# Conflicts of Interest

**What exactly is a conflict of interest?**

A conflict of interest is any objective of, or actions committed by an advisor or company that competes with or dilutes the wealth management solution, whether it be in terms of resources applied, the quality or the price of the solution.

In order to fully understand conflicts we need to understand the competing interests within the financial services market place.

- There are the companies that use the market to raise capital either via equity or fixed interest investments.

- There are the investors that are looking for a return on capital and who may directly or indirectly buy and sell shares or fixed interest securities in the market place.

- There are the financial intermediaries that buy and sell securities, financial institutions that sell packaged investment products and financial institutions and companies that offer asset and wealth management.

A financial intermediary that earns its return from trading and issuing securities will want to conduct its business irrespective of the value or the risk in the market. It has to provide a market at all times.

Such an intermediary has a clear conflict of interest. One of their clients wants the highest price they can get for selling their investments, the other wants to buy at the lowest price, yet these institutions act for both. While there are clear rules and structures to prevent conflicts of interests, it is doubtful whether they are as effective as they need to be.

Companies that package securities and sell managed investments to the private investor and who make their money from the sale of investments are likewise going to be selling irrespective of market valuations.

How many times have you seen a mutual fund company state that a market is going to keep on rising or that you should buy its star funds, or jump on the flavour of the month wagon only to see the market, the best fund or the flavour of the month disappear from the top of the charts to the bottom.

A company that trades, develops financial products and also manages private client portfolios may have a conflict of interest in that its market views and its transaction decisions may not take into consideration the clients best interests.

**The reality investors need to acknowledge**

As far as the stock market is concerned, it is not in its interests to have the market makers and the underwriters step back when prices are too high. A market needs to be made at all price levels and companies obviously wish to raise cash from equity at the best price possibly, contrary to the objective of the client.

A company which is independent of trading and product development and earns its return from asset management fees alone is more likely to provide advice in the interests of the client because it does not generate its returns from transactions.

But even here, there are potential conflicts of interest. Are sufficient resources being allocated towards research and systems, are the fees commensurate with the service, are you getting value for money and does the company provide the necessary expertise to provide quality service in all areas.

Just because a company works on a fee basis, is independent of product bias and is service as opposed to sales led does not mean it operates without conflicts of interest.

A company that wishes to offer asset management services but does this via third party software and investment input may also be operating under a conflict of interest.

The only way to manage a conflict of interest...

............ is to clearly set out the basis on which your assets will be managed, to make sure that the organisation has the resources and expertise to manage your needs and assets and, to monitor the advice to make sure it is cost efficient, effective and in your interests. Few investors have this expertise.