

fi360[®]

Why maintaining the IPS is the most important duty a fiduciary performs

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Founder of IPS AdvisorPro®

Speakers Background

Linda Lubitz Boone, CFP® is a practicing financial advisor. She has been recognized by all of the major financial publications as leading financial advisors and has served the profession as a member of the FPA National Board of Directors. Together, with her husband, Norman Boone, CFP, they have published and produced the following:



- Their first article: “Developing an Investment Policy Statement for the Qualified Plan” —April, 1992
- Their first software joint venture with Ibbotson “The Investment Policy Statement Guidebook” —1996 to 2001
- Their first book: “Creating an Investment Policy Statement: Guidelines and Templates” -- FPA Press 2004
- IPS AdvisorPro® was released—April, 2006 and was named “Best Software Product of 2006” by Morningstar. Roughly 53,000 IPSs have been written using the software.
- October 2013 fi360 acquired IPS AdvisorPro

Topics to be Covered

- Define an Investment Policy Statement
- Review the Investment Process
- Benefits of Using an IPS
 - For your client
 - For you - as a client retention tool, liability protection and a new revenue source

I have been a fan of DFA since I started my firm and Dave Butler has been one of those people whom I really respect and follow his thoughtful writings. He has been with the RIA community from the early years and continues to be a thought leader for our profession. He wrote in a Sept. 9, 2011 posting,

“The second pillar is what the advisor delivers: acting as a fiduciary to the client, understanding client needs and circumstances, and serving as architect in all aspects of wealth management.”

A well crafted Investment Policy Statement can help demonstrate your understanding of client needs and circumstances and provide the architecture of your investment management process.

Current Environment

- More regulation/more oversight
- Greater requirement for disclosure and accountability
- Fiduciary standards are becoming the norm
- Clients are demanding transparency
- Exams and audits (DOL, SEC) are now requesting IPSs
- Markets are more volatile

Investment Policy Statements offer a solution

An Investment Policy Statement can help in each of these situations.

- IPS – a formal agenda for your client meetings
- IPS – the tool to differentiate yourself from your competitors
- IPS – provides a format for how to talk to clients in uncertain times
- IPS – gives you a systematic way to think and talk about investments, raising your consistency and professionalism
- IPS – Gives clients confidence with transparency
- IPS – For those of you who are providing Financial Planning services, it is the bridge between the plan and the process

- According to the DOL's website "The duty to act prudently is one of a fiduciary's central responsibilities under ERISA."
- Ian Kopelman, Partner DLA Piper (on the DFA website) talks about the importance of having a PROCESS and acting in a prudent manner. "Prudence is a process of reasoned decision making."



Quote from Peter Mangan, CEO Shareholder Services:

“The IPS is first a matter of prudence, to clearly document the investment plan, approach, asset allocation, basically the why’s and how’s of implementing recommendations.

Secondly, as advisors grow they need to adopt technology and workflow processes to streamline these types of activities.

Lastly, as the issue of fiduciary responsibility continues to become more and more important and with the increasingly complex compliance and regulatory environment, we just don’t see how advisors can operate without using IPSs.”

What is an Investment Policy Statement?

