

A blueprint for investors: The Investment Policy Statement

Company retirement plans, charitable organizations and other entities must define clearly, in writing, exactly how the contributions that they make are invested and managed. One of the ways that this goal is accomplished is by drawing up a document, often referred to as an Investment Policy Statement (IPS). For individual investors, too, an IPS can be a useful and valuable document.

The benefits of an IPS

An IPS brings structure to the process of investing. It also brings discipline by requiring the investor to put into words the strategy for the management of his or her investments—something that the investor may not have articulated formally previously. And, as time passes, it permits the investor to examine how this strategy is working and what changes, if any, may be necessary.

An outline

There is no one right way to draft an IPS. But, although some of the organizational structure and language used in drafting the document can vary, there are several elements that are likely to appear in any IPS.

An overview. The opening section of the IPS usually provides an overall perspective on the investor and his or her current investment profile. It may include, for example, current assets, how much will be invested over a stated period of time, and one's investment time horizon, tolerance for risk and target asset allocation.

A statement of objectives. Here the investor's goals are outlined, both for the short term and the long. This section may discuss how much of the investor's assets will be dedicated toward meeting each individual goal, over what particular time period.

Investment philosophy. What is important to the individual from an investment perspective? What does he or she believe about investing and the investment process? These are the kinds of questions that need to be answered to put an investor's philosophy into words. This philosophy may be stated in generalities or be presented in depth—addressing such issues as risk, diversification, trading, taxes and other costs.

The selection of investments. This section is the core of the IPS. It is used to develop the investor's asset allocation strategy—how investments will be distributed among the various asset classes. This discussion often focuses on such things as investment diversification, choice of nontraditional investments and ways to make the investor's portfolio tax efficient.

Monitoring and review. An effective IPS also will set up the criteria for measuring the performance of investments. Monitoring will help tell the investor when a rebalancing of a portfolio may be necessary and, perhaps, what investments, if any, should be sold.

We're here to help

Are you interested in establishing your own IPS? Putting it in writing is a good idea, but even if you don't, you should at least try to have answers to the questions that arise in the process of developing an IPS.

We will be glad to provide you with guidance and assistance in developing your own document. We will consult with you in order to get a firm grasp on your needs as an investor as well as to examine your current portfolio. We will analyze the information that you give us. Develop a strategy. Implement it for you as well. Of course, we always will be available to discuss with you any aspect of your IPS, review it regularly and recommend any changes that we believe will contribute to your success as an investor.

Please call upon us at any time. We look forward to hearing from you.

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Any developments occurring after January 1, 2008, are not reflected in this article.