



The Cost of Conflicts of Interest

Misaligned incentives lead to worse outcomes for investors

Conflicts of interest arise when a financial advisor's incentives do not fully align with the investor's best interest. These conflicts stem from the principal-agent problem: investors depend on advisors whose compensation structures may affect the recommendations they make. For example, mutual funds were often distributed through non-fiduciary brokers who earned higher commissions for steering clients toward higher-fee products.¹ Knowing the financial incentives of those managing your money is essential for evaluating investment advice and protecting long-term outcomes.



A Modern Example: Lessons From the First Trust Case

First Trust Portfolios, a major issuer of ETFs, unit investment trusts (UITs), and other structured investment products with nearly \$300 billion in assets, provides a recent example of how conflicts can still appear in modern investment practices. In 2024, FINRA fined First Trust \$10 million for violating its non-cash compensation rules.² The firm provided entertainment and other benefits that significantly exceeded regulatory limits. The case shows how, even in a fee-based advisory environment, firms can still use personal perks and relationship-driven incentives to influence which products advisors recommend to their clients.

FINRA found that First Trust wholesalers provided financial advisors with lavish entertainment and other benefits that had no legitimate business purpose. Several of these perks were explicitly tied to meeting sales targets for First Trust products, and internal communications revealed a clear pattern: advisors who generated more sales received upgraded perks and preferential treatment from the wholesaling team. In this setup, the path to being a “good advisor” had nothing to do with clients. It had everything to do with the advisor pushing First Trust products for personal gain.

There is a clear difference between a legitimate business expense and a payoff. Taking a client to a routine meeting or lunch is normal. But when a salesperson hints that “if you direct \$5 million our way, we can find a way to take care of you,” that is no longer hospitality; that is bribery. This harms investors because advisors can push clients toward high-fee, less suitable products.

Gaard Capital's Approach: Independence With Purpose

At Gaard Capital, we pride ourselves on avoiding conflicts of interest. As an independent, fee-only investment advisor, we do not sell proprietary products or receive compensation through brokerage, trading, or referral arrangements. This structure preserves our objectivity and removes the economic pressures that can push advisors toward products that benefit themselves instead of their client. Our customized, evidence-based approach keeps our incentives aligned with long-term client outcomes and allows us to design strategies tailored to each client's unique needs. Because cost is one of the few variables investors can reliably control, we emphasize low, transparent fees and the use of low-cost investment vehicles wherever possible.

Conclusion

The First Trust case illustrates how compensation structures and incentives can distort the advice financial advisors give to clients. It is essential to know how financial advisors are compensated. This is why Gaard Capital relies on a straightforward, transparent fee structure and does not accept payments from anyone except the end client.

References

1. Financial Industry Regulatory Authority. (2013, October). *Report on conflicts of interest*. <https://www.finra.org/sites/default/files/Industry/p359971.pdf>
2. Financial Industry Regulatory Authority. (2025, November 3). *FINRA fines First Trust Portfolios \$10 million for violations relating to gifts and entertainment*. <https://www.finra.org/media-center/newsreleases/2025/first-trust-violations-fines>

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