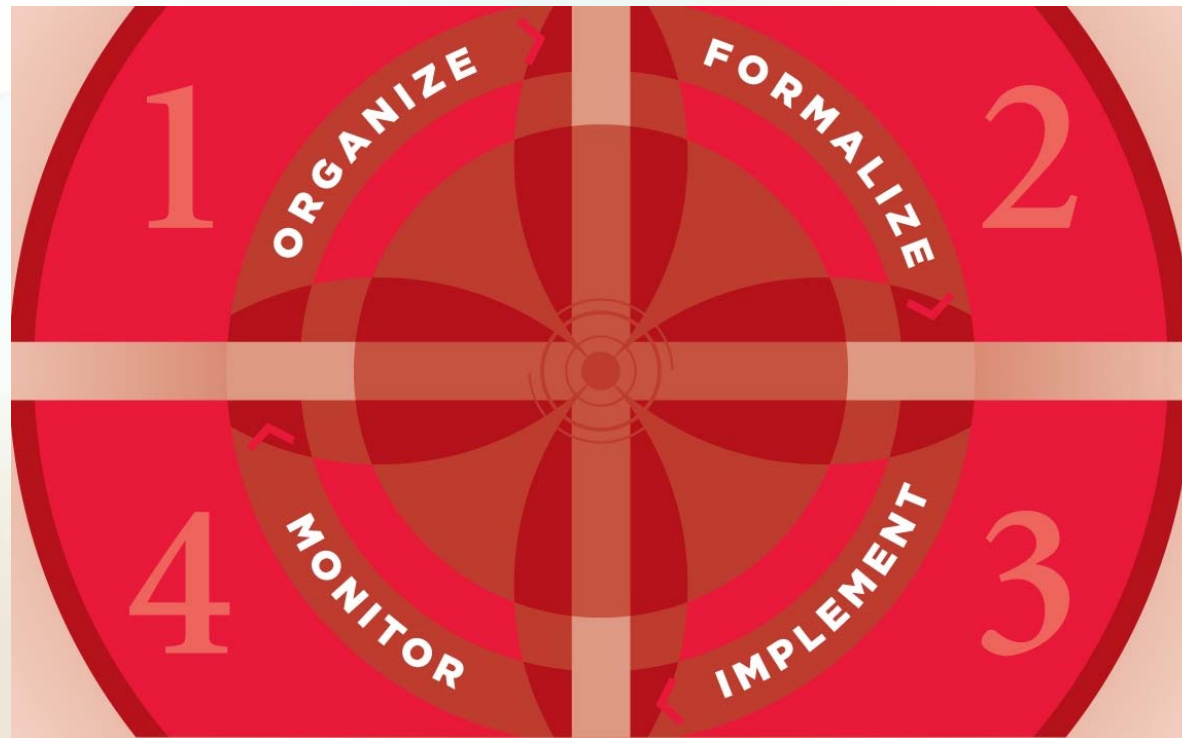
- A written document
- Not a contract - we position it as a directive from the client to the advisor, but we are the architect of the document
- Documents the understandings and agreements arrived at between the client and the advisor
- Serves as a guide for how the money is to be handled and why

Think of the IPS as a Blueprint

- The client tells the architect the vision, the goals
- The architect designs based on client's input and own expertise
- The two discuss and agree about final design
- Design is drawn up and approved by both
- Change Orders are documented



The Typical Investment Process



Typical Problems in this Process

- Some topics are skipped or only some of the needed information is collected
- Failure to reach clear agreements on every topic
- The agreements are not documented
 - Leads to misunderstandings
 - Leads to different client/advisor expectations
 - Leads to unhappy clients, lost clients and occasionally, lawsuits

