



ANAHEIM
2009

The Annual Conference of the Financial Planning Community

TRACK:	PRACTICE MANAGEMENT & TECHNOLOGY
SESSION: 979014	BUILDING YOUR BUSINESS AND MANAGING CLIENT EXPECTATIONS USING INVESTMENT POLICY STATEMENTS
	SUNDAY, OCTOBER 11, 2009 8:15 AM - 9:30 AM
PRESENTER:	Norman M. Boone, MBA, CFP® IPS AdvisorPro 140 Geary St 6th Floor San Francisco, CA 94108

Norman M. Boone, MBA, CFP® is the Founder and President of Mosaic Financial Partners, Inc. Along with Linda Boone, Norm is also the co-author of "Creating an Investment Policy Statement: Guidelines and Templates" published by FPA Press and the co-creator of the online software system IPS AdvisorPro® helping financial advisors efficiently create fully customized Investment Policy Statements. Norm earned his CERTIFIED FINANCIAL PLANNERTM certification in 1984, after receiving his undergraduate education at Stanford University and his MBA in Finance from the Harvard Business School. Norm has been regularly recognized as one of the nation's best financial planners. Financial Planning magazine named Norm one of 2007's eight "Movers and Shakers" of the industry. Norm has served in various leadership roles throughout his career. He was among the first class of directors elected to the national board of the Financial Planning Association. He helped found the San Francisco Society of the Institute of Certified Financial Planners and has served in many capacities locally, including president of the San Francisco chapter. He chaired the 1995 IAFP Conference for Advanced Financial Planning. Norm has served on the Advisory Council for the institutional division of Charles Schwab & Co., as president of the East Bay Estate Planning Council, and as a member of the TIAA-CREF Institutional Advisory Board and the Northern California Planned Giving Council. He currently serves on the board of trustees for Saybrook Institute graduate school, an accredited university in humanistic psychology and is an officer of the San Francisco Estate Planning Council. Norm has been a contributing editor to Wealth Manager magazine, a regular columnist for the FPA's Journal of Financial Planning and for the technology column for CCH's Journal of Retirement Planning.

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PRESENTER:	Linda S. Lubitz Boone, CFP® IPS AdvisorPro 9130 S Dadeland Blvd #1625 Miami, FL 33156

Linda Lubitz Boone, CFP®, is the founder and President of The Lubitz Financial Group in Miami, Florida, a successful wealth management practice which she founded in 1994. The firm provides fee-only personal financial planning and investment advisory services for individuals and company-sponsored retirement plans. Ms. Lubitz Boone is also an accomplished writer, having co-authored, along with Norm Boone, CFP®, Creating An Investment Policy Statement: Guidelines and Templates published by FPA Press in 2004. Their first software product for Investment Policy Statements was developed by Ibbotson Associates in 1996. After that product was no longer available, Linda and Norm decided to develop an application that would be the best and most user friendly on the market – an application created by advisors FOR advisors. The result was the award winning web based software application, IPS AdvisorPro®, a patent pending application to help advisors easily and professionally create Investment Policy Statements for their clients. She served on the National Board of Directors of the Financial Planning Association from 1999 through 2002. Ms. Lubitz Boone was founder and President of AmeriFirst Securities Corporation, and was also a partner with Evensky & Brown Financial Advisers. In addition to their home in Miami, she lives with her husband, Norman Boone, in Oakland, California. Extracurricular life accomplishments include: a successful summit of Mt. Kilimanjaro in 2004 with Norm, and an expedition to Antarctica in 2008.

***Managing Client Expectations
Using Investment Policy
Statements***

**Norman M. Boone, CFP®
& Linda Lubitz Boone, CFP®**

**Founders of IPS AdvisorPro®
Mosaic Financial Partners, Inc
The Lubitz Financial Group**



Imagine....

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**Comments from a recent brainstorming session.
Does any of this sound familiar?**

- "I'm having trouble talking to my clients about their investments again."
- "I need some formal process for having conversations with my clients around their investments and moving forward"
- "How do I talk to my clients after what happened in the markets?"
- "I'm not sure what to expect in client meetings anymore"
- "I don't know where my clients are going to be coming from when I meet with them"
- "I have the financial planning part of my process down for starting the relationship, but after that, I'm searching for a repeatable process to have the ongoing conversations."

