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# Create an Investment Policy Statement for Your Investment Club

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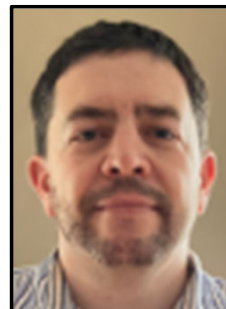
## Your Hosts



**Douglas Gerlach**  
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**Russell Malley**  
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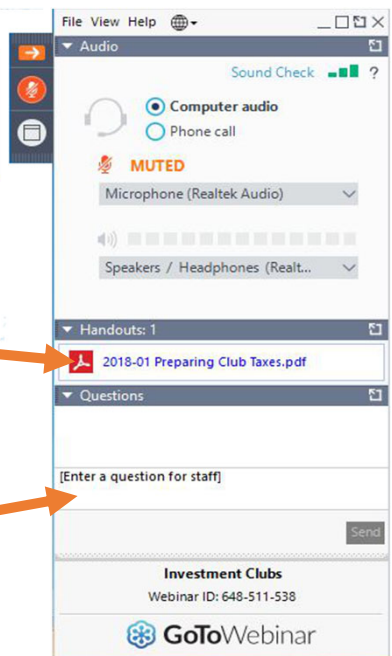


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**Handout & Questions**

Handout in PDF format is available in Handouts tab.

Type questions in Questions box.



**WHAT IS AN INVESTMENT POLICY STATEMENT?**



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## Investment Policy Statement



- Often abbreviated as “IPS.”
- Created by financial professionals to clearly define allowable & prohibited strategies & securities for clients or customers.
- Used by financial advisors, portfolio managers, mutual fund managers, pension fund managers, & other institutional investors, often customized for each customer.
- Intended to prevent discord between customers & advisors about strategies & tactics.

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## Why Does a Club Need One?



- Enforces consistency in club’s decision-making.
  - All members will understand club objectives.
  - Consistency is key to helping clubs become successful investors.
- Prevents club from getting sidelined in investments that are not suitable.
  - Clubs often break up because inconsistent strategy creates strife.
- Helps with member recruitment.
  - New members will understand your approach.

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## Creating Your Club's IPS



- Each club will have slightly different guidelines.
- Following slides include key considerations along with our recommendations.
  - If you are experienced, feel free to deviate from suggestions.
  - If you don't understand an item, research it before deviating from suggested guidelines.

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## CREATING AN INVESTMENT POLICY STATEMENT

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## Developing Your Club's IPS



- Policy statements may change over time.
  - As club learns from decisions made, policies will evolve.
- New clubs should not worry about being very specific.
  - Stick to guidelines offered in BetterInvesting/ICLUBcentral sample partnership agreement/bylaws.
- Established clubs can spend several months researching & discussing components, then finalize statement.

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## COMPONENTS & CONSIDERATIONS OF AN INVESTMENT POLICY STATEMENT

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## 8 Key Elements of an IPS



1. Investment goals & objectives.
2. Allowable types of assets.
3. Target asset allocation.
4. Risk tolerance.
5. Portfolio & rebalancing guidelines.
6. Minimum investment & maximum commission.
7. Stock selection guidelines.
8. Other considerations.

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## I. Investment Goals & Objectives



- What is club's primary investment objective? Examples:
  - **Long-term Growth.**
  - High-Yield.
  - Current Income.
  - **Total Return.**
  - Capital Appreciation.
  - Capital Preservation.
- **Most clubs would strive for long-term growth or total return of portfolio.**

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## 2. Allowable Asset Types



- What types of securities **may** and/or **may not** be purchased? Examples:
  - Stocks (equities).
  - ETFs.
  - Commodities.
  - Precious metals.
  - Mutual funds.
  - Options.
  - Bonds (Treasury, municipal, corporate).
- **Most clubs invest solely in stocks, perhaps allowing funds & ETFs that exclusively hold stocks.**
- **Clubs should specifically exclude REITs, Limited Partnerships, Master Limited Partnerships, Royalty Trusts, non-operating companies (closed-end fund investment companies).**

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## 3. Asset Allocation.



- How much of portfolio is ideally invested in different asset classes? Examples:
  - Stocks.
  - Bonds.
  - Commodities.
  - Real estate,.
  - Cash.
- **Most clubs should aim to be (nearly) 100% invested in the stock market.**
- If you wish to maintain certain amount in cash, designate it in your statement.

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## 4. Risk Tolerance



- What level of volatility is club comfortable with?
- “Risk” can be defined in many different ways.
  - IPS could signal intention of remaining fully investing in stocks during all market cycles, or to hold individual companies through industry/economic cycles.
- **Clubs should acknowledge that short-term risks of investing in stocks is offset by long-term rewards.**

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## 5. Portfolio & Rebalancing Guidelines



- How does club intend to diversify holdings?
- Identify how rebalancing will be accomplished.
  - Automatically once a year?
  - For most clubs, dynamically whenever cash is deployed in portfolio is better choice.
- **BetterInvesting guidelines:**
  - **Diversify by company size: 25% small, 25% large, 50% midsized.**
  - **Diversify by sector/industry.**
  - Identify minimums & maximum that can be invested in any single company/industry/sector.
  - Suggest that at least 8 or 9 of 11 sectors be represented.
  - Suggest that no more than 25% - 30% of portfolio be in single stock or industry.

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## 6. Minimum Investment & Maximum Commission



- What is minimum amount that can be invested in a single security?
  - Suggest minimum 3% invested in any security at any time.
  - Dollar amount should grow as club gets bigger.
- **What is maximum commission that club will pay on any purchase?**
  - Strive for minimum investment that keeps commissions below 1% of total cost.

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## 7. Stock Selection Guidelines



- What criteria/strategy will guide individual stock selection?
- **Examples from BetterInvesting methodology:**
  - **Positive Sales & EPS growth.**
  - **Stable or growing pre-tax profits.**
  - **Selling at reasonable P/E Ratio.**
  - **Reward/Risk Ratio > 3:1.**

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## 8. Other Considerations



- Do you undertake special effort to consider or avoid:
  - Ethical, socially responsible, or “green” companies.
  - “Vice” stocks.
  - Local companies.

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## BREAKING THE IPS

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## What If Club Violates IPS?



- Clubs should unanimously adopt their IPS.
- If club wishes to act contrary to IPS in making any decision, club should be unanimous in its decision.
- If club finds IPS no longer helpful, then revise accordingly.

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## FINAL CONSIDERATIONS

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## Final Tips



- Search internet for “investment policy statement example” to find samples from professionals in many financial businesses.
- Your club’s IPS can be as general or as specific as you choose.
- Don’t try to create perfect plan right away:
  - Document can change as club matures.
- Share IPS with new member prospects.

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# QUESTIONS?

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## More Questions?



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