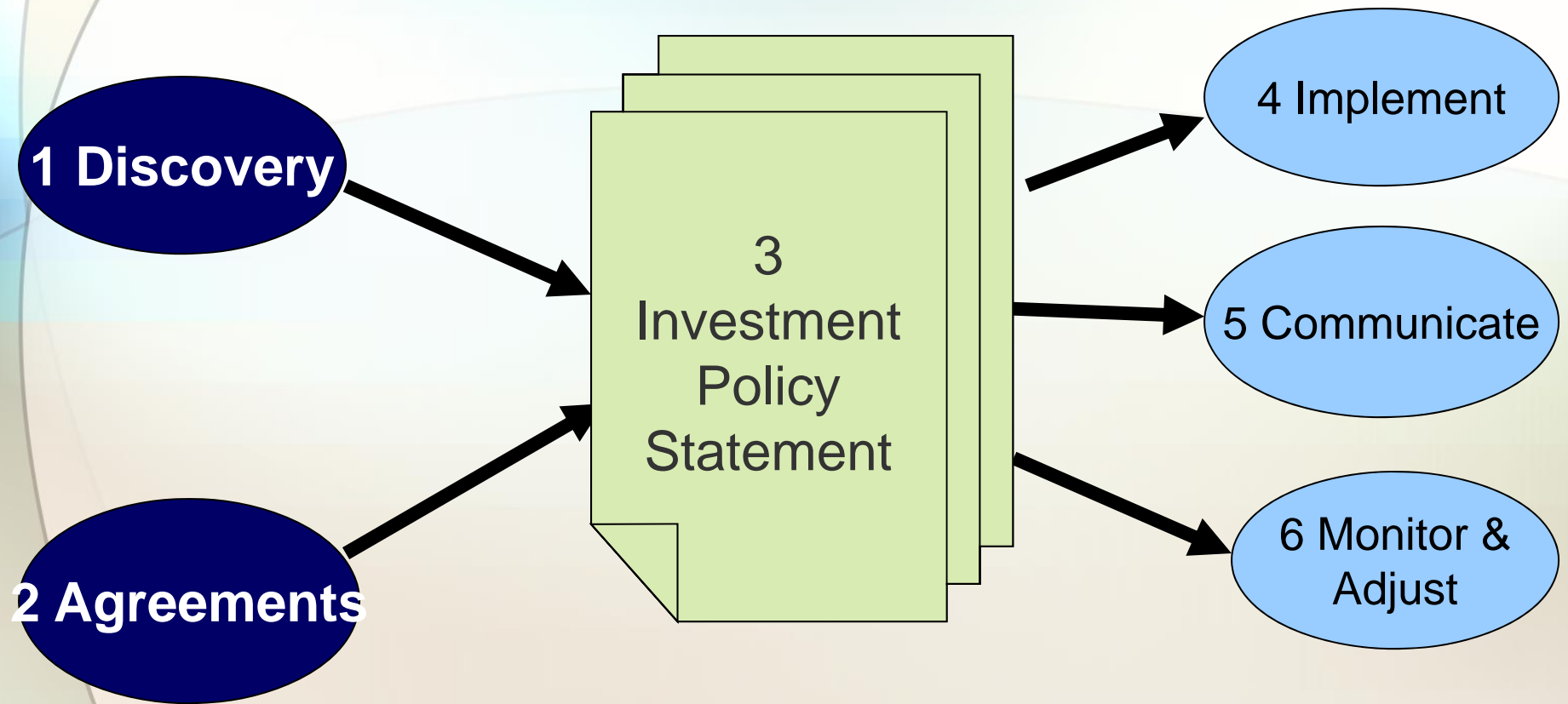
Our Core Belief...

Your Investment Process
is as important as
the specific investments you select.

Having a System for Your Investment Process

- Improves the consistency and quality of your work
- Allows you to “create your best work one time, and use it over and over”
- Helps avoid errors
- Makes it possible to teach the process and to delegate parts of it

Suggested Process



Common Objections We Hear...

- “It takes too much time.”
- “Clients hire me to manage their money; doing an IPS delays getting started.”
- “I’m afraid of lawsuits. My attorney tells me to avoid putting anything in writing.”
- “My broker-dealer doesn’t allow me to write an Investment Policy Statement
- “I’m not sure how to get started”

3 Steps to Developing the IPS for your Client

Questionnaire

- Circumstances/Investment Objectives/Risk Tolerance/Restrictions/Preferences
- Capital markets education presentation
- Review questionnaire responses

Draft IPS

- Initial IPS version and asset allocation
- Address areas of concern
- Discuss any unreasonable expectations
- Make changes as needed

Approval of Final IPS

- Review and approve final document
- Signatures
- Preliminary discussion of investment implementation

