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(Excerpts from his NYU presentation, expanded by Prof. Cain)

As leaders, we are not spending most of our time attempting to root out the sociopaths... And we are not always trying to recruit saints either. These people are rare and usually hard to find. We are often trying to lead the vast middle - people like you and I who basically have the right values and want to bring those values to work. Yet, normal people are also capable of really bad behavior. It often takes many to carry out a large scandal. As a result, I study the psychology of why good people do bad things. I study such topics as overconfidence, conflicts of interest, and the perverse effects of disclosing conflicts of interest.

The lay view of conflicts of interest is largely wrong. It is not as if conflicts merely impact intentionally corrupt advisors but are successfully navigated by well-meaning advisors. It is not as if conflicted but well-meaning advisors look at the preponderance of facts with perfect objectivity. Human beliefs often do not arise from a rational preponderance of facts; instead, our beliefs often come from the facts we focus on. And for fallible beings like us, what we focus on is often not under our control. What is underappreciated is this: Nearly every semi-reasonable course of action has a possible upside. So, if your advisor is biased to focus on the upside of some course of action, he or she becomes sincerely (but overly) optimistic about it.

I am not anti-disclosure, but it is not a panacea to the problems caused by conflicts of interest. A couple of things can go wrong…

#1: The client overly thinks the advisor can be trusted to navigate the conflicts of interest objectively. Perhaps that's the first mistake: Do not mistake wanting to be objective with actually being objective. As I said, any conflict of interest I have may make it almost impossible for me to be objective. It's often not within my power to be objective. I may want to do so, but my brain struggles with being objective, especially when it's paid not to….

#2 When I disclose to you that I have a conflict of interest, it perversely may reduce some of the conflict. I may be tempted to line my pockets, but suppose I genuinely want to live up to your expectations for good advice. That's the conflict. When I disclose an incentive to bias my advice, your expectations for getting unbiased advice are lowered. After all, that may be the point of disclosure: warn the client. But when you expect less of me, I may fall to the occasion. Disclosure can be ignored, but it can also make advice worse. And remember, as your hypothetical advisor, part of me feels that the biased advice I am giving is good advice.

I think that disclosure will be part of the solution. Thus, my recent focus is examining how to avoid some of its perverse effects. But, as James Surowiecki said of our earliest research, "Wall Street doesn't have to keep confessing its sins; it just has to stop committing them."