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Industry White Paper Series

# Investment Policy Statements

*The Technology Return on Investment (ROI)  
for Financial Advisors*

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## **Executive Summary**

The financial services industry is undergoing rapid change due to recent financial crises on Wall Street and the impacts of a prolonged recession. Market volatility has increased, creating uncertainty and angst in investors' minds. The demand for transparency has increased, as have the expectations for better "prudent practices." As a result, there has been a renewed focus for investment planning by financial advisors and the use of the time-tested approach of Investment Policy Statements (IPS).

Considered a "best practice" in modern wealth management, documenting advisor-client agreements in an IPS provides a systematic discipline for decision-making, bringing transparency, clarity and shared understanding to the advisor-investor relationship, helping to build an increased level of trust.

Many financial advisors are using word processing software solutions combined with manual processes to perform the related tasks of creating, updating and maintaining IPSs and the resulting inefficiencies cause higher costs and lack of controls, which result in declining profitability.

Industry experts all agree that the best solution is to adopt technology to increase efficiency, streamline operations and enable rapid response to market changes. New advances and innovations in technology specifically designed for financial advisors to provide web-based investment planning tools for creating Investment Policy Statements that allow advisors to meet these challenges head on and provide a substantial return on investment (ROI) is now available.

By having an online platform that is flexible, dynamic and easy to use, advisory firms can lower the costs arising from the writing of IPSs by tens of thousands of dollars on an annual basis. The bottom line result is that not only do advisors realize substantial cost savings, they are also empowered with a very robust investment planning capability that frees them up to pursue growth opportunities and reallocate staff resources to revenue generating and client-facing activities.

*"If we tried to create our own Word document, the problem we see is that it would be extremely difficult to maintain consistency, what with re-entering and re-casting the allocations for hundreds of clients. By using the templates in IPS AdvisorPro® we know that we are achieving a big time savings and ROI."*

David Strege,  
CFP®, CFA®, Co-  
Founder and  
Senior Wealth  
Coach, Syverson  
Strege & Company

**Table 1.0 – Annual Savings from Web-Based Investment Planning System vs. Traditional Word Processing Systems**

<b>Size of Firm (# of clients)</b>	<b>50</b>	<b>100</b>	<b>250</b>
Word Processing Solution	\$22,500	\$45,000	\$112,500
Online Solution	\$6,200	\$12,400	\$31,000
<b>Savings</b>	<b>\$16,300</b>	<b>\$32,600</b>	<b>\$81,500</b>

## **Return On Investment Opportunities**

An in-depth study into the operational costs associated with the investment planning process for creating, updating and maintaining Investment Policy Statements (IPS) has revealed opportunities for cost savings and a significant ROI for technology solutions. These include the operational tasks for:

- IPS Creation
- IPS Client Updates
- IPS Firm Updates

### **IPS Creation**

The typical process for creating an IPS for a client involves multiple manual steps using word processing software, such as Microsoft Word. These include:

- Filling out client related data intake questionnaires
- Organizing client data for IPS creation
- Entering in client data and recommendations
- Finding and inserting the appropriate Asset Allocation models
- Selecting benchmarks
- Customizing/Revising the IPS based on client requests
- Proof reading the entire document to ensure accuracies and fixing typos
- Compliance review
- Save / print to client files

*“From just a time stand point, it typically only takes about 1 hour to complete a detailed and comprehensive IPS with IPS AdvisorPro® vs. the 5 or 6 hours it normally would take if we did it on our own and it wouldn’t be nearly as comprehensive.”*

*Eric Golberg, CFP®,  
Vice President of  
Private Wealth  
Services, Bellatore,  
LLC*

When IPSs are created with word processing software, this manual process can take several hours to complete, creating many opportunities for errors and inconsistencies across multiple advisors in the firm or from one client to the next.

Other problems arising from using word processing software to create an Investment Policy Statement include the potential to skip over asking all questions pertinent to the IPS as well as the fact that word processing templates can easily and are often mistakenly over-written, resulting in the original intended wording lost forever. Other areas of concern are that there are no “checkpoints” in a word processing template to make sure that each place in the document that needs to be examined are addressed. As a result, some areas can be overlooked and the final document may contain sections that are not appropriate or even places where the wrong clients’ names or information are used.

Because of these potential areas for mistakes, each word-processed IPS must be carefully reviewed, increasing the total amount of time for the overall process.