Client Specific Issues – These change from client to client

- Goals—Return and Cash flow
- Downside Risk
- Asset Class Interest & Understanding
- Limits or Restrictions
- Asset Allocation
- Diversifying Concentrations
- Tax Concerns
- Tax—Basis & Bracket
- Expected Additions or Withdrawals (Spending Policy)
- Time Horizon
 - To achieve goals
 - To review IPS/Evaluate Mgrs
- Reserves or Liquidity Needs
- Educate on Investment Principles

Your (Advisor or Firm's) Policies and Practices

These should be standardized for all your clients

- Stocks, Funds or Separate Accounts
- Investment Strategies/Third Party Managers
- Passive vs Active
- Re-balancing Approach
- Timing or Tactical Moves
- Location of Assets by Account Type
- Client Play Accounts
- Other Investments
- Tax Management Strategies
- Reporting
- Monitoring
- Disclosures
- Auditing of IPS Requirements

Designing the Client's Asset Allocation

Factors to consider

- Return needed to Achieve Client's goals
- Risk Tolerance, Risk Perception and Risk Capacity
- Need for Liquidity (Time horizon)
- Acceptable and Restricted Asset Classes
 - Expected returns, Standard Deviation, Correlation
- Maturity guidelines
- Tax Issues
- Asset Classes to be included or restricted

Recommended IPS Table of Contents

- Investment Policy Background
- Overview Commentary
 - Assets included in this IPS
 - Investor Circumstances
 - Governing Law & Regulation
- Investment Philosophy
- Investment Objectives
 - Rate of Return
 - Other Needs
- Time Horizon
 - Cashflow Needs
 - Spending/Withdrawal Policy
- Acceptable Risk Level
- Asset Allocation
 - Portfolio Risk & Return Statistics
 - Rebalancing Procedures
 - Investment Restrictions
 - Unique Portfolio Issues
- Tax Policy
- Frequency of Review
- Liquidity
- Diversification
- Investment Criteria
 - Selection
 - Retention or Sale
- Monitoring and Control Procedures
 - Reports
 - Audits
 - Fees & Expenses
- Meetings and Communication
- Duties and Responsibilities
 - The Advisor
 - The Investor
- Disclosures
- *Adoption*

Short Version--IPS Table of Contents

- Client's Overview Commentary
 - Assets Included in this IPS
 - Investor Circumstances and Goals
 - Governing law and regulation
- Investment Objectives
 - Rate of Return or broad objectives
 - Spending/Withdrawal Policy
 - Time Horizon
 - Liquidity requirements
- Acceptable Risk Level
- Asset Allocation
 - Rebalancing Procedures
 - Investment Restrictions
 - Unique Portfolio Issues
- Investment Monitoring and Control Procedures
 - Reports
 - Expenses
- *Adoption*

IPS Solution

- Not using an IPS is no longer an option
 - Legally necessary when a trustee exists
 - “Best Practice” for individual clients

Please check out a tool brought to you by fi360

IPS AdvisorPro

- Web-based application
- Fully customizable to YOUR practice
- Quick and easy to use
- Unique compliance tools
- Cost effective

www.IPSAdvisorPro.com

- I started with Dave Butler and I will end with him.

*"So, what will the next twenty years bring? Probably more of the same, including volatile periods like the one we are now experiencing in the global markets. Such times present opportunities for advisors to deliver that great client experience and further differentiate themselves from the rest of the market. As we all know, these periods are never easy for either client or advisor, but we are confident that the ideas driving this advisory model (independence, **transparency, and fiduciary care**) and the investments being offered (low-cost, diversification, and risk-specific value strategies) will continue to keep you at the forefront of the financial advice business."*

Thanks for inviting me to share a

- practice management methodology
- a client retention tool
- a litigation protector
- new revenue source
- and the leading edge way to have conversations with your clients

