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# Wealth Management (A Special Report) --- Conflict Resolution: When an investment adviser has a conflict of interest, saying so is only part of the solution

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Prior, Anna  [Wall Street Journal](#), Eastern edition [New York, N.Y] 21 Sep 2015: R.10.

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## Abstract [Translate](#)

Investment advisers have to provide upfront disclosures including conflicts of interest in their ADV form (used to register with federal and state securities agencies), says Barbara Roper, director of investor protection at the Consumer Federation of America.

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If a financial adviser or insurance agent told you about a conflict of interest he has, would that affect how you regard his advice? What if he said he was legally required to tell you about the conflict?

Those questions were at the heart of a recent study examining conflict-of-interest disclosures and how investors and consumers factor such disclosures into their view of the advice they receive.

Investors and consumers generally don't discount conflicted advice enough, even if conflicts are disclosed, says [Pepperdine University](#)  law professor Ahmed Taha, who co-wrote the study with Wake Forest University psychology professor John V. Petrocelli.

Part of the reason, says Mr. Taha, could be that many customers think the disclosure itself is a sign that an adviser is trustworthy.

But that changes if a customer is explicitly told that the disclosure is a legal necessity.

The professors tested this idea in an experiment in which participants read a version of an email from an independent insurance agent discussing two identical auto-insurance policies, each from a different insurer. The email recommended one policy, citing better customer service. But versions of the email differed in whether the agent disclosed receiving a higher commission from the recommended policy, as well as whether it was spelled out that such a disclosure was required by law. Participants were then asked which policy they'd be more likely to buy,

and were asked to evaluate the agent's trustworthiness.

The researchers found that requiring the agents to tell their customers that they legally have to disclose their conflict of interest made customers discount the advice more, potentially making the disclosures more effective.

"It's an easy fix, just adding a few words -- 'state law requires me to say this,'" says Mr. Taha.

Investors, then, should learn to understand such disclosures, who has to disclose conflicts and who doesn't.

Investment advisers have to provide upfront disclosures including conflicts of interest in their ADV form (used to register with federal and state securities agencies), says Barbara Roper, director of investor protection at the Consumer Federation of America. Brokers and insurance agents don't have a comparable upfront disclosure requirement, but may be required to disclose commission earned on a product at time of or after a sale.

The topic of conflicts of interest and how best to mitigate them has generated interest in Washington amid high-profile discussions about the Labor Department's so-called fiduciary proposal. This would require the brokers and other financial professionals who give advice on retirement accounts and defined-benefit plans to always act in the best interest of their clients.

"It does clearly matter to people whether or not there is a conflict of interest, and where that disclosure of the conflict is coming from," says Mr. Petrocelli. "People, then, ought to be attending to it."

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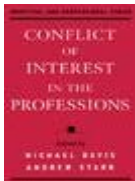
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