Do CFP® Professionals Engage in Less Misconduct? Exploring the Importance of Job Classification When Comparing Misconduct Rates Among Financial Service Professionals

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Introduction

Misconduct among financial service professionals can jeopardize the financial well-being of individuals and their families. As a result, consumers have a strong incentive to seek out signals which may help them navigate the financial services market and avoid individuals who may engage in misconduct. In recent years, expanded access to regulatory data from organizations such as the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA) have created opportunities for researchers to examine factors which may help consumers avoid bad actors in the financial services market (e.g., Camarda, 2016, 2017; Camarda, Chira, and de Jong, 2018, in press; Dimmock, Gerken, & Graham, 2018; Egan, Matvos, & Seru, 2019; Honigsberg & Jacob, 2018). However, these data are highly imperfect and often lack crucial variables that are relevant to research questions related to financial advisory misconduct, and little is known about how unobserved heterogeneity within these datasets may systematically bias misconduct analyses. This study uses a unique dataset enriched with job classification information that is generally not available within regulatory data to examine how such unobserved differences may bias misconduct studies. Specifically, this study explores how different relationships between Certified Financial Planner™ (CFP®) status and advisory-related misconduct vary with and without utilizing job classification data generally not available within public datasets to reduce unobserved heterogeneity.

Past studies have found mixed relationships between CFP® status and misconduct. Camarda (2016, 2017) examined the relationship between a financial advisor's designations and misconduct. Camarda (2017) found that the presence of misconduct disclosures decreased among professionals with at least one designation (CFP®, CFA, or ChFC®). Additionally, misconduct was found to increase among males, RRs who are also registered as IARs, and those who are also licensed to sell insurance products. However, when examining relationships between specific designations and misconduct, Camarda, Chira, and de Jong (2018) found that, after controlling for other relevant factors, the CFA and ChFC® designations were associated with lower misconduct, whereas the CFP® designation was not.

Methodology

This study uses a dataset of individuals licensed by FINRA to sell commissionable securities in the state of Florida in 2015. The full dataset contains 35,361 individuals, however only 26,666 of these individuals are included after an initial exclusion of non-sales registrants consistent with prior studies (Camarda, 2016, 2017; Camarda et al., 2017, 2018, in press). When excluding individuals who were classified by a commercial data aggregator as anything other than "financial advisor," the total number of individuals is further reduced to 8,791. While these misconduct disclosure data are publicly available via resources such as FINRA's BrokerCheck, the dataset used within this analysis was purchased from a commercial vendor who enriched the public dataset. This enrichment is designed facilitate recruiting and includes additional information such as a more precise classification of an individual's occupational responsibilities using a proprietary modeling process. Because of the cost involved in purchasing such commercial data, it was not feasible to obtain a dataset containing the full universe of financial advisors

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licensed by FINRA to sell securities in the United States. While Florida is not necessarily representative of the United States, it does provide a meaningful state for this analysis given that prior studies have found that misconduct is more prevalent in states such as Florida with a high number of elderly and wealthy individuals (Gurun, Stoffman, & Yonker, 2018; Egan et al., 2019).

Misconduct is operationalized in this study using a variation of the Disclosure Incidence Score (DIS) methodology originally developed by Camarda (2016) and used by Camarda et al. (2018, in press). The DIS methodology allows for scoring of misconduct on a spectrum from least concerning from a consumer perspective (merely an allegation of non-advisory-related misconduct) to most concerning (advisory-related misconduct with clear evidence of culpability). Camarda (2017) developed the DIS methodology to include both scalar and binary indicators of misconduct. The binary versions are: (a) the presence of any form of misconduct disclosure (B-DIS), (b) the presence of an advisory-related misconduct disclosure (B-ADIS), and (c) the presence of culpable advisory-related misconduct disclosure (B-CAD). Within this framework, B-DIS serves as the broadest indicator of misconduct, although it does contain mere allegations and disclosures that are non-advisory-related (e.g., bankruptcy). At the other end of the spectrum, B-CAD serves as the narrowest and most precise indicator of misconduct, specifically targeting advisory-related misconduct with evidence of culpability. Notably, the scalar information of the relative severity of misconduct is lost using a binary approach.

