

# Financially InKlein'd™

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## *Do You Have an Investment Policy Statement?*

What system do you have in place for managing your investments? Does it include a written investment plan that considers your current situation, your requirements and goals, and your recommended investment strategy? Is it aligned with your Financial Independence Plan?

### **What is an IPS?**

An Investment Policy Statement, or IPS, is a written document that serves as a guide to your investment plan, governing how, why, and where your money is invested. It outlines and prescribes a prudent and acceptable investment philosophy and set of investment management procedures that is customized to your needs.

The development and implementation of an investment policy follows the financial planning process: analyzing your financial condition, setting financial goals, developing a strategy to meet your goals, implementing your strategy, regularly reviewing the results, and adjusting your strategy as needed.

### **Who Needs an IPS?**

Legally mandated for investments that are subject to ERISA, e.g., 401(k) and other qualified pension plans, an Investment Policy Statement, or IPS, makes sense for all investors.

Each of us needs to have our portfolios protected from ad hoc revisions of sound long-term policy in order to increase the probability that we will achieve financial independence and our other long-term financial goals.

Protection from ad hoc revisions is critical during an upward trending stock market like we are currently experiencing. An IPS makes it less likely that you will hit the panic button and sell securities you wouldn't otherwise sell or suspend a solid investment plan when the market takes a downturn.

### **What Should an IPS Include?**

Although the format of Investment Policy Statements differ depending upon the individual or type of entity for whom it is designed, every IPS should address the following six areas:

1. Statement of Objectives, Time Horizon, and Risk Tolerance
2. Constraints
3. Recommended Asset Allocation
4. Investment Evaluation and Selection Criteria
5. Limitations on Investment Holdings
6. Progress Monitoring

"Constraints" typically include your current investments, income tax considerations, legal and regulatory issues, as well as your unique needs and circumstances.

The "Recommended Asset Allocation" section should include a listing of dollar amounts and percentages of your total portfolio for current vs. proposed investment categories. It should also provide you with expected historical standard deviation (i.e., risk) and returns associated with your current and proposed portfolios.

The "Progress Monitoring" section describes the procedures and reporting mechanisms for reviewing and rebalancing your portfolio, including the frequency of same, as well as the overall communication process for monitoring your IPS.

### **What's Your Next Step?**

If you haven't done so already, now is a great time to ask yourself what mechanisms are in place to ensure that you will follow your investment plan in both "up" and "down" markets.

If you don't currently have an Investment Policy Statement, you should seek a financial advisor to assist you with the design and implementation of an IPS customized to your needs.

By following an investment policy, you'll be using a more disciplined and systematic approach and will thereby increase the probability of achieving financial independence and your other long-term financial goals.