Contrast this software / manual process with an online investment planning tool with consistent templates and information that is auto-populated into the document or is just a click away, as well as being stored in a secure system, and many of these tasks and staff time are reduced dramatically, with a much higher accuracy rate. Incorporating compliance-approved language and disclosure information, pre-programmed into the system, shortens and streamlines the compliance review process and ensures consistency across the firm.

For many advisory firms, creating IPSs can only be done by the advisor since many of the tasks are customized to the client situation and are very difficult to delegate to lower cost employees. At a conservative rate of \$75 per hour<sup>1</sup>, the cost savings for firms is substantial, ranging from \$6,000 to upwards of \$30,000 per year, depending on the size of the firm (Table 2.0).

**Table 2.0 – IPS Creation Costs**

<b>Size of Firm (# of clients)</b>	<b>50</b>	<b>100</b>	<b>250</b>
Word Processing Solution	\$9,700	\$19,400	\$48,500
Online Solution	\$3,550	\$7,100	\$17,750
<b>Savings</b>	<b>\$6,150</b>	<b>\$12,300</b>	<b>\$30,750</b>

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<sup>1</sup> Source: Industry compensation benchmarking surveys reflect advisor compensation is ~\$150,000 per year, divided by a 2000 hour work year equals \$75 per hour.

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## **IPS Client Updates**

Once a client's Investment Policy Statement has been created, it should be regularly updated as part of the quarterly or annual review process. Clients' needs, situations, account values and objectives change frequently, requiring firms to periodically update their financial and investment planning documents.

As part of this process, there are again many manual steps required for firms using word processing software. These include:

- Updating client contact data
- Updating account values
- Updating description of client circumstances
- Updating Investment objectives
- Updating asset allocation
- Updating investment constraints/restrictions
- Proof reading the entire document to ensure accuracies and fixing typos
- Compliance review
- Save / print to client files

Contrast this software / manual process with an online investment planning tool with the ability to access the stored IPS from anywhere and update with information that is just a click away or can be downloaded from other programs such as CRM and financial planning tools, and many of these tasks and staff time are reduced dramatically, with a much higher accuracy rate.

At a conservative rate of \$75 per hour, the cost savings for firms is substantial, ranging from \$4,000 to upwards of \$20,000 per year depending on the size of the firm (Table 3.0).

*"The standard process and the flexible templates in IPS AdvisorPro® allow us to create one format and approach for generating consistent documents from each advisor for every client with the appropriate disclosure language and our pre-determined asset allocation models. Without that, our compliance and supervisory requirements would grow exponentially if we had everyone using their own approach, wording and content."*

Jim Arnold, Senior Vice President and Investment Group Manager, Monroe Bank and Trust

**Table 3.0 – IPS Client Update Costs**

<b>Size of Firm (# of clients)</b>	<b>50</b>	<b>100</b>	<b>250</b>
Word Processing Solution	\$6,250	\$12,500	\$31,250
Online Solution	\$2,000	\$4,000	\$10,000
<b>Savings</b>	<b>\$4,250</b>	<b>\$8,500</b>	<b>\$21,250</b>

**IPS Firm Updates**

In these current volatile markets, investment strategies, asset classes and overall asset allocation models are constantly being reviewed, changed and implemented as part of the firm’s approach to managing client portfolios. These firm-level changes then need to be manually applied to each and every client situation since they cannot be globally broadcast through word processing software to include the corresponding updates to client investment and financial planning documents. These required manual steps include:

- Modifying asset classes to be included in the client’s asset allocation model
- Updating the percentages of each included asset class within each asset allocation model
- Selecting the appropriate asset allocation model for each IPS
- Updating the various descriptions for the firm’s philosophy and approach to managing portfolios

Contrast this software / manual process with an online investment planning tool with the ability to simply use a “check box” approach to modify asset allocation models and percentages along with the ability to change descriptions in one place that are then automatically, globally carried through to all client IPSs, and many of these tasks and staff time are reduced dramatically, with a much higher accuracy rate. This ability to quickly update client documents based on changes in the investment approach provides firms a great deal of flexibility to respond to the market environment, be consistent throughout the firm as the changes are implemented and provide a much higher level of service.

