NBER Household Finance Working Group Small Grants Call for Proposals 2017 Grant Application

Are Financial Planning Designations Like CFP® Associated with Lower FINRA Financial Advisor Misconduct?

Jeff Camarda, PhD candidate 904-278-1177 j@camarda.com

Overview: *Literature citations and references on request***.** Investment securities sales agents (RRs or registered reps) are not required to act as fiduciaries and can put their own compensation ahead of client welfare. A recent Federal study estimated the non-misconduct activity of these agents wastes billions of dollars per year of consumer resources. Beyond this, a 2016 study found that regulatory misconduct such as financial fraud among such agents is fairly common, and that it is often targeted against the elderly and unsophisticated. It found that those who commit misconduct tend to remain the business for a long time, are likely to commit serial misconduct, and tend to concentrate in firms that "specialize" in misconduct and rely on it as a business model. The applicant's dissertation studied such misconduct among the entire RR agent population in Florida and found that it very significantly went down for those who had at least one of the CFP®, ChFC®, or CFA® designations, which all require much more rigorous education and ethical obligations than do RR licenses. The study won the *Academy of Financial Services* "best analytic paper" award in 2016 in competition with some 130 other papers, many from university professors from around the world. A condensed version of the dissertation study can be found at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2912977.

Problem Statement: More than 650,000 financial advisors help manage over $30 trillion of investable assets in the U.S. , with over one-half of all households and nearly 90% of consumers with investable assets over $100,000 seeking such help. Quality financial advice has important consumer and social welfare implications, in that bad advisors drain resources, compromise lives and burden the government. While widespread fraud and other misconduct is a longstanding problem for this industry, this has not undergone rigorous investigation and analysis. Standards of duty to consumers, and regulators, and depths and nature of advisor training, vary widely. Advisors are overseen by a patchwork of SRO's and government watchdogs at state and Federal levels, but these are not well-coordinated and may miss many important gaps. Of particular note to this study, RR advisors are sales agents of broker-dealers and required merely to pass basic licensing exams. These exams reflect only relatively superficial financial knowledge, and even those discovered cheating on them may still become licensed and enter the industry per FINRA. RRs also need not generally abide by a fiduciary standard to put clients' interests first, instead are governed by a lesser suitability standard that allows agents and firms to promote and profit from more expensive products, even when such products may damage their financial security. This is in contrast to IAR agents of Registered Investment Advisers. RIA's comprise a different investment industry from broker/dealers (BDs). Unlike BDs, RIA's are required by Federal law to act in a fiduciary capacity. While this has been the case for decades, even sophisticated consumers can easily confuse RRs for IARs, and this is exacerbated by BDs' marketing implying an absent fiduciary duty. The term "advisor" has become common for both industries, and can induce consumers to place trust in inexpert, non-fiduciary advisors. There is a significant level of misconduct for RRs, with some 7% of BD advisors exhibiting documented misconduct. There is also a propensity for bad actors to engage in serial misconduct, in contrast to medicine where malpractice appears to be random and less predictable. Those RRs who engage in misconduct tend to concentrate at firms which may enable it. The cost from RR misconduct to consumers' wealth and financial security, and the consequent increase in

social burdens, is not yet known. Ethically challenged advisor behavior has been estimated to waste some $17 billion per year of consumer savings. Information on RR misconduct disclosures for events like fraud, consumer complaints, regulatory bars, and other adverse items is public and amenable to statistical analysis. Consumers seem generally ignorant of the availability and utility of such disclosure information, and underutilize it. Some advisors voluntarily undertake advanced training and ethical obligations via designations, which differentiates them from the majority of advisors. Financial designations like CFP®, ChFC®, and CFA® require rigorous testing on advanced financial knowledge, as well as allegiance to enforced ethical codes. While designations' ethical codes all require some form of fiduciary obligation to clients, their designees who operate as RRs are only generally legally required to adhere to the lesser non-fiduciary suitability standard. Sponsors of financial designations claim that those with their credentials can be expected to deliver a more expert and ethical financial advisory experience to consumers. This claim is well-supported by the applicant's dissertation findings for the RR population in the Florida to quite high levels of significance. *Is this true across the US? Can it be relied on to improve policy?*

Objective: The proposed study seeks to confirm the Florida results that lower misconduct is associated with designations, using comprehensive national data. It would also seek to see if there is a material misconduct suppression difference between the three study designations, as results from the Florida study suggested there might be. It would also seek to confirm the discovered confounding factors effects of gender, dual registration, and life insurance sales licensure, all of which were found in FL to be associated with markedly higher misconduct. It would also seek to discover if the designation improvement effect is stable across different business forms (wirehouse vs. insurance company vs. financial planner, etc.) and if it persists even in the cultures of "misconduct specialty" firms by studying interactive effects.

Study Significance & Policy Implications: These findings may offer important consumer choice and regulatory policy insight. As the financial advisory profession evolves and regulators and other stakeholders seek to enhance welfare via practice quality and duties to investors, these findings may offer important contributions to policy. The findings may also help consumers to make better advisor choices. They may also suggest that financial designations be required of advisors as a matter of regulatory policy to improve welfare and reduce government burden.

Congruence with Grant Objectives: The proposal seems to support the objective that "applications are especially welcome from untenured faculty members and advanced doctoral students, and for projects that would eventually generate public data that could also be used by other researchers," in that the applicant is an advanced PhD candidate. The second objective is also targeted, given that a substantial portion of the grant request is for the purchase of data from a vendor who aggregates it for lease to financial firms for recruiting and other needs, and while it is not likely to make such data freely available, it might be convinced to permit the release of a study set stripped of ID information which would render it useless for recruiting or other commercial purpose without affecting academic utility. If the grant is awarded, the purchase offer for the data will contain this condition.

