# Investment Policy Helps You Stay On Course

**By Bill Elson, Partner, CFP®**

It's easy to be buffeted about in the high seas of investing–strong winds from the latest hot stocks, the inevitable swells of the market, the stormy waters of a correction. One way to stay on course and not panic during these turbulent markets, and not to get too carried away during smoother sailing, is to chart a course with an investment policy statement.

An investment policy statement is a *written* document that defines your investment goals, what strategies to use to achieve those goals, and how to adjust for changes. Written policy statements are commonplace for professional money managers of pension funds, mutual funds and large corporations. But individual investors rarely write a formal plan. Here's what you should think about when developing one:

**Investment objectives.** What do you want your investments to achieve? This can only be answered in the context of defining your overall financial goals, such as retiring at a certain age at a certain level of income, building a college fund or buying a business.

The plan should state objectives in light of these goals. For example, do you want the portfolio to provide high current income for retirement? Long-term growth for future retirement? Diversification? Preservation of principal to provide for your heirs? Or perhaps a combination of these things?

**Define time frame of the portfolio.** Unlike a pension fund or a mutual fund, which typically are designed to go on forever, your portfolio will have a defined life—typically your life expectancy. How much time you have is important to what assets and investment strategies you use for the portfolio.

**Establish investment return goals.** What minimum rate of return, above the inflation rate, do you want the investments to provide? This is clearly tied to the objectives. If you want to retire with $250,000, $500,000, or $2 million in your nest egg, what kind of return will you need to make based on your current investments and future contributions?

Be realistic about your projected returns, and avoid assuming the stock market will have unattainably high returns over time.

**Risk tolerance.** How much risk are you willing to take to achieve those investment returns? The higher the desired return, generally the higher the risk you must take. Are you willing to accept losses within certain categories as long as the overall portfolio does not lost principal over time? Would you accept an overall portfolio loss of five or ten percent for two years running, but not three? Write your stipulations into the policy statement, defining investment risks you want to minimize.

Your risk tolerance may prove to be out of sync with your investment return objectives. You may need to adjust wither your anticipated returns because you'll need to be more conservative in your investments, or you will have to stomach higher risk, which isn't a good idea if it leaves you edgy.

**Establish an investment mix.** What classes of assets do you want to put into your portfolio that will give you the return you want, and what classes do you want to keep out? Stocks, bonds, cash and real estate investment trusts, but not junk bonds, gold or limited partnerships? How much, if any foreign exposure? Will you invest mainly through mutual funds or individual securities? What benchmarks will you measure investment returns against? Be sure to include income tax considerations, since these can have a significant impact on what assets and allocation you have in the portfolio.

**Investment strategies.** Are you going to invest strategically or tactically, making relatively frequent changes? Or maybe employ a buy and hold strategy? How will those decisions be made, and by whom?

**Monitor, rebalance and amend.** Review your investment policy statement periodically to see how the return and risk of your portfolio matched the desired return and risk of your written policy. Rebalance your investment mix, if the mix strays to far from your original allocations. You also may need to make adjustments if the overall performance of the portfolio is falling short of your goals.

An investment policy statement is not written in stone. Your personal financial circumstances may change, requiring more or less cash needs, or as you age in retirement you typically want to be more conservative. Amend your policy statement to reflect these changes.

Questions? Contact our office for a conversation—(515) 255-3306, info@LFGplanners.com or visit us at www.LFGplanners.com.

Legacy Financial Group

**Legacy Financial Group**
6000 Grand Ave, Suite B
Des Moines, IA 50312
(515) 255-3306
www.LFGplanners.com
Info@LFGplanners.com

Investment advisory services offered through Legacy Financial Group, LLC, a Registered Investment Adviser. Past performance is no guarantee of future returns. Securities offered through Registered Representatives of Brokers International Financial Services, LLC. Member SIPC. Legacy Financial Group and Brokers International Financial Services are not affiliated companies.
Legacy Financial Group does not offer legal or tax advice. Please consult the appropriate professional regarding your individual circumstance.