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Designations and Misconduct: A Surprising Connection

By Steve Garmhausen

Designations like CFP, ChFC and CFA bestow a measure of respect upon advisors who hold them: Those abbreviations signal proven expertise and a promise to comply with the issuing organizations' codes of conduct.

But financial advisor Jeffrey Camarda, Barron's 75th-ranked advisor in Florida, says his research has turned up a surprise. Camarda, based in Fleming Island, studied some 30,000 brokers in his home state and found that misconduct—fines, suspensions, complaints, settlements and so on—actually have been more common among the group with CFPs, ChFCs and CFAs.

"So picking an advisor solely based on the letters might not be such a good idea," says Camarda, a recent Ph.D graduate from the American College of Financial Services whose research was based on his doctoral dissertation.

As Camarda argues in the Q&A below, designations can't ensure that the advisors clients hire are squeaky clean. Making the industry a true profession—like the medical legal and accounting professions—would be much more helpful to consumers, he says.

Jeff Camarda, PhD, CFA®, E.A.

Barron's Advisor Center: Your research results are pretty surprising. What else did you find?

Jeffrey Camarda: I teamed up with Ingra Chira, a professor at California State, and Pieter de Jong, a professor at the University of North Florida, to look more deeply at the gender issue. My dissertation study showed that maleness was by far the most powerful factor associated with misconduct, trumping the positive effect of having a designation.

Remember by far, most designees—and most advisors—are male. Our joint study demonstrated that consumers, in terms of greatly lowering the odds of misconduct, are much better off picking a female advisor with a CFP or ChFC than a gender-neutral advisor with a designation.

AC: Did you compare the different financial planning designations in terms of misconduct levels?

JC: When Pieter and I looked at the designations separately, and controlled for the "bad" factors [including maleness, insurance/annuity sales licensure and dual registration], we found that misconduct went down for ChFCs, but not for CFPs. CFPs' scores were indistinguishable from advisors with only basic sales licenses.

This was really surprising and more than a little disturbing, since the CFP is widely promoted as "the gold standard" of advice.

AC: Why should the industry care about this issue?

JC: The first reason is the moral and ethical issue of misrepresentation. Telling consumers that an advisor or a financial planner knows what they're doing and is looking out for the investor, then using that perception as cover to sell a high expense/high commission product like an annuity, knowing the consumer probably won't read the many pages of fine print disclosure to figure out what's really going on, is just plain wrong.

The second reason is the social impact. Money skimmed off in high costs and lost to poor advice won't be there to help millions of aging boomers pay for their long retirements and expensive health care, right at time when Federal safety net programs like Social Security seemed doomed. This is bad for the boomers and will squeeze Washington even more.

And the third is self-preservation. Government pushes to ban commission investment sales in countries like Australia and the UK – transforming industries there – should be a wakeup call. The UK, for instance, banned investment commissions some six years ago. (https://www.law.ox.ac.uk/research-subject-groups/commercial-law-centre/blog/2017/05/uk-ban-commissions-relating-retail)

AC: Why did your study of all of the some 30,000 brokers in Florida not include state- or SEC-registered advisers?

JC: We looked at the advisors with commissions sales licenses, since in this role they are not required to be fiduciaries or put clients first. Holders of designations like CFP, ChFC, and CFAs have much greater training than ordinary licensees, and are ethically required to put clients first.

So we wanted to see if the designations' education and ethical codes made a difference where there was no legal requirement to put clients first. This seems like a very clear test of whether designations made any impact.

Registered investment advisors are already fiduciaries, so using them did not seem as good a test of the differences designations might make. I should point out that holding both commission sales and fiduciary advisor licensees is very common, and was one of the big problems our research highlighted. More than half the brokers had both. Unfortunately, this dual-hat situation – very common for those with designations – was associated with much higher levels of misconduct.

AC: Professionalization seems like a higher bar to hurdle for brokers, since they're sales based. Isn't this unfair?

JC: I guess that's for them to decide. It's as unfair as making pharmaceutical sales reps go to medical school and get physician's licenses – unless they want to do surgery and say they practice medicine. I don't think anyone's arguing that commission sales reps need to be forced to pay the price to become professionals.

There's nothing wrong with selling on commission, so long as the relationship and conflict is clear to the consumer. No problem if the relationship is transparent and brokers are upfront about sales agent role and disclose commission, which is rare.

But if you say you're a fiduciary, and that you don't take commissions, but then pitch a high-chop annuity with big commissions and stratosphere costs, all they while saying "I represent only you…and put your interests first…." and, if asked about commissions, say "…why no, you don't pay any commission, I'm paid directly by the company…." that's really wrong. But this is still too common now, and some use the illusion of a profession that does not exist to take advantage of investors.

AC: Jeff, you want brokers and advisors to become true professionals, industry-wide. What would that look like?

JC: The academic literature [describes] six standards, all of which must be met to be considered a real professional in the doctor/lawyer/CPA sense. You need to master a uniform, specialized and rigorous knowledge base. You have to pass demanding tests on this knowledge. You must be a faithful fiduciary in all dealings.

Professions are institutionalized, overseen, and enforced by government. The profession exists to serve society. The government grants monopoly power to qualifying professionals, and only they may practice. So as an example, to practice as a medical doctor you need to be a licensed M.D. or D.O. If not, you commit a crime.

Ultimately I see a real profession developing along these lines, regulated by a state analog to a Medical Association or Bar, requiring at least a Masters degree and maybe a practitioners doctorate called Wealth Doctor or something like that.