All by using an Investment Policy Statement

Linda and Norm Boone, CFP® and the team at fi360/IPS AdvisorPro

Resources for You

- Our Article: **Why Writing an Investment Policy Statement Should be Part of Your Investment Process**
- “Creating an Investment Policy Statement: Guidelines and Templates” by Boone & Lubitz, FPA Press, 2004
- www.IPSAdvisorPro.com
- “Investment Policy: Winning the Losers Game,” Charles Ellis, Irwin Publishing, 1992
- The Management of Investment Decisions,” Trone, Albright & Taylor, McGraw-Hill, Irwin Publishing
- fi360
- CFA Institute
- Investment Management Consultants Association (IMCA)

Fiduciary Certification Workshops



- For firms that intend to achieve CEFEX fiduciary certification
- No charge to attend workshop
- Significantly reduces cost of CEFEX assessment
- Workshop dates in 2015:
 - May 28, 29 Santa Monica, CA
 - October 15, 16 Pittsburgh, PA
- In collaboration with Dimensional Fund Advisors
- E-mail Carlos Panksep cpanksep@cefex.org for information

The flyer features the CEFEX logo at the top, followed by the title 'Fiduciary Certification Workshops' and the question 'Why get CEFEX-certified?'. It includes a list of benefits, a sample agenda for a 1.5-day workshop, and a call to action to read more at www.cefex.org/advisor. A circular seal for the Center for Fiduciary Excellence is also present. At the bottom right, there is an image of a book titled 'ADVISORS'.

CEFEX
CENTRE FOR FIDUCIARY EXCELLENCE

Fiduciary Certification Workshops

Why get CEFEX-certified?

CEFEX is an independent global assessment and certification organization. It works closely with investment fiduciaries and industry experts to provide comprehensive assessment programs to improve risk management for institutional and retail investors.

- Advisory firms benefit from differentiation in an industry where clients are either confused by the fiduciary debate, afraid of fraud, or generally unaware.
- CEFEX certification gives advisory firms a unique distinction by helping to demonstrate their trustworthiness.
- It helps firms grow assets as it displays their commitment to clients and stakeholders.
- It helps manage risk by encouraging prudence and process, hence the avoidance of errors.
- Since risk is reduced, it can reduce professional liability insurance premiums.
- It fosters a culture of excellence and continuous improvement at the advisory firm.

Read about CEFEX certification at www.cefex.org/advisor

The Fiduciary Certification Workshop
An expert CEFEX Fiduciary Analyst conducts a practical overview of fiduciary best practices in a classroom setting with a group of advisory firm representatives. Each participant has access to a unique online questionnaire: "CEFEX Assessment of Fiduciary Excellence" (CAFÉ) for his/her firm. The Analyst will guide the participant through the completion of their CAFÉ.

Sample Workshop Agenda Elements: 1.5 days:

1. Introduction
2. Fiduciary Best Practices Overview
3. Fiduciary Best Practices Practical Review
The CEFEX Analyst walks through specific fiduciary elements including: Service Agreement, Disclosures, Investment Policy Statement, Investment Due Diligence and Monitoring, Asset Allocation and Capital Market Assumptions, ERISA Safe Harbors, 3(38) Investment Manager Safe Harbor.
The workshop participant will use the online CEFEX Assessment of Fiduciary Excellence (CAFÉ) to assess practices within his/her own firm.
4. Lunch
5. Enterprise Overview
6. Investment Analysis using the fi360 Investment Analyzer
7. How to leverage CEFEX certification with clients

Day 2: Private time between CEFEX Analyst and Advisory firm representative – for those who intend to pursue certification (30-45 minutes per advisor in scheduled timeslots)

Q&A and Housekeeping



- To ask a question to the presenters, enter it now into the GoToWebinar interface.
- Notes:
 - Continuing education: You will receive a follow up email in the coming days with instructions to receive CE for your AIF, AIFA, or PPC designations. CE for CFP Board will be reported automatically on your behalf.
 - A recording and slides will also be made available in the coming days and sent to you via email.