



Financial Adviser Briefing

Help New Clients Document Their Investment Goals

BY MOREY STETTNER, FOR INVESTOR'S BUSINESS DAILY

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Clients who rave about their financial advisers often praise the strong connection and clear communication they enjoy. Both parties understand each other and execute a collaborative plan for success.

Those who dislike their advisers, by contrast, tend to cite a troubling lack of direction. They may feel adrift

in the relationship, unsure of their advisers moves and confused about goals and strategies.

To build a stronger bond, top advisers create a written game plan from the outset. By drafting an "investment policy statement" tailored for each client's needs, they outline what steps they will take to help the client attain specific investment goals.

The best investment policy statement doubles as comprehensive strategic plan and report card. The adviser lays out his or her methods for managing the portfolio and commits to certain actions and processes to advance the client's interests. The investor in turn can use the statement to hold the adviser accountable for follow-through.

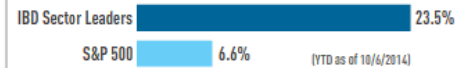
Details Matter

The more detailed the statement, the better. Advisers who present new clients with a short, boilerplate document can raise a red flag.

"Some advisers push out an investment policy statement after one meeting and say, 'Here it is,'" said Brad Jenkins, chief executive of Jenkins Wealth Management Group in Centennial, Colo. "We dig much deeper. We're not just taking an X-ray; we're doing a full body scan."

Customizing an investment policy statement begins with diligent fact-finding. New clients must open up about their finances — and their attitudes about money and risk — before an adviser can produce a detailed plan.

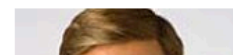
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"To craft an investment policy statement, we need to understand who they are and what they want to accomplish," Jenkins said.

He follows three steps to get to know newcomers to his practice. In the initial meeting, he distributes what he calls a "discovery workbook" — a questionnaire that uncovers how a client thinks and acts as an investor. Questions include "How much can you afford to lose before it's too much?" and "How much are you willing to lose?"

In the second meeting, Jenkins builds on the results of the questionnaire to engage the client in a series of portfolio simulations. The purpose is to explore the client's risk tolerance and educate the client on a range of uncertain financial outcomes — and how the client would react under different scenarios.

By the third meeting, Jenkins is ready to present the client with a written investment policy statement. The document, which often runs about 20 pages, includes sections on a client's income, expenses and investments, plus recommendations.

"It's important to take the results of the first two meetings, come up with a blueprint together and get on the same page," Jenkins said. "If you paint the investment policy statement with too broad a brush, you can give the client a 50-page document and it won't help."

Even after the third meeting, Jenkins continues to tweak the investment policy statement as clients pose questions or raise concerns. He finds that they're attuned to how certain assumptions can affect their long-term investments.

"Just yesterday, I had a client call and ask, 'Can we rerun that simulation with inflation at a half-point difference?'" he said. "They come away with an investment policy statement that they can use to track their portfolio performance" on a daily basis.

Three Times For This Lady

Lori Van Dusen, an adviser in Rochester, N.Y., also hosts at least three meetings with a new client before drafting an investment policy statement. The information that she collects in the early discussions factors into the final plan.

"Even then, the investment policy statement is a fluid document," said Van Dusen, chief executive of LVW Advisors. "It changes as the client's life changes, so we review it at least once a year."

Through a series of discussions, Van Dusen guides the client in defining key concepts such as risk, success and costs. They also decide how often they'll meet to monitor performance, who's involved in decision-making and when they'll rebalance the portfolio.

"That all goes into the investment policy statement," she said. "The client can then look at it and see what asset structure and investment structure we've set up to accomplish what they want. And over time, they can also see how many things we're doing for them."



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