Retail investment is not a level playing field: advisors know more than investors. It is not necessarily an ethics-proof field either: advisors may be on remuneration schemes that create conflicts of interests. However retail investment is based on the investor's trust in the advice.

The paper explores the psychology advised financial investment decisions. It investigates how information about the financial advisor’s potential conflict of interest impacts on the participants’ judgement, whether as to attitudes or actions.

The paper is based on two experiments. The first experiment is based on self reports as to perceived trust and willingness to invest. Participants provided a rating of their trust in the advice out of a scale of one to seven after reading a financial advertisement that displayed a handwritten note making a recommendation to invest. The advertisement also set out the fee structure of the advisor. In half of the cases, the advertisement included an additional note, one version of which explained that the interests of the advisor were aligned with those of the participant, and the other version of which explained that their interests were not so aligned.

The second experiment is based on incentivised choices reflecting trust and willingness to invest in a financial products. Investors were entrusted with a certain capital and knew about the remuneration scheme of the advisor (flat fee or percentage of the investment) and had to decide whether to either follow the given advice, or to invest on another product, or not to invest at all. Participants were paid a fraction of capital they owed by the end of the experiment. Conditions combined conflicted vs non-conflicted advisor, and explanatory disclosure as to the proportional fee vs no disclosure of the advisor's conflict of interest.

The results suggest, first, participants' willingness to invest was reliably affected by the presence of conflicts of interest only when the specific implication of the conflict was made explicit in the explanatory disclosure; and secondly, that their trust in the advice was in all cases affected by the presence of a known conflict of interest, but more strongly so when accompanied by an explanatory disclosure.

The implications of these findings for public policy are that, contrary to what is commonly suggested, problems of conflict of interest in the financial investment context may efficiently be treated by means of disclosures, provided that such disclosures explicit the consequences of the conflict for the decision maker. It remains to analyse how explanatory disclosures can be drafted so that their influence on the trust in the advice also translates into modified action.