

fi360®

Managing Client Expectations With Investment Policy Statements

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Speakers Background

Linda Lubitz Boone, CFP® is a practicing financial advisor. She has been recognized by many of the major financial publications as a leading financial advisor 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

Comments from a recent brainstorming session.

Does any of this sound familiar?

- “I’m having trouble talking to my clients about their investments again after the financial crisis.”
- “I need some formal process for having conversations with my clients around their investments and moving forward”
- “I have the financial planning part of my process down for starting the relationship, but after that, I’m searching for a repeatable process to have the ongoing conversations.”

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 – the bridge between the plan and the process

The usefulness of investment policy depends on the clarity and rigor with which investment objectives and the policy guidelines established to achieve those objectives, are stated."

- Dr. Charles Ellis
"The Investment Policy: Winning the Loser's Game"

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 - it is a directive from the client to the advisor
- 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
- Most often, the IPS is prepared by the advisor with input from the client

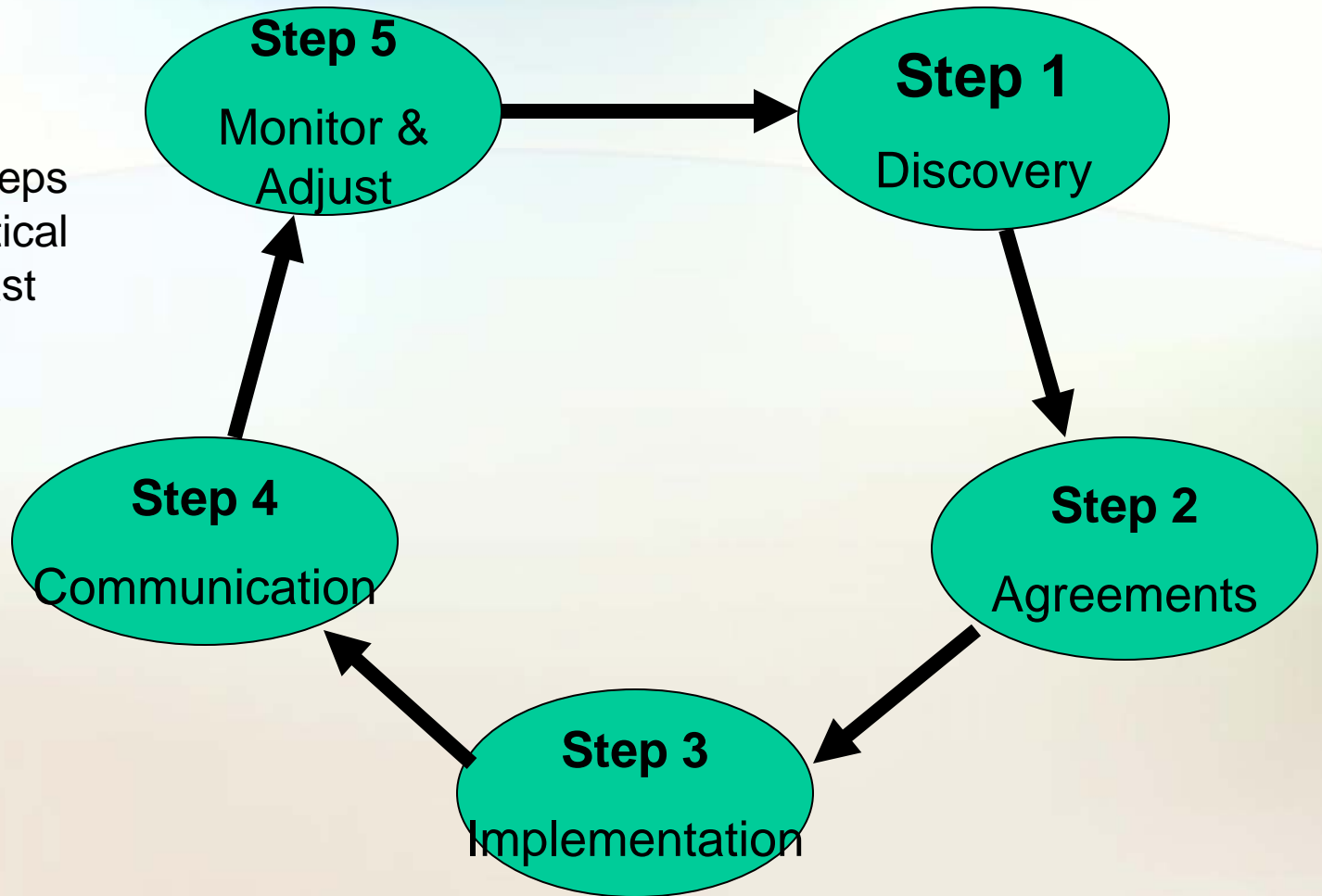
Think of the IPS as a Blueprint

- 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

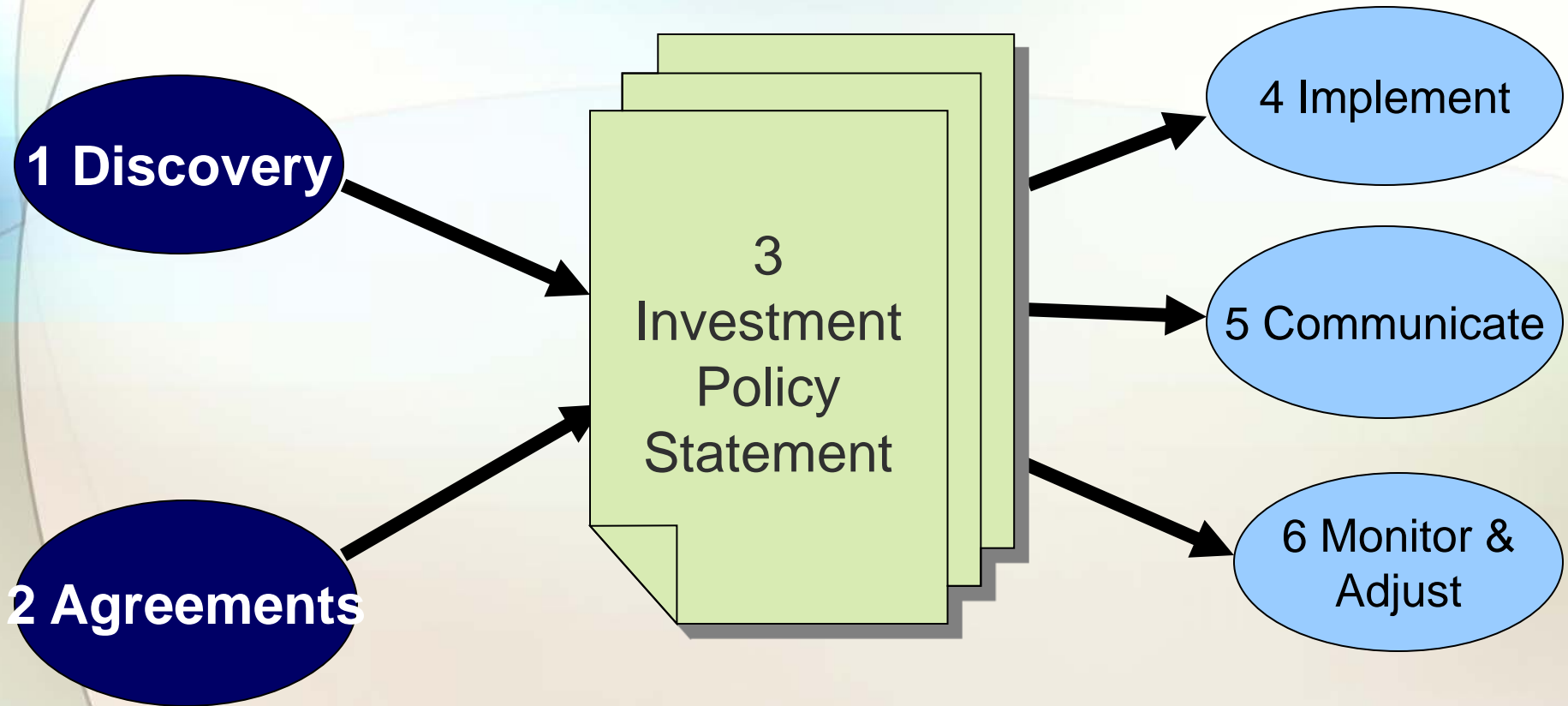
The First Two Steps
are the Most Critical
but get the Least
Attention



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

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”

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

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
- 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
- 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
- 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
- *Adoption*

IPS Solution

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

What you should look for in a good IPS tool:

IPS AdvisorPro

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

www.IPSAdvisorPro.com

Questions?

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
- “Prudent Practices for Investment Advisors,” written and published by fi360.
- “The Management of Investment Decisions,” Trone, Albright & Taylor, McGraw-Hill, Irwin Publishing
- CFA Institute
- Investment Management Consultants Association (IMCA)

Thanks for inviting us 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

Thank you!