

www.PawleysAdvisors.com Call today! 843-655-6225

By adding just a little structure to your approach, you can really supercharge your investment results and feel more empowered so you can relax during bumpy markets. The market actually behaves in a very predictable and consistent way – it is the response of investors to various conditions that is unpredictable and interferes with goals. The Investment Policy Statement is a critical tool to help investors manage themselves and their responses, which is the most important component of a successful investment plan. Of the people who may fall short of their goals, it is not because their savings rate fell short, but because in the past they received bad advice from an inexperienced advisor and sold out of the stock market during the drops of 2000-2001 and/or 2008-2009. Many people refer to these bear markets as the crashes following the dot-com and real estate “bubbles,” but they actually occurred during recessionary periods which were signalled by several economic indicators. So, by having a well-developed Investment Policy Statement and the advice of an expert Registered Investment Advisor to navigate changes in the economy, your roadmap to success will be rock-solid. Let’s look at the components I include in the Pawleys Investment Policy Statement:

Purpose: This section outlines the reason we use this document, and contains wording that is designed to generate open conversation. The main purpose of the document is to keep us, as a team, focused on longer term investment objectives.

Investor Profile: The Investment Policy Statement is used in concert with the Investment Advisory Agreement, which outlines the roles and responsibilities of each party. The Investor Profile section outlines the financial situation of the client, timeframe for investment goals, risk tolerance, types of accounts included, and other important information.

General Investment Philosophy and Objectives and Risk: Portfolios can be designed with varying levels of conservatism or aggressiveness, and this section details the agreed upon approach.

Return Requirements, Time Horizon and Asset Allocation: The return requirements will be based upon historical returns of model portfolios with the same asset class mix of the designed portfolio. This section also outlines the timeframes for stated financial goals. Specific percentages for the asset class mix are outlined in the section.

Portfolio Performance: This section specifies exactly which benchmarks will be used to evaluate portfolio performance.

Investment Policy Review: At a minimum, I recommend annual portfolios reviews to assess quality of investments, fit within the portfolio, and the overall performance and risk of the portfolio. This is also a good time to discuss any need to change course. Major unexpected life events through the year may cause the need to modify the Investment Policy Statement as well.

We sign this document and use it as our roadmap. Again, it is an important tool for me to communicate with clients, and it also helps them feel more empowered as investors so they can relax. The markets are very consistent in their behavior, and when investors learn to temper their reactions and behave in a consistent fashion as well, they are well-positioned to surpass their stated goals. 😊

Questions? E-mail Kathryn at kschwartz@PawleysAdvisors.com