private litigation.

The regulators are aware of social media’s growth and financial advisers’ interest in the technologies. On 25 January 2010, the Financial Industry

Regulatory Authority (FINRA) released Regulatory Notice 10-06 to provide guidance on the use of social networking sites and blogs. The notice covers a range of topics, including recordkeeping, suitability, supervision, and third-party posts. Chad Bockius, CEO of Socialware in Austin, Texas, says advisers need to understand the notice’s key provisions. “The recent guidance from FINRA has been very clear that you should not move into social media and you should not open up access unless you have a policy in place,” he says. “The second thing I would point out is you have to archive the data, whether you’re looking at this from a firm standpoint or whether you’re looking at this from an individual adviser’s standpoint. Social media data is no different than e-mail—you have to retain it for the appropriate amount of time.”

### Making It Work

challenge compliance officers. “When you compare social media to, say, e-mail, there are some key differences. With social media, you don’t control the sites—the sites are third-party sites. It’s not like you can install Facebook on a server behind a firewall.”

You don’t have to go all-in on social media with your first effort. To control compliance exposure, Chaffee suggests firms conduct a small trial to gain experience and determine what they need to amend in their policy and practices before opening social media to the entire firm.

Simply establishing a social media presence doesn’t guarantee success, however. Sammons stresses the need for a blog or website to be well-designed with original, regularly updated content that will interest readers. It’s also important that an adviser participate regularly in the selected media.

“We try to organize the action steps into themes and then help advisers be consistent with what they’re doing,” she says. “So, for example, each week, we might recommend they write one blog post. Then we might recommend they post three status updates on their Facebook business page and work to get engagement from their followers. The same thing with LinkedIn: go into five of your LinkedIn groups and comment on the current discussions that are taking place. Networking is networking, and it’s the same in the online world.”

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more than individuals that are in a different demographic. As I progress, I tend to have clients that are also either tech savvy or just use those types of media to communicate.”

### Compliance Concerns

Social media doesn’t work out for every firm, of course. Two years ago, Charles Sachs, CFA, with Evensky & Katz Wealth Management in Coral Gables, Florida, joined Facebook and LinkedIn and posted links to several professional articles he had written. When his firm’s compliance officer and outside counsel learned about Sachs’ online activities, they stopped the practice out of concern over potential problems that might arise with the technologies. The firm’s compliance advisers have not changed their opinion in the intervening year, and Sachs recently closed his Facebook account and anticipates doing the same with LinkedIn.

Similar concerns are widespread. Harry Chaffee, a director with Renaissance Regulatory Services in Boca Raton, Florida, says in an e-mail that the content of social media posts

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Socialware’s solutions allow advisory firms to archive and retrieve social media content, control access, and pre-review and moderate content. Some firms are trying to do these tasks manually, and Bockius says the open nature of social media can chal-

### RECOMMENDED RESOURCES

“Welcome to the Blogosphere”  
*CFA Magazine* (Jan/Feb 2009)  
(www.cfapubs.org)

“Stepping Out”  
*CFA Magazine* (Nov/Dec 2009)  
(www.cfapubs.org)

“Social Media and Public Companies”  
*CFA Magazine* (May/June 2010)  
(www.cfapubs.org)