Proposed Budget

Data **$5,000**

Data cost from Discovery Data (discoveryco.com) is estimated as it will involve a very limited version of their commercial financial advisor recruiting product, but with requested no-strings distribution to the academic community of a significantly truncated (no general personal identifiers or other recruiting-centric information).

Travel **$2,000**

Researchers travel to analysis sessions, academic conferences to present findings, and possibly to present NBER Household Finance Working Group in 2018.

Research Assistants **$4,700**

Graduate students as RAs @ $12.50/hour + FICA. 350 hours to collate and clean data, test data integrity, organize by independent variables and interactive variable relationships to test study relationships, convert to SAS format, perform multiple statistical analyses, etc.

Software **$1,000**

Estimated cost of SAS analytic software

Miscellaneous **$1,500**

TOTAL **$14,200**

If possible, it is preferred that grant draws be taken from an escrow account as actually incurred, so that only funds needed are actually spent.

Jeff Camarda, CFA®, E.A., PhD candidate

4371 US 17, Fleming Island, FL 32003
j@camarda.com 904-278-1177

Jeff Camarda is founder and Chairman of Camarda Wealth Advisory. Originally from New York, he moved to the Jacksonville area in 1987, and has been providing financial advice to families and businesses for nearly 30 years. He makes his home with his wife and partner Kim, and sons Dylan and Dante, in Orange Park, FL. He Enjoys research, boating, reading classics, and non-profit activities.

Jeff matriculated at the State University of New York, has earned the CFP®, ChFC®, CLU®, CFA®, CFS®, BCM™, and E.A. professional designations, the MSFS® graduate degree, and in February of 2017 successfully defended his dissertation for the American Collage's doctoral program in Financial and Retirement Planning. His ISIS™ investment process was named a "Top Innovation" by the Florida Times Union when trademarked by the US Patent Office in 2004, and WORTH magazine has named him one of the "Top 250" financial advisors in the US. Jeff's the author of dozens of published articles, and has been frequently quoted in the national press, including the *Wall Street Journal, SmartMoney, Investor's Business Daily, SmartMoney, USA Today, Christian Science Monitor, Business Week*, *Investopedia*, *Investment News*, *Reuters*, and others. The *Wall Street Journal* has done four feature articles on his advice, and *Barron's* has named him one of American's best financial advisors for several years (most recently in March of 2017). An earlier version of his dissertation study won the "best analytic paper" award at the Academy of Financial Service's 2016 annual conference, in competition with some 130 other papers, many from university professors from around the world.

Jeff was the founding Chairman of Junior Achievement of Clay County, is extremely active in Boy Scouting as a den leader, merit badge teacher, and North Florida Council Executive Board member. He's been active with the United States Power Squadron and the Florida Yacht Club. He's served on the Planned Giving Committee for the St. Vincent's Healthcare Foundation, been a member of the North Florida Estate Planning Council, the Clay County Bar Association and numerous other professional organizations. His firm has been noted by the independent Paladin Registry as a "5-Star/Honor Roll" advisor, is rated "A+/Accredited" by the Better Business Bureau, and recognized as a "Premier Advisor" by the National Association of Board Certified Advisory Practices. His firm has also been named "Top Wealth Manager" by Bloomberg's *Wealth Manager Magazine*, and a "Top Investment Advisor" by *Financial Advisor Magazine.*

- Master of Science, Financial Services, The American College, 2013
- E.A., 2011 (IRS tax credential – admitted to IRS practice)
- CFA, 2001 (Chartered Financial Analyst)
- BCM™, 1995 (Board Certified, Mutual Funds)
- CFS®, 1995 (Certified Funds Specialist)
- CLU®, 1994 (Chartered Life Underwriter)
- ChFC®, 1993 (Chartered Financial Consultant)
- CFP®, 1992 (Certified Financial Planner)
- B.S., Chemistry, SUNY Plattsburg, 1981
- FL Real Estate Broker
- FL Life & Health Insurance Broker
- Investment Advisor Rep (FINRA Series 65)

Wade D. Pfau, Ph.D., CFA
Professor of Retirement Income
The American College
270 South Bryn Mawr Avenue
Bryn Mawr, PA 19010 USA

March 14, 2017

Dear National Bureau of Economic Research:

It is my distinct pleasure to write to you in support of Jeffrey Camarda's application for the NBER Household Finance Working Group Small Grants Call for Proposals 2017.

Jeffrey completed the requirements for his dissertation from The American College in February 2017 and he is waiting for the formal receipt of his degree. Everything is complete from his side.

I served as his main faculty supervisor. I earned my Ph.D. in economics from Princeton University in 2003 and made the transition to the emerging field of academic household finance when I joined the American College in 2013.

Jeffrey completed his dissertation diligently and with great care. He has been one of the strongest students in our Ph.D. program and has shown much potential for conducting research. As noted in his application, his dissertation research earned a best paper award at the Academy of Financial Services annual academic conference, which is the leading conference for academics in financial planning and personal (or household) finance.

Though Jeffrey is a full time financial planning practitioner, he has a very academic mind and is focused and driven.

His dissertation provides a valuable contribution to the research literature about the role of financial designations in a newer field such as financial planning that has not yet achieved the status of a profession. His deserve to expand the scope of his study to the national level is admirable and worthwhile.

I fully support his application for this grant to help him with conducting his research.

Sincerely Yours,



Wade D. Pfau