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Investment Policy Statement

By Robert G. Katz, CFP®

We at Bainco believe that every client relationship has at its core an **Investment Policy Statement**; a plan that is based on the client's vision, personal circumstances, and what the investment markets have to offer. It provides a framework for clients and advisors which can then assist with financial and estate planning decisions and ultimately makes for a more successful approach to investing.

What is an Investment Policy Statement and what can be found within?

An Investment Policy Statement (IPS) can best be described as a financial blueprint which is used to meet client investment goals and ensure that there is a planned approach taken by the "team" of advisors.

The process of creating an IPS begins with a client meeting designed to discuss the following key elements:

- Source(s) of Wealth
- Stage of Life
- Risk Tolerance
- Return Objectives
- Time Horizon
- Liquidity Constraints
- Taxes

Findings from these discussions will then be used to draft a customized IPS with suggestions from the advisor as to:

- How the portfolio(s) will be managed
- Recommended Asset Allocation
- Initial outline of Wealth Planning assignments and
- Who the team of advisors should be

Why the Need for an IPS?

A properly written IPS will provide an understanding between the client and their investment adviser. For example, if the IPS

is written in such a way that you wish to have 80% of your investment assets liquid at all times, then it should not be an issue for the portfolio manager if you were to have an untimely need for cash. However, can you imagine the angst if no liquidity constraint was noted and your advisor had 80% of your assets illiquid?

An IPS will typically lay out a target allocation and provide you with historical rates of returns for those asset categories listed. This will provide you with a long-term view of how your portfolio might perform. For example, a change in Asset Allocation, perhaps placing more in private equity vs. fixed

income, may take up the projected return on your portfolio but in theory it will also increase the overall risk in your portfolio. Is this a risk you would be comfortable with? Maybe...maybe not.

Further, specific assignments will be noted in the IPS. For example, it may have been discovered during the formation of the IPS that you, a Massachusetts resident, have not updated your estate plan since 1999 and therefore the Massachusetts "decoupling" law change is not reflected in your outdated estate plan. The IPS would then list this as a

*"A goal without a plan
is just a wish."*

-Antoine de Saint-Exupery

goal to complete. Also you may have grandchildren but you have not yet established an education savings plan for them. Again the IPS would indicate the need to establish such a savings plan and the monitoring of such a plan once it is established.

An IPS should evolve

Once the initial IPS has been created, it should be reviewed regularly and updated to reflect any changes in lifestyle, wealth, risk tolerance, etc. For example, if a loved one passes away and a significant inheritance is left to you, that might necessitate a change in your risk tolerance toward your investments. Or, that inheritance might necessitate

a change in your desire to create a charitable foundation. Another question that should come to mind is; can I effectively move that future appreciation out of my estate and put it in trust for my heirs? Simply stated, your IPS should evolve and reflect ongoing communication between you the investor and your advisor. It is a living instrument.

Closing

A well crafted IPS will provide the framework necessary for you and your advisor to effectively understand, and one hopes, meet your investment objectives and goals. If done well, it is both a blueprint and a report card.

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For over 20 years, Bainco has been providing highly customized investment management for a small group of individuals, families, and trusts. Our aim is to create lifelong partnerships with our clients, offering individually tailored investment strategy and management, highly personalized service, and integrated

wealth planning that address clients' unique needs and goals. Bainco has earned a reputation for understanding the issues that arise from significant wealth, and caring about the well-being of its clients. For more information about Bainco and how we might serve you, please call 617-536-0333, or visit www.bainco.com.

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