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Develop Business/Financial Planning

## Investment Policy Statements Keep Clients Thinking Rationally

By Norman M. Boone, MBA, CFP  
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**An investment policy statement not only tells clients what to expect from you, it helps them make their investment decisions rationally instead of emotionally. And that can save everyone a lot of headaches.**

Advisors who manage money for their clients are discovering the value and importance of using an investment policy statement (IPS) as a key part of their investment process. Clients appreciate the opportunity to better understand what to expect from their advisor. That clarity helps to build a much higher level of trust and respect, which can, in turn, lead to growing accounts and more referrals.

### What is an IPS and why is it important?

An investment policy statement (IPS) is a written document that provides a record of the agreements reached between client and advisor with regard to the policies and procedures to be followed by the advisor in managing the client's money. An IPS is legally required for all ERISA plans and for virtually all trust and institutional clients. Using an IPS with individual clients has so many benefits that it is now considered a best practice for advisors.

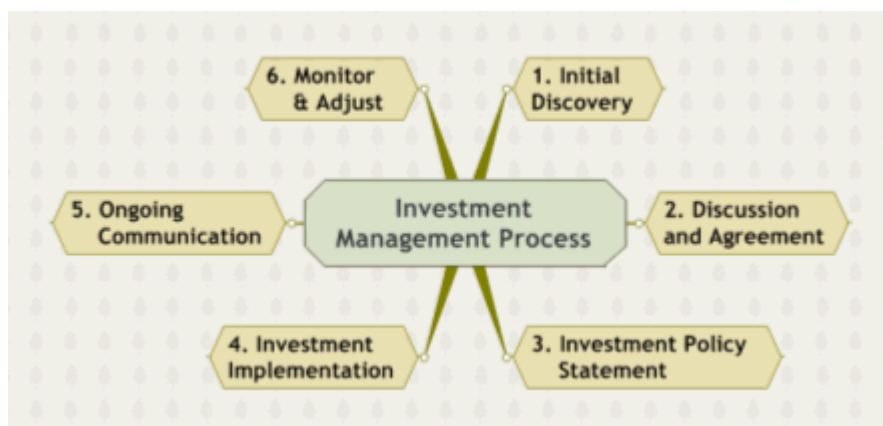
I have been using IPSs at my firm since the late 1980s and have been championing them in the industry for over 15 years with my partner Linda S. Lubitz, CFP, president of the Lubitz Financial Group in Miami.

The IPS question we hear most often from advisors is "How do I do it?" Following is our suggested approach to investment management in a nutshell—what both of us have been doing in our own investment advisory practices for many years.

### Significant disclosure and communication

We believe that the creation and confirmation of the IPS is the single most important step in the investment process. We conceptualize the investment process as a series of six steps, all centered on the development and continued use of the IPS, as shown in the figure below.

#### 6 Steps of the Investment Process



Source: Mosaic Financial Partners

Let's look closer at each of these steps:

- 1. Initial discovery.** First, we learn about the client's circumstances, goals, income needs, restrictions, current holdings, risk tolerance, and so forth. This step takes not only good questioning but excellent listening.
- 2. Discussion and agreement.** Second, we talk with the client about the various issues and choices that must be agreed to before we can appropriately manage the client's money. This gives us an opportunity to educate, set appropriate expectations, and find agreement on critical issues such as:
  - the degree of client involvement
  - asset allocations
  - investment instruments
  - our approach to taxes
  - dollar cost averaging and a host of other implementation concerns
- 3. Creating the IPS.** Once we have agreement on the full list of issues (systematized through a questionnaire to ensure we don't miss anything), we record the agreements in the document known as an IPS. We and the client both sign the document, acknowledging and affirming our agreements.
- 4. Investment implementation.** It is important to note that we don't do any trades in the client's accounts until we have an IPS in place. Once the IPS has been approved by all parties, we are free to undertake initial and ongoing trades according to the roadmap it provides.
- 5. Ongoing communication.** Regular meetings, phone calls, e-mails, and periodic reports are all carried out as called for in the IPS.
- 6. Monitor and adjust.** Portfolios are not static. So, as laid out in the IPS, we monitor the portfolio for poor performers, rebalancing opportunities, tax loss harvesting, and other ways to keep the portfolio in line with the objectives set forth in the IPS.

## Changing circumstances

As we all know, clients and their needs change over time. It's important to periodically go back to step one to make sure you are addressing the client's current needs and wishes rather than ones that are out of date. Every year or two, you and your clients should [review their IPS](#) to make sure that your clients still agree with everything in it.

This review offers an opportunity to remind clients about all the things you do to make sure the portfolio continues to serve their needs. It also helps remind them of your philosophy and approach. This serves to prevent surprises and disappointments. If you do what a client expects you to do, you are more likely to have a happy client.

Advisors who use this process find that taking a [little more time with clients up front](#) helps cement the relationship and generate opportunities for more and better business. Clients appreciate the extra effort and the greater clarity that comes with the IPS development process.

## Renewing understandings

Another important benefit of an IPS is that clients have a better understanding of our approach. They understand we have a reason for each of the things we do with their money. As a result, they are more confident in our abilities and are much more willing to release control to us.

At each of our respective firms, Mosaic Financial Partners and the Lubitz Financial Group, we have full discretion for our clients' accounts. This can only happen if clients are sufficiently comfortable with our abilities and approach. Working through the IPS process in partnership with clients forms the basis for that [confidence](#). And it makes our lives much easier.

## Adjusting to the market

If clients have confidence in us, they won't be calling to ask us to move their accounts to safer investments [when the market hits a rough period](#). The IPS establishes investment guidelines and a framework for long-term investment thinking. Simply reminding clients of what they agreed to in the IPS is often enough to calm their nerves.

If they persist, then a change in the IPS becomes necessary in order to implement the client's changed instructions. Often, when we indicate the need to fundamentally change the IPS, clients realize the seriousness of their request. The IPS serves clients well by providing a framework for helping them think rationally about investment decisions, enabling them to get through difficult market periods. Doing so obviously makes the advisor's life easier as well.

## Getting started

If you want to start using IPSs, there are several good places to start, including our website,

[IPS AdvisorPro](#), and book [Creating an Investment Policy Statement](#). Additional advisor-recommended books and online resources include:

- [How to Write an Investment Policy Statement](#), by Jack L. Gardner
- [Tools and Templates for Your Practice](#), by Deena B. Katz (includes sample one-page IPS and a PowerPoint IPS)
- [BetaVest Investment Planning Solutions](#)

And here are several sample IPS statements you can use as models:

- [Individual Investment Policy Statement](#)
- [IPS for Retirement Plan](#)
- [IPS for Foundation](#)

*Norman M. Boone, MBA, CFP® and Linda S. Lubitz, CFP® are the co-founders of [IPS AdvisorPro™](#), an online investment policy solution for the professional wealth manager. Boone is also the president of the San Francisco wealth management firm Mosaic Financial Partners, Inc. Lubitz's independent advisory firm The Lubitz Financial Group is in Miami, Florida. You can reach them via email at [Norm@IPSAdvisorPro.com](mailto:Norm@IPSAdvisorPro.com) or [Linda@IPSAdvisorPro.com](mailto:Linda@IPSAdvisorPro.com).*

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