



No free lunches. 'Free' advice comes with invisible strings

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GUEST COLUMN

A FREE DVD player with every 21" Flatscreen TV'. I am not much of an electronics buff, but I see quite a lot of these and then I read somewhere lower down '21" Flatscreen also available without the offer'. If you know what I am pointing at, you know that the DVD player isn't for free because the one without the 'free' offer costs less.

Now look at these ads that I just made up in my mind:

'Free advice on which air conditioner to buy'
'Free advice on which TV

to buy'
'Free advice on which car to buy'

Now imagine that these are being issued by individual AC, TV and car companies themselves and not disinterested third parties. We don't see such ads, and if we did, we would not trust them for we know that each company will only make its own brand the best.

So why do we believe the ads when they say: 'Free advice on how to plan your retirement' or 'Free advice on how to choose a mutual fund'. It's pretty obvious that

there is a difference between 'free advice' and qualified, competent and objective advice.

What is competent?

Since there are no such specific certifications in India yet, I would define competency for providing financial advice as good basic knowledge of economics, financial markets

vice provided to you. Advice that is provided by a person who does not have any conflicts of interest with you could be categorised as objective. The conflict or bias may be introduced by incentives or disincentives whether financial or otherwise from someone other than you, the client. You want your ad-

likely to be objective in his advice. If he accepts commissions, incentives or freebies or tickets to conferences (reminds me of medicos travelling on conferences on budgets sponsored by pharma companies) from a product provider then he may be very much the water purifier salesman advising you on which water

If we would not believe ads from companies that offered 'free advice' on which white good to buy, why do we accept advice when insurance and mutual fund companies offer 'free' advice on our retirement, insurance needs or financial future?

and regulations combined with the ability to see the whole financial picture of an individual (not just taxation or just insurance or just investments).

What is objective?

We could define objectivity as the lack of prejudices or biases in the ad-

visor to tell you what to do, with solely your interest in mind and not on what he is going to earn because of your decisions.

I believe that a financial advisor who accepts a fee from his client as the only compensation in return for his advice is most

likely to be objective in his advice. If he accepts commissions, incentives or freebies or tickets to conferences (reminds me of medicos travelling on conferences on budgets sponsored by pharma companies) from a product provider then he may be very much the water purifier salesman advising you on which water

Where are these unbiased advisors?

There may be such advisors in India but they are difficult to find. But the efforts to build such a profession are already on. In the meantime you, as investors seeking competent and objective advice, can do a few things to protect your interests:

1. When choosing your advisor, make the advisor's qualifications and knowledge the key factors in making your decision. Do not get swayed by rebates, variety of products, furnishings of a fancy office or, and this is very important, the façade of a big name.

2. Suggest to your advisor that you would be very comfortable if you could know who will pay him for providing you advice and how much. Please make an honest commitment to him that you will not ask him to rebate commissions to you. You can only voice this. There are no regulations which force an advisor to disclose this conflict of interest, in our country yet. But if many clients voice this, there isn't a doubt that it will become an industry practice soon.