To illustrate the presence of endogeneity and how it may bias results, a series of binary logistic regressions are used to examine the relationships between misconduct and CFP® status under various model specifications and analytic samples. First, CFP® status is used as the sole predictor of misconduct among all individuals licensed to transact securities after an initial exclusion of some individuals in non-sales roles.[5] Second, CFP® status is used as the sole predictor of misconduct among a sample restricted to only include individuals classified solely as financial advisors.[6] Third, CFP® status is used as a predictor of misconduct while controlling for other factors which have been deemed relevant to misconduct behavior in past studies (e.g., Camarda, 2016, 2017, Camarda et al., 2018, in press) among the full analytic sample of individuals licensed to transact securities in Florida in 2015.[7] Fourth, CFP® status is used as a predictor of misconduct while controlling for other factors which have been deemed relevant to misconduct behavior among an analytic sample of only individuals classified as operating solely as financial advisors. The control variables include in relevant analyses include years registered, age, independent contractor status (versus employee status), investment adviser representative (IAR) status, insurance license status, and gender.

Results

A series of binary logistic regressions were run to determine the relationships between CFP® status and misconduct under model specifications and analytic samples. Full results are reported in Tables 1 through 3. Because culpable advisory-related misconduct disclosures are likely the most concerning disclosures from a consumer's perspective, the results from the B-CAD regression in Table 3 are given the greatest emphasis in the following discussion, although results were largely consistent across each operationalizing of misconduct.

[Insert Tables 1, 2, 3 here]

[5] This analytic sample is most consistent with the analytic sample used in prior analyses of misconduct (e.g., Camarda, 2016, 2017; Camarda et al., 2018, in press).

[6] Individuals did not necessarily need to use the title of "financial advisor" as a professional title. Individuals may have used similar titles (e.g., financial planner, financial consultant, etc.). Individuals who served in multiple roles (e.g., financial advisor and portfolio manager) were not included among individuals operating solely as financial advisors. The justification for this is that we wish to eliminate as much unobserved heterogeneity as possible, and it is likely that individuals who work in multiple roles have qualitatively different base rates for engaging in activities which could generate claims of misconduct. All other classifications with more than 100 respondents included "unknown" (n=15,736), "branch manager" (n=503), "bank advisor" (n=501), "advisor, portfolio manager" (n=189), "retirement plan specialist" (n=148), "advisor, branch manager" (n=122), "call center advisor" (n=121), "advisor, planning specialist" (n=116), and "executive" (n=114).

[7] Not including those excluded for operating in non-sales roles.

Across all three methods of operationalizing misconduct (B-DIS, B-ADIS, B-CAD), CFP® status is positively associated with misconduct among the full sample of 26,666 individuals included in the 2015 Florida dataset. With respect to culpable advisory-related misconduct (B-CAD), CFP® professionals are found to be 85.6% percent more likely to engage in misconduct compared to non-CFP® professionals ($p < .001$). However, when the sample is restricted to only those individuals identified as solely operating as financial advisors, CFP® status is no longer associated with misconduct. Similarly, when CFP® status is included alongside other relevant predictor variables identified in prior studies, CFP® status is also not associated with misconduct. However, when the same analysis including control variables is conducted among the analytic sample that only includes individuals that solely operate as financial advisors, CFP® status is found to be negatively associated with misconduct. Specifically, CFP® professionals are found to be 20% less likely than non-CFP® professionals to have engaged in misconduct ($p < .001$).

