

Simple truth saves

No more fancy words, slick marketing jargon or convoluted nomenclature; be bluntly honest with clients in terms that even your teenager would understand, PETER BOBBIN writes.

IN THE early days of the emerging Westpoint fiasco, a financial planner called upon me to advise a woman who had a stake in the failed property group. I asked her what she understood about her investment. Coily, she told me it was a mezzanine loan, but added; “I thought that it meant that my money was being used to build the second story to the building”.

If her loss were not so sad, I would have laughed at what I thought must have been her attempt at humour. Only it wasn’t a joke. Her loss was very real; her misunderstanding was also very real.

If you have come through the super surges of 2007 and have not yet made a 2008 New Year’s resolution, let me give you one to consider: be bluntly honest with your clients. How do you do this? Start by dropping the nomenclature. In fact, stop using words like nomenclature; these are much too long. I know that doesn’t sound sexy but I wonder how many who bought into the Westpoint mezzanine debt would not have done so if they were told they were not investing in a “mezzanine thing”, they were investing in high-risk debt. Investments would still have been made, the lure of a rich rate of return would have attracted money, but the investors would have known there was a high risk.

The financial services profession needs to take greater care in its communication to clients. In the past, I would’ve advised financial planners that “the communication must be clear and concise, but it must also be effective. This requires you to put yourself into the mind of the reader and read your own advice. For it to have been effective, you need to understand what your purpose was.”

I now realise I should have simply said, “Dumb it down”. Using the phrase “mezzanine loan” instead of “high-risk debt” is to engage in the same revisionist propaganda that promoted the renaming of the United States War Department as the Department of Defence.

Advisers need to take care in communicating with clients — simply put, dumb it down.

Fool-proof language

Let’s make 2008 the year of dumbing down. If you take this approach, two things will emerge. First, you as the adviser will demonstrate that you understand what you are recommending. Second, a client who invests in high-risk debt will have no basis for complaint. The clear description will provide a perfect defence from the threat of litigation.

We have succeeded in reducing the size of the statement of advice. We now need to make it more meaningful. A new approach is needed. Advisers must dumb down the revisionist language of the financial markets. This should be one of their main roles. They are meant to be the intermediary between the client and the financial product supplier.

Studies have shown the average adult to have a reading age of 13 to 15 years. If people with very weak reading skills are discounted, then the average reading age appears to be 15 to 16 years. Try this tip for successful communications: ask a mid-teen to read your statement of advice. If it not only retains their attention but they understand what you have written and what they are being asked to invest in, you will have succeeded where others routinely fail.

You will also have achieved sue-proof status for your business. You will not only be completely safe from successful litigation, you will probably find that clients will not even serve the writ, as they will acknowledge that they knew what they were doing — they were investing in higher yielding high-risk debt.

Many compliance and professional standards officers of Australian financial services licensees already claim to do this. “We have tested our templates and scored an average reading age of 14 years,” they say.

What they have written may be easy to read and quite understandable but does it still rely on the nomenclature? Oops, does it still rely on marketing jargon that could easily be replaced with honest, descriptive language? Whether you did or did not sell Westpoint mezzanine debt, would you have used the name Westpoint gave it or would you have stated, “I recommend X% of your portfolio into Westpoint Mezzanine, a high yielding but high-risk debt”?

What other financial offerings on your approved

product list can do with a brutally honest description?

In May 2003, David Knott, then chairman of the Australian Securities and Investments Commission, called for a national partnership of stakeholders to improve financial literacy across Australia. In November 2005, Jeffrey Lucy, the following ASIC chairman, welcomed the continued commitment of the private sector to help increase Australians' understanding. And yet, Westpoint was followed by Basis Capital. I guess it's time for Tony D'Aloisio to make his comments on financial literacy.

This dumbing-it-down strategy that targets teenage children as the reading standard will make you look smart because clients look for financial planners who explain things in a manner that allows them to make informed decisions.

To thyself - and others - be true

The Australian government recognised the need to improve financial literacy when it established the Financial Literacy Foundation in 2005. In many respects, the government was simply following the lead of the United States Department of the Treasury, which established an Office of Financial Education in 2002 to oversee policy and resources on financial education; and the British government, which created the Adult Financial Literacy Advisory Group in 2000 to consider how to promote better access to financial education for young people and adults.

They may have good intentions but the success of these bodies will emerge only in later generations. More immediate results are necessary and the financial planning profession can raise the standard.

Of course, the government is partly to blame for this problem, or at least the last one was. It adopted revisionist language when it named the new superannuation rules *SimplerSuper*. Later, it realised the plan wasn't simpler, so it renamed it *Better Super*. Superannuation is daunting and this has been perpetuated by the use of TLAs – three-lettered acronyms. Worse, the TLAs that we have come to understand over 24 years of use, such as an ETP, are still in use but now have different meanings.



This tells us that no matter what the government may think it is doing, it is part of the problem.

While looking at your advice, take a close look at how you are recommending. Common problems that I have seen with the Basis Capital recommendations include not only the lack of words describing the investments, but also the lack of descriptive words about what the financial planner was doing.

All of the advice that included Basis Capital in one form or another were part of a whole portfolio recommendation. Often the portfolio component of the Basis Capital amount was less than 5 per cent. The adviser was recommending a balance of investments but when dealing with their client complaint about Basis Capital they were defending the only one that had failure surrounding it.

The real adviser failure was in not explaining that the portfolio approach is not about individual investment picking, it is all about management of a range of interests, of which some are expected to perform exceedingly well, some just well, others will perform poorly and yet others will lose money.

Why should you defend a negative investment when what you intended to put forward was a portfolio, where individual investments are not meant to matter as much? If the language in your marketing is all about you as an investment adviser but what you do is put together portfolios, you are fooling not only the clients but also yourself.

This gives customers the right to be angry when an investment fails. But if you as a financial planner work with presenting client portfolios, a loss of a small percentage is just part of that approach. It entitles you to respond to client concerns about a feared Basis Capital-style of loss with the reply, "Fortunately, the portfolio approach is succeeding, look at the 95 per cent that is still in place and how this has performed".

As the New Year begins to unravel, turn your mind to adopting a resolution to be bluntly honest with your clients. ★

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