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**An Investment Policy Statement
can help in each of these situations.**

- IPS – the bridge between the plan and the process
- IPS – a formal agenda for your client meetings, post-financial crisis
- IPS – the tool to re-energize your clients and re-new the conversation with your clients about their investments
- IPS – provides a format for how to talk to clients in uncertain times
- IPS – gives you a systematic way to think and talk about investments, raising your consistency and professionalism

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Topics to be Covered

- Define an Investment Policy Statement
- Review the Investment Process
- Benefits of Using an IPS
 - For your client
 - For you as a client retention tool and a new revenue source

Speakers Background

- Norm Boone and Linda Lubitz Boone are practicing financial advisors. Each has been on the Worth magazine list of 100 Best Financial Advisors virtually every year since 1994. Both have served on the FPA national board.
- Their first article: "Developing an Investment Policy Statement for the Qualified Plan"—April, 1992
- Their first software: joint venture with Ibbotson "The Investment Policy Statement Guidebook"—1996 to 2001
- Their first book: "Creating an Investment Policy Statement: Guidelines and Templates"—FPA Press 2004
- IPS AdvisorPro® was released—April, 2006 and was named "Best Software Product of 2006" by Morningstar. Roughly 20,000 IPSs have been written using the software.

Quote from Peter Mangan, CEO Shareholder Services:

"The IPS is first a matter of prudence, to clearly document the investment plan, approach, asset allocation, basically the why's and how's of implementing recommendations.

Secondly, as advisors grow they need to adopt technology and workflow processes to streamline these types of activities.

Lastly, as the issue of fiduciary responsibility continues to become more and more important and with the increasingly complex compliance and regulatory environment, we just don't see how advisors can operate without using IPSs."

What is an Investment Policy Statement?

- A written document
- Not a contract - it is a directive from the client to the advisor
- Documents the understandings and agreements arrived at between the client and the advisor
- Serves as a guide for how the money is to be handled and why
- Most often, the IPS is prepared by the advisor with input from the client

Think of the IPS as a Blueprint

- The client tells the architect the vision, the goals
- The architect designs based on client's input and own expertise
- The two discuss and agree about final design
- Design is drawn up and approved by both
- Change Orders are documented



The Importance of an IPS for You – the Advisor

- Transparency builds *Trust* between advisor and client
- Use of *Processes* improve advisor’s consistency and work quality
 - Systems encourage doing the same thing in the same way, each time.
- Use of *Best Practices* increases the advisor’s level of *Professionalism*
- Adds *Profitability*
 - Clients stay with you
 - Clients refer you more business
 - Access to larger clients, who expect an IPS
- Provides a *Legal Protection*
 - Satisfies ERISA, UPIA -- legal requirements to have a clear policy
 - Shows you “know your client”
 - Documents client directions and current mind-set in case of future litigation

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The Importance of an IPS for Your Client

- An *IPS records* and *clarifies* the expectations of both advisor and client
- An *IPS* creates a full *understanding* of what will happen the reasoning behind it
- An *IPS* produces *transparency*—no surprises
- The *IPS* process helps *educate* the client
- An *IPS* offers a *roadmap* and a *compass* for turbulent markets
- An *IPS* leads to greater *confidence* in the advisor

Current Environment

- More regulation/more oversight
- Greater requirement for disclosure and accountability
- Fiduciary standards are becoming the norm
- Clients are demanding transparency
- Exams and audits (DOL, SEC) are now requesting IPSs
- Markets are more volatile

