

# Cracking the code of financial industry lobbyists

By **Bob Veres** November 30 2016, 9:56am EST

You probably know about Investopedia, which does a good job translating investment jargon into understandable terms and explaining the technical concepts of finance and investing.

I really like the site, but there's a segment of industry jargon they missed. Why not translate what financial lobbyists say, as well? That way, legislators and regulators could decipher exactly what they're being told by those industry lobbyists who are hostile to the planning profession.

I'm offering these translations freely to Investopedia. Let's call it a guide to decoding lobbyist jargon.

## A LEXICON

*Choice* (as in: *the preservation of choice in the marketplace*): The freedom for all people to believe that a plausible-sounding salesperson is actually acting in their best interests.

Also: The freedom to pay a hefty commission to buy equity-indexed annuities and nontraded REITs when much better investment alternatives are available for free.



*Level playing field*: Protecting the ability of sales professionals to continue to masquerade as trustworthy advisers without having to disclose their conflicts of interest or sales agenda.

*Harmonization*: Imposing sales-related regulations on professional advisers who don't sell and don't take commissions.

*Third-party exams:* A license for FINRA to harass and intimidate nonsales RIAs and financial planners who compete with its brokerage and independent broker-dealer members.

Also: the ideal way to thwart the competitive threat of fee-compensated advisers to the sales model.

*Regulatory overreach:* What the Labor Department did, first by forcing sales organizations to come up with increasingly torturous arguments why acting in the best interests of the customer was not in the best interests of the customer and then forcing them to adjust their models so that people would be aware of sales activities and agendas that they would rather not have them know or understand.

*Revenue sharing:* A method of paying for shelf space by separate account managers that the regulators either don't understand or choose to ignore.

## **THE F WORD**

*Fiduciary:* A term previously synonymous with an ability to trust professionals to give the same advice they would give their mother and handle your assets as if they were their own. Soon to be modified to: Anybody who provides hard-to-translate, legalese-larded contracts with conflict of interest disclosures deep in the fine print, that the customer is required to sign.

*Conflict of interest:* Something to be disclosed as subtly and invisibly as possible, because avoiding it would require an alarming diminution of industry profits.

*Rogue broker:* Any adviser who has left a brokerage firm to become a fee-only professional. This person is assumed to be escaping FINRA oversight so that he or she could do unspecified but awful things to customers on a fee-only basis.

*Open mind:* Where the industry asks elected representatives and regulators to put aside the fact that its firms nearly brought down the global economy with their reckless, greedy investment schemes and that they would do it again in a heartbeat if they could find the means and the revenue opportunity.

*Campaign contribution:* A naked bribe to promote the industry's revenue model over a professional one that is gaining market share despite the industry's best efforts. A reminder that professionals will not be able to afford these multimillion-dollar contributions because their client-friendly advice model is nowhere near as profitable as the industry's.

**Are you a planning acronym expert?**

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*Full disclosure:* Something that should be hidden deeply in the client agreement in the smallest possible print, unless the lawyers decide that it doesn't have to be included at all.

## **ABOUT PAYMENTS**

*Fees:* What wirehouses pay their employees and what independent broker-dealers reallocate to their independent contractors when they gather assets, allowing both to claim that their revenue model is the same as fee-only planners who receive compensation directly from clients.

*Commissions:* A superior way for less-wealthy clients to pay for advice. It's much more efficient for a nonwealthy person to buy a product, have a commission deducted by the insurance firm or nontraded REIT, a portion of it returned to the broker-dealer and a portion of that eventually paid to the advice-providing salesperson, than if the same amount were simply paid directly from the nonwealthy client to the adviser.

*Middle market:* A broad term for the people that the industry says during lobbying arguments that it simply would not be able to serve if the SEC or DoL makes it disclose its sales agendas or act in their best interests. Then, when the SEC or DoL makes the industry disclose its sales agendas or act in their best interests, the industry will find a way to serve them anyway — but will expect those it has lobbied to fail to notice the disconnect between what it says is impossible and what it subsequently does.

*Nontraded REIT:* A near-perfect investment, in that no rational consumer would voluntarily buy it unless persuaded by a well-compensated salesperson, since for every transaction the broker-dealer is paid multiple times what it would collect if the salesperson sold more mainstream investments.

Also: a future product collapse, costing gullible investors billions of dollars, which the industry is going to have to explain away as a perfectly natural investment phenomenon that had nothing to do with commission incentives when Congress and the regulators hold hearings.

*God's work:* What the wirehouses do every day that, at the end of each year, generates seven-figure bonuses for thousands of sales agents taken directly out of the pockets of working Americans.

*War on sales:* A broad term for various efforts to protect consumers from conflicted advice that is not in their best interests.

*Right:* What lobbyists on behalf of consumers and the profession say they have on their side in the arguments. .

*Money*: What lobbyists, on behalf of the industry, actually have on their side of the arguments..

## **USING THIS GUIDE**

This certainly isn't a comprehensive lexicon. But if legislators and regulators were to keep this guide handy when industry lobbyists knock on their doors, they would be better able to decipher the nature of the arguments they're hearing.

It will also help the rest of us understand that the innocent-sounding words and phrases used by the industry are actually very powerful weapons wielded against the competing professionals who sit on the same side of the table as their clients.

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I hope this exercise shows something important: that protecting the consumer is, by itself, a threat to the brokerage industry's revenue model, and to the sales element in the independent broker-dealer world.

Our regulators and members of Congress are eventually going to have to decide who they stand for: the public and the profession that serves it, or the industry that has fed greedily off of the public for its entire history.

I wish I were more optimistic about which one they'll choose.



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