

Industry needs to rid itself of misleading labels

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Language matters. Most financial services practitioners call themselves financial planners or financial advisers. But in reality, many, if not most, are selling products to earn commissions.

Why do they call themselves financial planners or financial advisers? Because that's what customers want and need. Unfortunately, that's not getting.

This profound misrepresentation is just one of the many ways the financial services field misleads customers with language. If we want the public to trust us, we need to start by ridding ourselves of these highly misleading labels.

Even practitioners who don't sell product typically call themselves financial planners or financial advisers. In fact many, if not most, should be investment managers. Other than managing portfolios, how much retirement planning, estate planning, tax planning or other financial planning are they really doing?

'ROBO-ADVISER' IS INCORRECT

So when the advent of automated portfolio management came around, the label "robo-adviser" was coined. The fact that no "advising" is going on in this field that's entirely too comfortable with false labels. Robo-investing is the correct term. Have we become so numb to the misuse of labels in this new service is dubbed with the highly misleading label of robo-adviser we don't even notice it?

Another highly misleading label is "fee-based." As a fee-only, comprehensive financial planner, when I ask prospective clients how and why they choose me they say it's because I'm fee-based. These are people who have done their homework and have concluded that it's in their best interest to hire a salesperson pushing product, but rather an unbiased professional whose compensation does not in any way depend on how and where clients invest their life savings. Yet based on their research, they still don't understand the very important distinction between fee-only and fee-based.

I urge the profession, if it aspires to be a profession, to adopt the term "fee-and-commission based" for practitioners who charge both. Furthermore, practitioners should be required to disclose the percentages of their income derived from fees and from commissions. And to avoid confusion, use of the term "fee-based" is prohibited.

Do I think these recommendations will be adopted? No, I'm not naïve. Financial interests trump the truth. And I'm not talking about the financial industry here.

The financial planning profession (and I will call it a profession for now because I hope to appeal to the better angels for change) is fraught with thievery. Just follow the news and you'll see one episode after another. Large firms are fined monthly. Trusted financial advisers, including investment advisers, too frequently violate their clients' fiduciary trust. There are lots of reasons for the public to be skeptical about our honesty and integrity.

STAIN ON THE PROFESSION

Authentic labels mean what they say and say what they mean. Precision in labels is a sign of honesty and integrity. Deceptive labels designed to mislead a practitioner is something he or she is not are a stain on the profession that must be cleansed in order to establish trust with the consumer.

Let's not give the public yet another reason to mistrust us. When the first thing someone encounters about our profession is a false and misleading label,

basic structure of our business, it only adds to their sense of mistrust in who we are as an industry and what we do.

I watch with fascination the debate about adopting a fiduciary standard for brokers and salespeople. Does calling salespeople fiduciaries make them think so. It would just embed another deceptive label in a field already peppered with false labels.

David M. Zolt is a fee-only financial planner and president of Westlake Advisors, a registered investment adviser in Westlake, Ohio. Contact david@RetireSoft.com.