Investment Policy Statements offer a solution

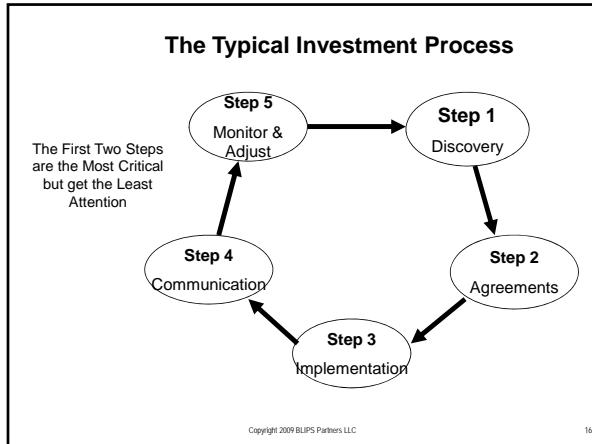
Client Stories

- Dr. Z – providing coordinating direction for P/S plan with multiple managers
- Historical Museum – establishing a spending policy and provide continuity
- Nervous Nellie – mitigating emotional tugs

Common Objections We Hear..

- "It takes too much time."
- "Clients hire me to manage their money; doing an IPS delays getting started."
- "I'm afraid of lawsuits. My attorney tells me to avoid putting anything in writing."

- "My broker-dealer doesn't allow me to write an investment policy statement."
- "I'm not sure how to get started."



- ### Typical Problems in this Process
- Some topics are skipped or only some of the needed information is collected
 - Failure to reach clear agreements on every topic
 - The agreements are not documented
 - Leads to misunderstandings
 - Leads to different client/advisor expectations
 - Leads to unhappy clients, lost clients and occasionally, lawsuits

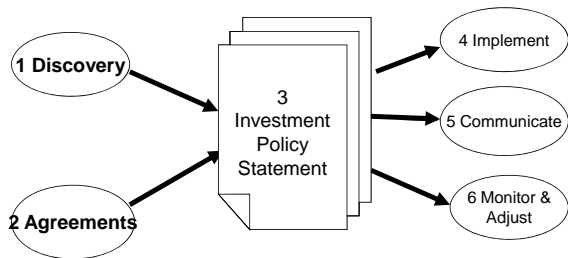
Our Core Belief...

Your Investment Process
is as important as
the specific investments you select.

Having a System for Your Investment Process

- Improves the consistency and quality of your work
- Allows you to “create your best work one time, and use it over and over”
- Helps avoid errors
- Makes it possible to teach the process and to delegate parts of it

Suggested Process



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Discovery

- Purpose: “Know Your Client”
- Based on:
 - Documents Collected
 - Questionnaires, and
 - Conversation

*The more thorough this process is,
the more appropriate the investments
are likely to be.*

**Client Specific Issues –
These change from client to client**

- Goals—Return and Cash flow
- Downside Risk
- Asset Class Interest & Understanding
- Limits or Restrictions
- Asset Allocation
- Diversifying Concentrations
- Tax Concerns
- Tax—Basis & Bracket
- Expected Additions or Withdrawals (Spending Policy)
- Time Horizon
 - To achieve goals
 - To review IPS/Evaluate Mgrs
- Reserves or Liquidity Needs
- Educate on Investment Principles

Your (Advisor or Firm's) Policies and Practices

- These should be standardized for all your clients
 - Stocks, Funds or Separate Accounts
 - Investment Strategies/Third Party Managers
 - Passive vs Active
 - Re-balancing Approach
 - Timing or Tactical Moves
 - Location of Assets by Account Type
 - Client Play Accounts
 - Other Investments
 - Tax Management Strategies
 - Reporting
 - Monitoring
 - Disclosures
 - Auditing of IPS Requirements

3 Steps to Developing the IPS for your Client

Questionnaire

- Circumstances/Investment Objectives/Risk Tolerance/Restrictions/Preferences
- Capital markets education presentation
- Review questionnaire responses

Draft IPS

- Initial IPS version and asset allocation
- Address areas of concern
- Discuss any unreasonable expectations
- Make changes as needed

Approval of Final IPS

- Review and approve final document
- Signatures
- Preliminary discussion of investment implementation

Questionnaire interview process

For both Individuals and Investment Committees

- Use an agenda
- No right or wrong answers
- Introduce the questionnaire; review questions
- Educate as needed
- Offer appropriate detail on more technical questions
- Closing—review how you will write their IPS
 - Within the client's policy constraints
 - Based on the answers to the IPS questionnaire

