

## Financial Wisdom



This comic strip points up the purpose of an Investment Policy Statement. Most financial advisors admit that creating an Investment Policy Statement (IPS) is a good idea. However, according to Russell Investments' quarterly survey of U.S. advisors, only 39% of financial advisors create a written Investment Policy Statement for their clients. Of those surveyed, 33% say they only create investment policy statements for their highest net worth clients.\*\*

A written Investment Policy Statement is key to maintaining a steady course in times of rough waters. For many, retiring is the equivalent of full time unemployment and brings on all kinds of emotional anxiety and stress. For the investor, the ability to share in writing the equivalent of a Retirement Business Plan may provide peace of mind – peace of mind that comes from knowing that their financial affairs will be taken care of with the same diligence and responsibility that the company or organization they are retiring from has exhibited over the years.

As a review, here are the reasons why this is such an important document for ALL of your clients:

1) The client has a written document that outlines what the client/advisor relationship is and what to expect. If your client knows what to expect and the client's wants and desires are delineated in writing, then you have a better chance of keeping them on track when markets go awry.

2) The IPS provides a written understanding of the goals of the engagement and the basics of what you will do to help them achieve their goals. If clients understand why you are making recommendations and what you are doing on their behalf, there is a greater likelihood that they will continue to be pleased with the relationship.

3) The clients accept the goals and the recommendations and implement them. Making recommendations and then not following through on them is a sure sign that something has been missed in the planning or goal setting process. This gives you an opportunity to discuss the disconnects and to come to an agreement on a course of action that the clients accept as reasonable. If no actionable goals can be agreed upon, the process may help you to eliminate a "problem client" before you have expended a lot of time and resources.

4) The Investment Policy Statement can be a check to ensure that the relationship is profitable and beneficial to both. You need an income to stay in business and your clients, through your advice, over time should be in a better place than if they had been without your advice.

Dear Future Me,

Next time stuff hits the fan, don't do anything stupid!

Sincerely,

2014 Me  
Mint.com

All these reasons point to an opportunity to build more profitable, long-term client relationships and to potentially have more “Raving Fans” that will help you to continue to grow your business.

Now for the catch:

- 1) For many working with a client to craft an Investment Policy Statement is a daunting task and can be overwhelming given all the other things you have to do day in and day out. It takes time and for many of you who have long standing relationships it may not seem worth the time and effort.
- 2) Most IPS samples that are available are simple, single goal Investment Policy Statements that are performance based. To our knowledge there are very few sample IPSs that incorporate goals based investing, multiple investment methodologies and behavioral investing language.
- 3) We feel that often the language in an IPS is so institutional that it escapes understanding by all but the most sophisticated clients. The IPS needs to be written in plain language that takes into consideration all the research that has been done and that replaces the jargon of our industry with client friendly language. In short, in our view, the IPS needs to be modernized.

Clark Capital would like to introduce the Clark Capital IPS kit that has been designed with you in mind. The questionnaire, asset inventory sheet and sample IPS are completely customizable to your practice and offer you the ability to private label each of these documents.

## IPS Questionnaire

This client friendly questionnaire is a great way to evaluate where a new client is and what he/she is trying to accomplish. We find it works equally well with existing clients as a way to “checkup” on their goals and current risk tolerance. An effort has been made to use as many client-friendly words and phrases as possible. In addition, the questionnaire provides you with the ability to identify multiple goals as goals based language enables you to have conversations about multiple investment methodologies and both risk tolerance and risk capacity.

## Asset Inventory

You probably already have a fact finder that you use to gather financial and insurance data from your clients but take a look at ours in case you would prefer a different version.

## Investment Policy Statement

This document takes the information you’ve gathered and puts it together in a complete, concise document for you to present to your client to solidify the value proposition of your engagement with the client. It’s written using client-friendly language and allows for goals based investing, identifying multiple goals, and delineating one or more different investment methodologies to be employed in managing the portfolio(s) for your clients. All of the segments of the IPS that are unique to individual clients are highlighted in editable text boxes so you can quickly find those segments of the document that you’ll need to modify each time you create an IPS for a new or existing client.

The IPS can also be helpful in educating the next generation. It can assure your clients’ children that their parents’ money is being well managed and, at the same time, give you the opportunity to build or strengthen your relationship with the children who may become clients when their parents pass away or are no longer able to handle their own financial affairs.

We encourage you to contact Clark Capital to schedule time with your Investment Consultant team who will provide the IPS kit and walk you through the process. We look forward to having a meaningful conversation about your practice and discussing how the “boilerplate” language contained in the documents can be personalized to more fully describe your practice, your investment methodologies and your fundamental beliefs.

Of course, once you have decided upon the language to be contained in an investment policy statement personalized for your client, it should always be reviewed by your BD’s compliance department.

\*April 12, 2011

\*\*Source: Russell Investments, Financial Professional Outlook, March 2013