Similar patterns are observed among the two other ways misconduct was operationalized in this study (B-DIS and B-ADIS), with positive associations initially observed when only utilizing CFP® status as an independent variable, and then that relationship reversing when the analytic sample is restricted to only those classified as financial advisors and other relevant control variables are included. When operationalizing misconduct as a binary indicator of any report of misconduct (regardless of culpability or whether misconduct was advisory-related), CFP® professionals were initially found to be 29.3% more likely to have engaged in misconduct ($p < .001$), but then found to be 24.2% less likely to have engaged in misconduct controlling for other factors within an analytic sample of only financial advisors ($p < .001$). When operationalizing misconduct as a binary indicator of any report of advisor-related misconduct (regardless of culpability), CFP® professionals were initially found to be 79.9% more likely to have engaged in misconduct ($p < .001$), but then found to be 18.0% less likely to have engaged in misconduct controlling for other factors within an analytic sample of only financial advisors ($p < .01$).

Discussion

These findings point to the importance (and the challenge) of addressing endogeneity due to unobserved differences in misconduct data. Consistent with findings related to the influence of unobservable heterogeneity biasing estimated relationships in labor economics (e.g., Weichselbaumer & Winter-Ebmer, 2005), one would expect that an analysis among individuals with less unobserved heterogeneity would provide more reliable estimates of true relationships between variables of interest in an analysis. In this case, we illustrate that point by showing how a counterintuitive initial finding (higher misconduct rates among CFP® professionals) actually reverses to the anticipated negative relationship when the comparison is made controlling for other relevant factors among an otherwise more homogenous group of professionals.

To evaluate what is going on more specifically in this case, consider that respondents included within the broader analytic sample included individuals identified in roles such as advisor assistant, financial planning specialist, retirement plan specialist, recruiter, executive, and marketing. Such individuals might have more, limited, or even no direct consumer contact. While these individuals may still maintain licenses to engage in securities transactions, they may function in their jobs in a manner that is much different than someone who works solely as a financial advisor. It is reasonable to suspect that individuals who operate within qualitatively different job functions would engage in misconduct at different rates.

In particular, those working in roles other than solely as a financial advisor would, generally speaking, be expected to engage in less advisor-related misconduct than someone working full-time as a financial advisor, and this relationship is supported within the dataset used within this study. 18.28% of individuals operating solely as financial advisors (1,607 out of 8,791 individuals) did have a culpable advisor-related misconduct disclosure. By contrast, only 8.48% of those not working solely as financial advisors (1,515 out of 17,875 individuals) had a culpable advisor-related misconduct disclosure, and the different rates of misconduct were statistically significant between groups ($p < .001$). Notably, in addition to an overall lower rate of misconduct among individuals classified as not working solely as advisors, roughly twice as many individuals not classified as working solely as advisors were included in the initial analytic sample. Collectively, this set of circumstances (higher rates of advisory-related misconduct among individuals working solely as advisors and substantially more individuals not identified as working solely as advisors) combined with a reasonable assumption that individuals working solely as advisors are more likely to become CFP® professionals in comparison to those not working solely as advisors,

would naturally lead to the outcomes observed within this study: a spurious correlation between CFP® status and misconduct when unobserved differences in job functions are not properly accounted for.

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Table 1. Logistic Regression on BDIS

Variable	Model 1 - Full Sample Odds Ratio/Sig (Std. Error)	Model 2 - Advisors Only Odds Ratio/Sig (Std. Error)	Model 3 - Full Sample Odds Ratio/Sig (Std. Error)	Model 4 - Advisors Only Odds Ratio/Sig (Std. Error)
CFP® Status	1.293***	0.954	0.837***	0.758***
	(0.302)	(0.061)	(0.041)	(0.051)
Years Registered			1.039***	1.057***
			(0.002)	(0.004)
Age			1.002	0.993*
			(0.002)	(0.003)
Ind. Contractor			1.106**	1.097
			(0.036)	(0.061)
IAR			1.262***	1.285***
			(0.040)	(0.078)
Insurance License			1.319***	1.227***
			(0.046)	(0.079)
Male			1.472***	1.564***
			(0.055)	(0.103)
N	26,666	8,791	26,666	8,791
Pseudo R^2	0.001	0.000	0.055	0.059
LR $\chi 2$ (d.f.)	29.22*** (1)	0.55 (1)	1597.57*** (7)	635.93*** (7)