*“IPS AdvisorPro® with its flexible technology allows us to truly customize the IPS by importing our detailed, complex and innovative asset classification methodology into the IPS. Additionally, through its online platform, we are able to provide a consistent approach across our 150 employees and 7 offices nationwide, all the while controlling the process.”*

Steve Braverman,  
President, Harris  
myCFO

At a conservative rate of \$75 per hour, the percentage cost reduction is substantial (90%) as well as the overall dollar costs, ranging from nearly \$6,000 to \$30,000 per year depending on the size of the firm (Table 4.0).

**Table 4.0 – IPS Firm Update Costs**

<b>Size of Firm (# of clients)</b>	<b>50</b>	<b>100</b>	<b>250</b>
Software Solution	\$6,550	\$13,100	\$32,750
Online Solution	\$650	\$1,300	\$3,250
<b>Savings</b>	<b>\$5,900</b>	<b>\$11,800</b>	<b>\$29,500</b>

## **Conclusion**

While every advisory business is different and actual dollar and time savings will vary from firm to firm, it is clear that a web-based, secure, and flexible investment planning tool for creating IPSs can deliver a significant return on investment as compared to writing and updating an equal number of Investment Policy Statements using word processing software.

Financial advisors owe it to their clients, their firms, their staff and themselves to explore how new technology solutions can streamline their back-office, provide scalability, enhance service to their clients and ultimately improve profits and the ability to grow.

While many advisory firms have enjoyed success with their current approaches, in today's volatile markets, leading advisory firms are taking the initiative to adopt new technology to stay ahead of the curve. The opportunity for success has never been greater: higher revenues, increased efficiency, lower business risk, all you have to do is take the easy steps necessary to make them a reality for your firm.

*“Because IPS AdvisorPro® provides suggested wording and formats called templates we can easily customize these upfront to fit our allocations, benchmarks, disclosure information and our investment process for working with clients. Having these templates in place dramatically shortens the time it takes to develop an IPS for a client. Once the client data has been entered by the support staff, I can polish off a 20 page IPS totally customized to our firms investment strategies and practices and specific to that client in roughly 15 minutes.”*

*~Jim Mathias, ChFC,  
President, Focus  
Financial Group*

## **Appendix – Methodology**

<b>Time in Minutes for Various Tasks Associated with Creating, Updating and Storing IPS per client</b>	<b>Word Processing / Manual Process</b>	<b>Online Investment Planning Tool</b>	<b>Time and \$ Savings per Client @ \$75/hr*</b>
<b>IPS Creation</b>	<b>155 minutes</b>	<b>57 minutes</b>	<b>98 minutes \$123</b>
Fill out questionnaire / organize client data	15	15	0
Find and insert Asset Allocation models	15	4	11
Select Benchmarks	15	0	15
Customize IPS for specific client requests	30	15	15
Enter client recommendations and proof read entire document	60	15	45
Compliance review	20	5	15
Run IPS and save to system	0	3	-3
<b>IPS Client Update</b>	<b>100 minutes</b>	<b>32 minutes</b>	<b>68 minutes \$85</b>
Update client contact data	15	4	11
Update account values	10	3	7
Update description of client circumstances	20	10	10
Update investment objectives	10	2	8
Update asset allocation	15	2	13
Update investment constraints	10	3	8
Compliance review	20	5	15
Run IPS and save to system	0	3	-3
<b>IPS Firm Update</b>	<b>105 minutes</b>	<b>10 minutes</b>	<b>95 minutes \$119</b>
Modify asset classes	30	5	25
Update each model with new asset class percentage	30	5	25
Enter appropriate model in each IPS	15	0	15
Update description for how firm manages money	30	0	30
<b>Totals</b>	<b>360 minutes</b>	<b>99 minutes</b>	<b>261 minutes \$326</b>

\*Hourly cost is determined by using industry compensation benchmarking studies for advisors, which is ~\$150,000 per year divided by a 2000-hour work year, which equates to \$75 per hour.

## **About IPS AdvisorPro®**

Created by financial advisors for financial advisors, IPS AdvisorPro® is designed to work with all types of wealth management professionals and their practices. IPS AdvisorPro® offers a flexible solution to creating and managing Investment Policy Statements that are easy to use through an encrypted, secure web-based environment. With over 1,000 users and 17,000 IPSs created, IPS AdvisorPro® is the industry's leading technology solution. IPS AdvisorPro® was named in 2006 by Morningstar as the "Software of the Year" and was a CPA Wealth Provider "Financial Planning Awards Winner" in 2009. For more information, please visit [www.IPSAdvisorPro.com](http://www.IPSAdvisorPro.com).

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