Two Objectives: Collect information and Identify differences

Designing the Client's Asset Allocation

Factors to consider

- Return needed to Achieve Client's goals
- Risk Tolerance, Risk Perception and Risk Capacity
- Need for Liquidity (Time horizon)
- Acceptable and Restricted Asset Classes
 - Expected returns, Standard Deviation, Correlation
- Maturity guidelines
- Tax Issues
- Asset Classes to be included or restricted

The asset allocation mix should be based on sound analysis and principles, derived from the client's needs

Recommended IPS Table of Contents

- Investment Policy Background
- Overview Commentary
 - Assets included in this IPS
 - Investor Circumstances
- Investment Philosophy
- Investment Objectives
 - Rate of Return
 - Other Needs
- Time Horizon
 - Cashflow Needs
 - Spending/Withdrawal Policy
- Acceptable Risk Level
- Asset Allocation
 - Portfolio Risk & Return Statistics
 - Rebalancing Procedures
 - Investment Restrictions
 - Unique Portfolio Issues
- Tax Policy
- Frequency of Review
- Liquidity
- Diversification
- Investment Criteria
 - Selection
 - Retention or Sale
- Monitoring and Control Procedures
 - Reports
 - Audits
- Meetings and Communication
- Duties and Responsibilities
 - The Advisor
 - The Investor
- Disclosures
- Adoption

Short Version--IPS Table of Contents

- Client's Overview Commentary
 - Assets Included in this IPS
 - Investor Circumstances and Goals
- Investment Objectives
 - Rate of Return or broad objectives
 - Spending/Withdrawal Policy
 - Time Horizon
 - Liquidity requirements
- Acceptable Risk Level
- Asset Allocation
 - Rebalancing Procedures
 - Investment Restrictions
 - Unique Portfolio Issues
- Investment Monitoring and Control Procedures
 - Reports
- *Adoption*

IPS Solution

- Not using an IPS is no longer an option
 - Legally necessary when a trustee exists
 - "Best Practice" for individual clients
- **What you should look for in a good IPS tool:**
- IPS AdvisorPro.....
 - Web-based application
 - Fully customizable
 - Quick and easy to use
 - Unique compliance tools

Resources for You

- Our Article: **Why Writing an Investment Policy Statement Should be Part of Your Investment Process**
(give us your card or send email to LindaG@IPSAdvisorPro.com)
- "Creating an Investment Policy Statement: Guidelines and Templates" by Boone & Lubitz, FPA Press, 2004
- www.IPSAdvisorPro.com
- "Investment Policy: Winning the Losers Game," Charles Ellis, Irwin Publishing, 1992
- The Management of Investment Decisions," Trone, Albright & Taylor, McGraw-Hill, Irwin Publishing
- Foundation for Fiduciary Studies
- CFA Institute
- Investment Management Consultants Association (IMCA)

**OK,
let's look at some of the
policy issues you need to
consider.**

Policy Issues in an IPS

- How you determine the client's goals
- How to determine risk tolerance?
 - Range of expected returns
 - Worst returns that would be acceptable
 - Mechanisms to minimize risk
- Re-balancing
 - Trigger
 - Frequency
 - Tactical vs. Strategic Changes

Policy Issues in an IPS

- **Asset Allocation**
 - Which asset classes to include? Limits?
 - How to handle
 - Low basis securities?
 - Concentrated positions?
- **Cashflow issues**
 - Larger cash balances? DCA sales/purchases?
 - What time horizon do you use?
 - When do you liquidate?

More Policy Issues

- Addressing other assets owned by client
 - 401(k) and other tax deferred accounts
 - "play accounts"
 - other brokerage accounts
 - UTMA, 529 and other specific purpose accounts
- Monitoring Issues
 - Frequency
 - Process
 - When to change managers
 - How to evaluate your own performance

More Policy Issues

- Implementation
 - Amount of Discretion
 - Report Formats
 - Who gets a copy of the IPS?
- Tax Issues
 - Choosing where to put different assets
 - Influence on sell decisions
- Client and Advisor Responsibilities
