# Investment Policy Statements


An investment policy statement is a document that outlines how your investments will be managed. Whether you are a do-it-yourselfer or work with a financial adviser, having a clear investment policy is a smart way to make certain all investment decisions align with your goals for your money. This can be shared with your future financial caretaker to make certain they are in alignment with how you want your money managed. If you do not have an adviser helping you, consider hiring an hourly financial planner to help you construct an investment policy statement that you can implement.

An investment policy should contain the following information:

- The short term and long-term goals for your money should be clearly outlined, including the goal and the amount of money needed for that goal.
  - Short term goals include cash flow needs in the next five years
    - Cash required from investments to meet regular spending needs
    - Car purchases
    - Major home repairs
    - Special trips
  - Long-term goals include
    - Money required from investments to meet long term spending needs
    - Potential long term care costs
    - Legacy desires
- The amount of assets allocated to safe and risky investments.
  - Investments for shorter term goals should be conservatively invested.
  - Investments for longer-term goals can be invested more aggressively. However, it is important to understand how much risk you can take to reach these long-term goals. It is not wise to take a lot of risk if you cannot tolerate large losses in your portfolio.

- The types of investments that will be used in your portfolio.
    - In general, the more money you have, the more opportunity you have to use complicated investments. Unfortunately, complicated investments are expensive and have not been proven to improve portfolio performance. Therefore, the typical investor should stick with uncomplicated investments such as indexed mutual funds or exchange traded funds.
    - Annuities are another type of investment commonly used in retirement. Most annuities are not appropriate for older individuals with two exceptions – immediate fixed annuities and Qualified Longevity Annuity Contracts (QLACs). Immediate fixed annuities pay a fixed amount for a period of time, much like a pension. QLACs begin payment late in life and are a good tool to insure against running out of money.
- How often your portfolio will be rebalanced to keep the ratio of safe to risky assets at the appropriate level.

Your investment policy should be reviewed yearly and updated to reflect changes in goals or circumstances. In general, there should be very little change in the types of investments used or the allocation of safe to risky assets over time.