FINANCIAL MANAGEMENT STRATEGIES
Solutions Today for a Prosperous Tomorrow

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Foresight

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Greetings!

The official beginning of summer means that the season of vacations, beaches, barbecues, pools, & picnics is moving into full swing. Yet our mid-year time of outward excursions with family, is the perfect time for inward reflections on our long-term objectives at both home and work, or an institution that is important in your life. This Foresight discusses "how your Investment Policy Statement guides your portfolio decisions and some "items to think about" for your estate plan. Each month I'll share thoughts on various topics in the world of personal finance, investing, economics, and business through my writings below. May you find my musings informative, thought provoking and enjoyable.

Thoughtfully,
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What Your Investment Policy Statement Means

What's an IPS, and what does it do for me? An investment policy statement, or IPS, is the foundation of a good investment strategy. It gives you an overview of the whole investment plan: the asset allocation, the objectives, the asset management approach and the ground rules for communication between you and your advisor.

A good IPS defines your time horizon, your risk tolerance, your liquidity requirements and income needs, your return requirements, and your tax concerns. It also notes any special needs and circumstances. *But most of all ...*

Your IPS states the parameters by which you invest. You might consider yourself some type of a value investor, a growth investor, a conservative investor, or even (incredibly) a speculative investor. With that preference established, your IPS defines a long-term asset allocation for you: a way to assign your invested assets to diverse asset classes in a way that suits your preferred investment style. The emphasis here is that your IPS is created by you and your financial team/advisors; through a dispassionate process where the investor style that reflects your core risk tolerance is then coordinately aligned with an asset allocation of investment solutions, that then can deliver a range of performance (returns) over the life of your objective period.

Think of your IPS as long-term GPS for your portfolio. The goal is to set the asset allocation in a way that can potentially give you the highest possible rate of return corresponding to an acceptable level of risk for you. When this is done in a dispassionate process it affords you an enhanced ability to pragmatically and proactively make important decisions even in "highly" emotional environments (like the years 2000-2001 or 2007-2009).

Your IPS keeps you from getting "off track" when it comes to investing. Over time, through a consultative process you and your financial advisors keep an eye on your portfolio, to see that the assets inside it stay within the allocation boundaries set by your IPS. While also assessing the changing nature of investment markets to measure how the risk return ratio for your investment style compares with the current market trends, and what if any changes are necessary for you. (This is why quarterly reviews are so essential.)

Periodically, your portfolio may need to be rebalanced. Here's why. As months and years go by, the ups and downs of the investment markets will throw your asset allocation slightly or dramatically out of its original alignment. As an extremely simple example, let's say you start out with 25% of your assets in U.S. large caps, 15% in U.S. mid caps, 15% in U.S. small caps, 20% in international companies and 25% in bonds. Suddenly, small cap stocks have a great couple of quarters or year, and thanks to the great returns, you wind up with 21% of your assets invested in small caps and only 19% in bonds. *Great, right?*

Well yes & no. What's actually happened is that your long-term risk has increased along with your return you have received in the short-term. A greater percentage of your assets are now held in the comparatively risky component (small cap stocks), versus the lower percentage now held in the typically less risky bond component. So while the short-term gains have been great, it may be time to rebalance according to the parameters set by your IPS so that you can help reduce your risk exposure.

For individual tax-deferred investment accounts or institutional accounts that are non-taxable, this is easily done: you simply transfer assets among accounts to restore the target allocations. Future contributions occur according the IPS parameters. When it comes to taxable investment accounts, it is usually though not always best to ramp up future contributions to the underweighted funds rather than sell portions of a fund and trigger taxes. However since the goal is always to preserve capital I personally would lean towards incurring some taxes as opposed to losing capital in the effort to prevent paying taxes.

Remember that you are an investor not a gambler. Your IPS is designed to help you invest in a consistent, appropriate way, a way that matches your preferred investment style. Without an IPS, you invite impulse, emotion and a short-term focus into the picture. We have limited control on expected future returns, while we can exert significant influence on the level of risk that we undertake. Keep this in the forefront of your thinking about the long-term value of an IPS, and how yours is working today.

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Is It Time To Review Your Estate Plan?

Estate planning is an ongoing process. You must not only develop and implement a plan that reflects your current financial and family situation; you must also constantly review your current plan to ensure it fits any changes in your circumstances.

Of course, with the extensive changes under The Economic Growth and Tax Relief Reconciliation Act of 2001 and the probability that more changes will occur in this decade, reviewing your estate plan regularly is now more critical than ever. You'll especially want to update it after any of the events listed in the Planning Tips.

Where Do You Go From Here? Remember, estate planning is about much more than reducing your estate taxes; it's about ensuring your family is provided for, your business can continue, and your charitable goals are achieved. So even if the estate tax is permanently repealed, you will want to have an up-to-date plan in place.

To this end, use the accompanying estate planning checklist to identify areas where you need more information or assistance. Or jot down a few notes about things you want to look at more closely and discuss with a professional advisor. It may be easy for you to put off developing a detailed estate plan - or updating it in light of changes in tax law or your situation. But if you delay, much of your estate could go to Uncle Sam - and this could be difficult for your family.

So please call us with any questions you may have about the strategies presented here or how they can help you minimize your estate tax liability. We welcome the opportunity to discuss your situation and show how we can help you create and help implement an estate plan that preserves for your heirs what it took you a lifetime to build.

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