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By **Gary Shunk** | Published 05/27/2008 | [Selecting & Monitoring Advisors](#)

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Conflicts of Interest and the Trusted Advisor

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A conflict of interest is the conflict between the private interests and the official responsibilities of a person in a position of trust. The advisor/investor relationship contains ripe territory for real or perceived conflicts of interest. With proper handling, these potential pitfalls can be efficiently resolved before they sabotage the success of a financial plan. In fact, the conflict itself can be utilized to improve the partnership dynamic, greatly enhancing financial results.

In researching this article, I spoke with several Certified Financial Planners. Each expressed, in his or her own words, the fundamental belief that an advisor should be upfront about any potential conflicts of interest. Further, they each affirmed the ethical code of the Financial Planning Association: The interests of the investor must always come first. How then, do conflicts of interest occur?

Challenged Trust Leads to Conflict

In all relationships, people have blind spots: anxiety points that are awakened when power shifts out of balance. When one of these blind spots is triggered during a communication transaction, trust is challenged either directly or indirectly. Challenged trust leads to conflict. Even when responsibilities are openly stated and clearly defined, blind spots inevitably can be activated. Left unmanaged, these conflicts-small or large-can limit the creative potential of any plan.

In the advisor/investor relationship, an imbalance of power can occur whenever information is forgotten, neglected or purposely withheld. Since these pitfalls are inevitable, what can the investor do to proactively turn potential conflicts into maximum creativity?

There are four shifts in thinking:

1. Conflict is not a problem, conflict is an invitation to build greater trust
2. Trust doesn't have to break, it can bounce
3. There is no miscommunication that you can't do your part to repair
4. Blind spots don't have to stay blind; they can be cleared by shifting our view

Case Study: Perceived Conflict of Interest Can Undermine a Plan

Let's follow these shifts through an example. First, we'll imagine a scenario where a perceived conflict of interest undermines a plan.

Larry was just shy of \$45 million in investible assets. His advisor Hal was employed by a well-respected investment house. Hal successfully guided Larry into several non-firm fund investments that performed well. In a recent meeting, Hal took a different approach and proposed investing some of Larry's dividends into a firm fund.

Larry was unaware that Hal's compensation increased with firm fund investments. When Larry learned through a different source that Hal's compensation increased, his antennae went up, "Is Hal trying to make extra money off me?" Larry told himself he trusted Hal and decided to shrug the thought away. Two weeks later, when Hal suggested yet another firm fund, Larry avoided Hal's emails for a few days. Not hearing from Larry, Hal felt frustrated with the missed opportunity.

Larry and Hal went back and forth for the next few months, one misunderstanding building on another. Without fully disclosing his reasons to Hal, Larry moved his business to another advisor in a different firm. Unfortunately, the problem did not stop. Larry, now feeling burned, approached his new advisor with a blind spot of skepticism that severely limited the creativity of the new relationship.

Reviewing the scenario, watch for the breakdown.

Let's go back to the point when Larry learned through a different source that Hal's compensation increased and Larry's antennae went up, "Is Hal trying to make extra money off me?" Larry's blind spot whispered, conflict is a problem. Therefore he shrugged his anxiety away and avoided voicing his concern to Hal. When next Hal suggested a firm fund, Larry reacted as if trust was broken and did not do his part to repair the

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miscommunication. Larry did not shift his thinking, therefore his blind spots stayed blind.

A Positive Approach Saves the Advisor/Investor Relationship

Watch what happens when Larry shifts his thinking.

Larry thinks, "Is Hal trying to make extra money off me?" Larry decides conflict is not a problem, but an invitation to build trust. Larry calls Hal and asks directly, "What's up?" Hal is surprised, "We discussed my compensation at our first meeting." Larry believes Hal, but he's still wary. He presses on applying the shift, trust does not have to break, it can bounce. Larry says, "Hal, you may be right, but I don't like the fact that you didn't revisit this when you suggested the firm funds." Now Hal feels an anxiety.

What's Hal going to do? Defend himself? Or own up to fact that he avoided bringing it up because he had feared it might be potentially conflictual? Whatever Hal chooses to say, Larry is still in the driver's seat because he understands there is no miscommunication that he cannot do his part to repair. Larry has cleared his blind spots by shifting his view.

Now Larry and Hal are on firmer ground. They know they can miss a step with each other and resolve it before it becomes a crisis. This increase in trust fuels their future negotiations and the financial results reflect the solidity of their teamwork.

So far, we have examined a scenario with a perceived conflict of interest. The same four shifts in thinking also apply when the conflict of interest occurs because of purposeful neglect.

What if Hal was not being honest with Larry, withholding his compensation increase for his own advantage? By calmly asking direct and persistent questions, Larry can discern from the quality of Hal's answers that he does not want to work with Hal. Larry can choose to end the relationship before severe financial loss occurs.

Most advisors and investors want to develop a solid, long-term relationship with each other, a relationship that will benefit them both. Trust develops over time, and the investor needs to be a proactive partner in building it, quickly identifying and owning a sense of potential conflict of interest and engaging in dialogue that will clarify the situation. The ultimate goal is to identify and course-correct any blind spots before irreparable damage can occur.

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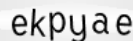
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