Notes: This table includes the results from five binary logistic regressions predicting misconduct operationalized as a binary indicator of whether an individual had any misconduct disclosure disregarding whether it was advisory-related and culpability. Independent variables include an indicator variable of whether an individual is a CFP®, the number of years an individual has been registered by FINRA to transact securities, an individual's age, whether an individual is an independent contractor (versus an employee), whether an individual is also licensed as an investment advisor representative (IAR), whether an individual holds a Florida life insurance license, and whether an individual is male or female.
***p<.001, **p<.01, *p<.05

Table 2. Logistic Regression on B-ADIS

Variable	Model 1 - Full Sample Odds Ratio/Sig (Std. Error)	Model 2 - Advisors Only Odds Ratio/Sig (Std. Error)	Model 3 - Full Sample Odds Ratio/Sig (Std. Error)	Model 4 - Advisors Only Odds Ratio/Sig (Std. Error)
CFP® Status	1.799***	1.107	0.917	0.820**
	(0.092)	(0.076)	(0.051)	(0.061)
Years Registered			1.085***	1.090***
			(0.003)	(0.005)
Age			0.992***	0.987***
			(0.002)	(0.004)
Ind. Contractor			0.851***	0.711***
			(0.035)	(0.046)
IAR			1.563***	1.439***
			(0.066)	(0.102)
Insurance License			1.915***	1.406***
			(0.091)	(0.109)
Male			1.984***	1.833***
			(0.106)	(0.148)
N	26,666	8,791	26,666	8,791
Pseudo R^2	0.005	0.000	0.157	0.128
LR $\chi 2$ (d.f.)	119.77*** (1)	2.16 (1)	3457.93*** (7)	1192.84*** (7)

Notes: This table includes the results from five binary logistic regressions predicting misconduct operationalized as a binary indicator of whether an individual had an advisory-related misconduct disclosure disregarding culpability. Independent variables include an indicator variable of whether an individual is a CFP®, the number of years an individual has been registered by FINRA to transact securities, an individual's age, whether an individual is an independent contractor (versus an employee), whether an individual is also licensed as an investment advisor representative (IAR), whether an individual holds a Florida life insurance license, and whether an individual is male or female.
***p<.001, **p<.01, *p<.05

Table 3. Logistic Regression on B-CAD

Variable	Model 1 - Full Sample Odds Ratio/Sig (Std. Error)		Model 2 - Advisors Only Odds Ratio/Sig (Std. Error)		Model 3 - Full Sample Odds Ratio/Sig (Std. Error)		Model 4 - Advisors Only Odds Ratio/Sig (Std. Error)	
CFP® Status	1.856	***	1.123		0.947		0.833	*
	(0.102)		(0.083)		(0.056)		(0.067)	
Years Registered					1.093	***	1.100	***
					(0.003)		(0.005)	
Age					0.993	*	0.987	*
					(0.003)		(0.004)	
Ind. Contractor					0.915	*	0.764	***
					(0.041)		(0.054)	
IAR					1.513	***	1.433	***
					(0.070)		(0.110)	
Insurance License					1.805	***	1.337	***
					(0.095)		(0.113)	
Male					2.047	***	1.828	***
					(0.125)		(0.163)	
N	26,666		8,791		26,666		8,791	
Pseudo R^2	0.006		0.000		0.174		0.148	
LR $\chi 2$ (d.f.)	114.35	*** (1)	2.44	(1)	3346.90	*** (7)	1236.05	*** (7)

Notes: This table includes the results from five binary logistic regressions predicting misconduct operationalized as a binary indicator of whether an individual had a culpable advisory-related misconduct disclosure. Independent variables include an indicator variable of whether an individual is a CFP®, the number of years an individual has been registered by FINRA to transact securities, an individual's age, whether an individual is an independent contractor (versus an employee), whether an individual is also licensed as an investment advisor representative (IAR), whether an individual holds a Florida life insurance license, and whether an individual is male or female.
***p<.001, **p<.01, *p<.05