When Obfuscation Backfires

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Many advisors are familiar with troublesome questions from prospects. Here are some examples:

- How do you justify your fees?
- Why should I pay the same fee every year when most of your work is up-front?
- Wouldn't I be better off with a robo-advisor?
- My bonds don't earn any meaningful returns. Why should I pay you to manage that portion of my portfolio?

Sometimes these questions go into the technical aspects of investing:

- What is "factor loading"?
- Are your bond funds hedged?
- What is a "t-stat" and how is it used in investing?

How you answer these questions can determine whether you are successful in converting a prospect into a client.

A recent study authored by Barbara Bickart, Maureen Morrin and S. Ratneshwar examined when and why obfuscating helped or hurt the prospects of a sale. Here's a summary of their findings.

Defining "obfuscation"

"Obfuscation" can occur when you are confronted with a question for which you should know the answer but don't, or when you know the answer to a question but decide not to disclose it because of your belief that a truthful response will harm your chances of making a sale.

In these situations, you have the following choices:

- Admit to not knowing the answer.
- Lie and provide a false answer.
- Obfuscate by providing vague or confusing information.

Obfuscating has some benefits over admitting to a lack of knowledge (which may erode your credibility) and lying (which, if detected, would be devastating). By obfuscating, you maintain at least the image of responding to and possibly satisfying your prospect, who (hopefully) will move on to other subjects.

But is obfuscation an effective tactic?

It is a common one. The authors of the study found that 70% of participants reported having an experience with a salesperson who used obfuscation.

The expectation of your prospect

How an obfuscatory response will be received depends largely on a prospect's expectations regarding your honesty. Some prospects will adopt a negative impression of your honesty from the moment they walk into the initial meeting. This mindset will be influenced by the knowledge that you will benefit financially from managing their assets.

Under those circumstances, the study found that "obfuscation backfires." You would fare better (and increase a prospect's perception of trust) by truthfully admitting that you don't know the answer to a question. Of course, if you do know the answer to the question, you would be well served by providing a direct, truthful response.

Obfuscation is not even a useful tactic when the prospect knows that a salesperson does not have a monetary motive. In those situations, the study found an obfuscating salesperson didn't fare better than one who was forthright and direct.

You can use this knowledge to your advantage by being truthful in response to all questions. Recognize that your prospect is likely on high alert for indications of "spin," distortions, exaggerated claims and outright lies.

Your strategy should be aimed at increasing perceptions of honesty and trustworthiness and avoiding doing anything that lessens those impressions.

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