

053008 Investment Policy Statement  
By Gary Case

For years foundations, endowments, pension plans, and other large pools of money have created guidelines to follow when administering the portfolio. Consulting firms assist the boards of these portfolios in creating the document that governs the investment philosophy, implementation and maintenance of the money. That document is the Investment Policy Statement (IPS), and, just as large pools of money benefit from using an IPS, smaller investment portfolios can also benefit from creating an IPS

An Investment Policy Statement sets out the general guidelines, assumptions and mutual understandings you, your investment advisor, and other parties involved with your investments have about your expectations of your portfolio. It is a working document and should be an accurate reflection of you and your needs. Whenever your needs or circumstances change, it should be reviewed and, if necessary, revised to ensure that it remains current and reflects your situation.

The goal is to see that your portfolio is invested to give you the mix of safety, income, growth, liquidity and tax benefits you need to meet your objectives. Your IPS acts as a filter through which decisions made with respect to your portfolio are viewed.

Even though an IPS is not a contract, you may wish to have it reviewed by legal counsel and your tax advisor. Generally, no guarantee is implied as to attainment of goals or objectives. It is intended solely as a summary of the investment methodology that provides guidance for you and your advisors.

A common approach to creating an IPS is to first have you complete a questionnaire regarding various aspects of your investment profile, including risk tolerance, time horizon, tax situation, income needs, etc. The information gathered is then used to determine your risk/return profile.

After your profile is determined, the Investment Policy Statement is created to:

- Establish reasonable expectations, objectives and guidelines for investing the portfolio
- Set forth an investment structure detailing permitted asset classes and the expected allocation among asset classes
- Create the framework for a well diversified asset mix designed to generate acceptable long-term returns at a suitable level of risk
- Encourage effective communication and defining responsibilities of all parties to the IPS

A properly executed Investment Policy Statement can assist you in maintaining your investment objectives while allowing for innovation and adjustment in your portfolio due to market conditions or personal events.

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