Steward Advisors

In Brief

A Brief Review of Financial Best Practices

What is an Investment Policy Statement?

An Investment Policy Statement (IPS) is a document drafted between an investment advisor and a client that outlines general guidelines for the manager. The statement provides the general investment goals and objectives of a client and describes the agreed upon strategies that the manager will employ to meet these objectives.

Why is Your Investment Policy Statement So Important ?
Not all investment advisors use an IPS. At Steward we believe the statement is critical to building a strong foundation for your long term portfolio strategy. We use the IPS to clearly communicate our procedures and investment philosophy and to outline the guidelines for all investment decisions and responsibilities of each party.

Your Investment Policy Statement is the backbone of your investment strategy, and it will drive the financial planning and investing you do with us as we work together. As fiduciaries, we will always act in your best interest and creating the statement is the first step.

How the IPS Helps Keep Us all on Track
Everyone knows that economies around the world fluctuate and markets rise and fall – sometimes sharply, and in a very short time. The problem is, we don't know when market changes will occur or how long they will last.

So, the best plan is to focus on the long term and make sure the building blocks of your investment portfolio help you achieve your goals. The IPS outlines your building blocks; the types of investments that make sense for you and the target percentage of funds allocated to each. The mix of investments is tailored to your financial needs and goals and balanced against your long term appetite for risk.

Your Customized Guide for Disciplined Investing
You can also think of the IPS as your personal guide and plan for making disciplined investment decisions. Behavioral economics tells us that decisions made in a highly charged emotional environment are, more often than not, bad decisions. This is because most of us experience a *recency bias*: if markets have been going down, we assume they will continue to go down, and if markets have been going up, we assume that they will continue to go up. Developing a thoughtful investment policy when markets are not fluctuating helps us make better decisions during stressful or euphoric market environments.

A Real Life Example
To give you a practical example, think about the economic environment in March, 2009. It was the bottom of one of the worst stock market declines since the Great Depression, and markets had seen huge losses. In that environment, who would buy stocks? At the time, most investors were scared to death of the stock market. However, someone with a good IPS would have previously decided on the appropriate amount of stocks in their investment portfolio, even if they didn't feel like buying stocks at the time.

As a result, the person with an IPS might have held to their plan and benefited from the 273% total return on the S&P 500 from 3/9/2009 to 8/31/2016. On the flip side, that same person might have taken some of the gains from this period by following their IPS and reduced their risk going into other market tumbles that followed.

Stick With the Plan
In summary, we believe creating the IPS together is critical to building our relationship as your advisors. We spend a lot of time getting to know you and your goals and when we know what path you are comfortable with, we can successfully forge ahead together.

To learn more about our Investment Policy Statement call Tim Obendorf at 630-537-0111 or email: Tim@StewardAdvisors.com.