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There's No Such Thing as Conflict-Free Financial Advice

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There's an old expression that when you're a hammer, everything looks like a nail. This is true in lots of domains, especially the world of financial advice. That's because how your financial adviser gets paid is going to impact their perception of different strategies, whether they want to admit it or not.

In my opinion, that means there's really no such thing as a conflict-free financial adviser.

The key is to understand how compensation could impact the recommendations your adviser makes. Even advisers who act as fiduciaries have at least an implicit conflict when it comes to managing money. To suggest the method of compensation has no effect on what they do for clients would be incredibly naïve.

Financial-adviser compensation is increasingly based on the amount of money the adviser is managing for the client, where 1% of advised assets is a relatively common fee. Moving away from a commission-based model to a fee-based model has probably been a good thing overall for clients, but it is likely going to have some effect on the strategies recommended by financial advisers.

For example, while annuities often get a bad rap, they can be a great way to provide guaranteed lifetime income, something that you simply can't do with a regular portfolio. Some financial advisers "hate" annuities and never recommend them to clients. I find that position ridiculous, as do most academics who have explored the potential value of annuities. If you're working with someone whose job it is to help you make better financial decisions, that person should not only be able to identify high-quality financial products (like annuities), but also be able to determine who should and shouldn't potentially purchase them. Many financial advisers have a clear financial disincentive to recommend annuities, since doing so reduces the pool of assets to manage, and this is likely to affect whether or not they are considered as part of a given client's retirement strategy.

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