

Investment Planning on a Solid Foundation: The Investment Policy Statement

Mike Kurz, CIMA®, CAIASM, CFP®, 1st Global, IMS Field Consultant

Often, the starting point for comprehensive wealth management is investment planning. A key to any solid investment plan is defining and documenting your overall investment planning strategy through your Investment Policy Statement (IPS). Your Investment Policy Statement gives written clarity to your overall financial situation, identifies your risk profile, assigns a target asset allocation and outlines a rebalancing discipline.

Financial Situation: This section of the Investment Policy Statement outlines your net worth, annual income, Federal tax bracket and the amount to be invested. This information alone does not determine an investment strategy, but it is important that your advisor have a basic understanding of your current financial situation.

Risk Profile: Determining your risk profile is a critical exercise that helps you and your advisor understand your long-term goals, short-term risk tolerance and your investment time horizon, a function of your current age and when you plan to begin withdrawals from your portfolio. There are five broad risk profiles that mark the starting point for your investment strategy: Ultra-Conservative, Conservative, Moderate, Growth and Aggressive Growth. Each profile is constructed to represent a distinct strategy within a spectrum of risk and return profiles, ranging from the least to most risky.

Asset Allocation: In building your investment portfolio, the critical step is determining your personal asset allocation, which divides your investments among six distinct asset classes: U.S. large cap equity, U.S. small cap equity, international equity, real estate, commodities and fixed income. Your portfolio mix is determined by balancing your investment objectives with your feelings about risk and return, as determined in your risk profile. Blending multiple investment asset classes that behave differently over time provides an opportunity to lower the potential volatility in your investment portfolio while striving to achieve your long-term return expectations. There is an asset allocation that is appropriate for every investor profile.

Rebalancing Procedures: Proper asset allocation reflects your risk profile and investment objectives. However, as time passes and the specific investments in your portfolio grow and contract at different rates, your portfolio's overall asset allocation can change significantly. This "imbalance" could mean your investment portfolio no longer reflects the asset allocation mapped out in your Investment Policy Statement. To protect against these fluctuations within your portfolio, it is vital to rebalance. Rebalancing, or repositioning portfolio assets to keep in harmony with your personal asset allocation, can be automated or manual, but, either way it is essential.

Duties and Responsibilities: The successful implementation of an IPS must include discussions about your duties and responsibilities as well as those of your advisor. First, your advisor is responsible for recommending and implementing an appropriate asset allocation consistent with your investment objectives. Second, your advisor should periodically review the continuing suitability of the investment mix for you, since as your life changes, so may your investor profile. It is important for you to clearly define your investment objectives, to ratify your investment objectives on the IPS and approve the selection of specific investments. Most importantly, you should continually update your advisor on your financial situation and any life changes that occur.

The main benefit of your Investment Policy Statement is that it provides a solid foundation for your unique investor profile. The IPS is a blueprint to get your investment program started and an excellent tool for gauging your progress and keeping you on track. If you don't have an Investment Policy Statement, call your wealth management advisor today.

Certified Financial Planner Board of Standards Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™ and federally registered CFP (with flame logo), which it awards to individuals who successfully complete initial and ongoing certification requirements.

CIMA®, Certified Investment Management Analyst (with graph element)®, and Certified Investment Management Analyst are registered certification marks of the Investment Management Consultants Association, Inc. in the United States, Canada, European Union, and Australia

Take Advantage of Setting Up a Retirement Plan Now!

Carol McBeth, CFS, CRPS®, AIF®, 1st Global, Director of Retirement Planning

The end of the year is quickly approaching, and now is a good time to establish a retirement plan for your company. By initiating a retirement plan before the end of the year, you, as the employer, may receive the largest tax savings and tax deduction for the current year. In addition, retirement plans allow for investing in the future by providing an income stream during retirement, and they provide many benefits for you, your business and your employees.

Business/Company Benefits

- Employer contributions made on behalf of eligible employees are tax-deductible.
- Your business may receive a tax credit of 50 percent on the first \$1,000 in administrative and/or education costs.
- Plan assets grow tax-free.
- Assets will grow with compounding interest.
- A retirement plan can attract and retain good employees, consequently reducing new employee training costs.

Employee Benefits

- Contributions made by employee are not subject to Federal income tax (contributions are taxed upon distribution).
- Investment earnings that accumulate in the plan are not taxed until distribution.
- Retirement assets can be rolled into a different employer's plan.
- Contributions can be easily made through payroll deductions.
- A tax saver's credit, up to 50 percent, is available to individuals within certain income brackets.
- Long-term retirement goals are better achieved when planning for retirement starts early.

Establishing A Retirement Plan

In general, you should be thinking ahead about your retirement. It is beneficial to learn about the specific ways money can be put aside for your retirement and, as a business owner, the retirement of your employees. Depending on the type of plan you choose, the range of administrative steps to establish a retirement plan may vary.

- First, talk to your wealth management advisor to discuss the appropriate retirement plan for your business before the end of the year.
- After the type of retirement plan is chosen, you and your advisor will determine the appropriate investment vehicle to fund plan assets.
- Then, adopt a written retirement plan before the end of the year.
- Lastly, notify all eligible employees about your company's chosen retirement plan.

Your wealth management advisor is familiar with setting up retirement plans and has additional resources to help you find the best plan for your business. To learn more about establishing a retirement plan, contact your wealth management advisor today.

Asset Allocation of your overall investment portfolio does not assure a profit or protect against a loss in declining markets.

International investing presents certain risks not associated with investing solely in the United States. These include, for instance, risks relating to fluctuations in the value of the U.S. dollar relative to the values of other currencies, custody arrangements made for foreign holdings, political risks, differences in accounting procedures and the lesser degree of public information required to be provided by non-U.S. companies.

Investing in fixed income securities involves special risks not typically associated with equity securities. These risks include credit risk, which is the risk of potential loss due to the inability to meet contractual debt obligations, and interest rate risk, which is the risk that an investment's value will change due to a change in the level of interest rates. Additionally, there is an inverse relationship between bond prices and interest rates specific to fixed income securities. As interest rates rise, bond prices fall and, conversely, as interest rates fall, bond prices rise.

An investment in commodity-linked derivative instruments may be subject to greater volatility than investments in traditional securities and are not suitable for all investors.

Investing in a non-diversified fund that concentrates holdings into fewer securities or industries involves greater risk than investing in a more diversified fund.

Investing in micro, small or mid-sized companies may involve risks not associated with investing in more established companies. Since equity securities of smaller companies may not be traded as often as equity securities of larger, more established companies, it may be difficult or impossible for the securities to sell.



1st GLOBAL

8150 N. Central Expwy, Suite 500, Dallas, TX 75206
(877) 959-8400

Securities offered through 1st Global Capital Corp. Member FINRA, SIPC
Investment advisory services offered through 1st Global Advisors, Inc.