

DENVER  
**BUSINESS  
JOURNAL**

VOL. 55 NO. 32

February 27-March 4, 2004

80 PAGES \$1.50

Compliments of

**InnoVest**  
Portfolio Solutions LLC

## Understand your adviser's motivation

**A** number years ago, my wife Joanie had a medical condition that was serious but not life-threatening, yet did affect our ability to have children.

One doctor recommended a new treatment using medication to treat the problem. The second doctor, a surgeon, recommended surgery. The surgeon was adamant about his solution and was highly critical of his colleague's recommendation of medication.

We became increasingly uncomfortable with the surgeon's recommendation. Why? Because he was paid to do surgery and that was his cause to push.

If we took his advice and accepted his solution, he would profit financially. In other words, he had a potential conflict of interest. Or, in our case, the surgeon may have known only of solutions within his realm of expertise.

We ended up getting unbiased advice from University Hospital and, consequently, Joanie controls her condition with medication and we have two beautiful children.

Obviously, most surgeons are solid. But like money managers, some are poor, many are average and some are excellent. Regardless, getting a second or third opinion can be worthwhile.

Broker consultants and financial planners who accept commissions also have a conflict of interest.

How tainted is advice when the solutions drive compensation? Many brokers and planners offer quality advice, but serving two masters is corrupting.



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Many products do not pay sales commissions. If they do, they should be used to offset custody or even the cost of consulting, but should not be additional compensation to the advisers.

When an investment adviser offers a "free" financial plan or review, be highly skeptical. You can bet the plan will result in commissions. When was the last time your CPA offered a "free" tax return? Investment advice should be no different.

Recently, some of investment consultants who work with institutions have been criticized for recommending investment managers who also buy their services. The managers pay to attend the consultant's conferences or may pay for "marketing" advice from that consultant.

Many of these consulting firms have solid research and give quality advice, but like the surgeon, their clients should question their motives. In fact, we've talked to many managers who believe they must "pay to play" with many consultants.

Perhaps a firewall exists between services. However, if a manager believes he must subscribe to other services from the consulting firm in order to get institutional clients, then a conflict exists.

Perhaps the surgeon was honest and not conflicted by his recommendation, or the broker by his commission, or the consultant by manager compensation.

The key for an investor is to understand the conflicts of interest and the motivation of the investment adviser or broker. The investor must feel comfortable that if the adviser has conflicts of interest, they're still able to dispense good advice.

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