

## THE ROLE OF THE IPS



NORMAN BOONE, MBA, CFP®



LINDA LUBITZ, CFP®

## Writing the book on Investment Policy Statements

By Tim Johnson

“We’ve been missionaries about Investment Policy Statements (IPS) for a long time,” said Norman Boone, MBA, CFP®, about the work that he and his co-author, Linda Lubitz, CFP®, have done for the past dozen years. This shared mission has evolved and grown in to their recently published book, *Creating an Investment Policy Statement*, (FPA Press, 2004).

“We think it’s so important, because in our personnel experience, it has truly made a difference in setting expectations and helping solidify relationships with clients,” said Boone. “We think that’s an important thing to share. And, it’s required in a number of places. Wherever there are trustees—insurance, family trust, company qualified plan, a foundation, an endowment, a charitable trust—an IPS is required.” So a partial goal for writing the book, he said, “is simply to help people stay out of trouble.”

Lubitz said she and Boone first began working on the topic in the early '90s. Boone first published on the topic in 1991, and the following year he and Lubitz collaborated on an article in the *Journal of Financial Planning* (see Tools To Use for article URL). “The book is a compendium of what we’ve done for years,” Boone said. “It was a construction, not a creation.”

“We had both been working with pension plan trustees,” she said. “As we learned more about the methodology, it

The Investment Policy Statement serves four basic purposes:

**1. Setting Objectives**—To establish clear and definable expectations, risk and return objectives, and guidelines for the investment of the assets.

**2. Defining the Asset Allocation Policy**—To set forth a structure and identify the investment asset classes to use to achieve a diversified portfolio, as well as to determine how those assets are to be best allocated toward the achievement of the investor’s objectives.

**3. Establishing Management Procedures**—To provide a guide for selecting, monitoring, and evaluating the performance of those charged with managing and investing the assets, as well as making changes as appropriate.

**4. Determining Communication Procedures**—To provide a concise method of communicating the process and objectives among all parties involved with the investments, while assigning responsibility for implementation.

### Do you Need an Investment Policy Statement?—A Quiz

Try answering these questions:

1. What is your target rate of return? Is it a nominal rate or in relation to some benchmark, such as inflation or the S&P 500?
2. What rate of return have your investments achieved over the last three years? Last five years?
3. How are the returns calculated?
4. Are you a “fiduciary?”
5. What procedures do you use to select your investments or your investment managers (or funds)?
6. What is your investment allocation?
7. What system, if any, do you use to rebalance your portfolio?
8. What asset classes are permitted for your use? Which are restricted?
9. What level of risk is acceptable to you and how do you quantify that?
10. How much liquidity is required for your portfolio and how do you determine that level?

If your clients’ response to any of the above was “I don’t know,” their answer was less than clear, or if they answered “yes” to question 4, then your client needs an Investment Policy Statement and this book is intended for you.

*From Chapter 1: What is an Investment Policy Statement*

seemed more appropriate to use with all of our clients. It provided a systematic, disciplined approach to investing money. An IPS provides a concrete way to communicate clearly—with clients and advisers—and we felt it was important to use this methodology with everybody.”

Another benefit of creating an IPS, according to Boone, is to help coordinate the actions between various professionals

that a client might work with. “With larger clients, you can share the IPS with the other professionals,” he said. “You want to help others understand what that investment standard is [for that client] and how to do it. It’s important to share it with an estate or tax attorney that’s working with the trust, as well as the accountants, and the insurance agent.

**THE LAUNCH OF FPA PRESS**

“The publication of *Creating an Investment Policy Statement* is our first step toward developing a full catalogue of books, manuals and templates that address the needs of our members throughout their professional careers,” said Marvin W. Tuttle, Jr., CAE, FPA’s executive director/CEO. “Our overriding goal with FPA Press is to expand the body of knowledge around financial planning.”

Additional steps to grow this new publishing area will continue throughout the year, added Lauren Schadle, FPA’s group director, marketing and communications. “To grow this project, we’ll be working with volunteers and staff to determine the type of publications we want to create. As the premier organization for financial planning, it’s something we *should* do.”

She echoed Tuttle’s goal of enhancing the profession’s body of knowledge. “With the *Journal of Financial Planning*, we’ve worked to expand the body of knowledge for 25 years. FPA Press is a natural extension to that legacy.”

For additional information about FPA Press, please contact Mary Corbin, [mary.corbin@fpanet.org](mailto:mary.corbin@fpanet.org).



**Working with other professionals**

“Part of the reason financial planning came in to being in the first place was to coordinate the advice and council that clients get,” Boone added. “An IPS is a perfect vehicle for those of us working with clients who have investments in different places.”

The collaboration between the two authors took another leap in 1996, when

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the pair began working on software to streamline the creation of an IPS. Lubitz said, “We started developing a pretty robust investment policy statement, and Carl Gargula—who was with Ibbotson and Associates at that time—recognized the value of having this methodology for financial planners. He asked Norm and me to help Ibbotson develop a handbook and software.”

Lubitz said that, unfortunately, Gargula moved on before the project was completed, and their idea of providing financial planners with an IPS one-two punch languished. “After the contract was up, Norm and I decided it was time to revive the book and create a Web-based application,” Lubitz said.

“In the book we talk about how to build an IPS and it’s components, plus we provide sample templates for indi-

FPA Press books will be available by May 28; pre-publication orders can be placed at 800.2322.4237 or online at [www.fpanet.org/products/fpabookstore.cfm](http://www.fpanet.org/products/fpabookstore.cfm)

**A Review of Difficult Investment Policy Issues**

Norman M. Boone, MBA, CFP®, and Linda S. Lubitz, CFP®

*Journal of Financial Planning*, May 2003

[www.fpanet.org/journal/articles/2003\\_Issues/jfp0503-art8.cfm](http://www.fpanet.org/journal/articles/2003_Issues/jfp0503-art8.cfm)

**Developing the Investment Policy Statement for the Qualified Plan**

Boone and Lubitz *Journal of Financial Planning*, April 1992

[www.fpanet.org/journal/articles/1992\\_Issues/jfp0492-art5.cfm](http://www.fpanet.org/journal/articles/1992_Issues/jfp0492-art5.cfm)

[www.IPSadvisorpro.com](http://www.IPSadvisorpro.com)

viduals, family trusts, endowments or foundations, 401K plans, charitable remainder trusts, and retirement plans,” she added. “The Web site will permit you to construct an IPS, save it, and modify it.”

**Publishing with FPA**

“Norm and I have been national board members, and we were honored and excited to be the first authors published by FPA Press,” Lubitz said. “To have FPA Press publish our book is just fantastic.

Boone added, “We care about the organization and want it to succeed, and we want the profession to succeed. FPA has always been supportive to us. The book itself is the first of many out of FPA to enhance the profession. It’s something that represents an area that FPA and the predecessor organizations have supported for years. An IPS is certainly a best practice, and this is a way for people to incorporate that practice into their businesses.”

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