

The Common Sense Investment Policy Statement

"Having a plan is important because it's impossible to make rational decisions about investments without one." - Larry Swedroe

An investment policy statement (IPS) is something every investor needs to be able to achieve their long-term financial goals. Without one you are basically a rudderless ship drifting across a vast ocean. You'll be lost.

An IPS is a written document that will be there to guide your actions and decisions during uncertain times. It becomes most useful to you at the extremes of market action when human nature takes over and investors let the cycle of fear and greed guide their decisions.

A little reminder in written form can keep you in check the next time we see a bubble or a crash and your brother-in-law or work colleague is giving you market timing tips.

It can be a simple one pager that you review and update on an annual basis or any time your circumstances drastically change (career, kids, new home, time horizon, etc.).

Here's my common sense IPS along with some examples.

1. The purpose of my investment plan is...

Examples:

- Financial independence
- Guilt-free spending in retirement
- Annual vacations
- College education for my kids
- All of the above

2. These are my expectations and goals...

Examples:

- My portfolio will fund my living needs for at least 40 years
- I would like to leave \$xx to my heirs
- I would like to be able to pay the bills every month without worrying about money
- Provide \$xx in monthly income
- I'd like to retire by age 55

3. This is my time horizon...

Examples:

A Wealth of Common Sense

Personal Finance, Investments & Markets

<http://awealthofcommonsense.com>

- 25 years retirement then 30 years after retirement
- 18 years until my child goes to college
- A list of different time horizons for each goal

4. This is my target asset allocation...

Examples:

- 75% stocks, 25% bonds with 20% in large caps, 15% in mid caps, 15% in small caps, 25% in foreign stocks, 15% in a total bond index fund and 10% in a TIPs fund
- 60% stocks, 30% bonds, 5% commodities, 5% cash
- Be specific here

5. This is how diversified I'd like to be...

Examples:

- No more than 25% in any asset class or investment
- No more than 5% in my company stock
- No more than 10% in any individual security
- Enough that I hate some of my investments at any time

6. My stated risk tolerance is based on...

Examples:

- I don't want to lose more than 20% in a single year no matter what
- I'm comfortable staying in stocks even after a 50% loss
- My age/salary/time horizon/investment experience
- I want to maximize gains
- I want to minimize the chance of large losses

7. I will be rebalancing...

Examples:

- Every six months
- When my asset classes move more than 3% from target
- Once a year
- After a 10% decline in any market

8. I will review my investment performance...

Examples:

- At month end
- Every quarter

- Once a year

9. These are my saving targets...

Examples:

- 15% of my gross salary
- 75% of every bonus
- 90% of my tax returns every year

10. I aim to increase the amount I save...

Examples:

- By 3% every year
- By half of my raise each year
- By \$25 a month until I reach my goal

11. I feel comfortable investing in...

Examples:

- Stocks, bonds and commodities
- Only mutual funds and ETFs
- In both individual securities and ETFs
- Only in index funds

12. I will never invest in...

Examples:

- Insurance-related investment products
- Individual bonds
- Exchange traded notes
- Leveraged investments
- Long-term investments with capital I need in the short-term for spending needs
- Products with fees over 1.5%
- Anything I don't understand and can't explain in 30 seconds or less

13. The % of my portfolio I am comfortable investing in individual securities...

Examples:

- No more than 10% in individual stocks
- 50% of my portfolio but only if it's diversified in 15 or more stocks
- 25% of my portfolio
- Only an amount I'm comfortable losing entirely

14. I will select my investments based on...

Examples:

- The size of the investment fees
- The valuation of the investment
- The fit within my portfolio
- A combination of different factors
- A set dollar cost averaging schedule

15. I will judge the success of my investment plan based on...

Examples:

- A simple index portfolio benchmark
- The amount I save & invest annually
- My ending portfolio balance each year
- The amount of income I am able to generate
- Staying on track to reach my stated long-term goals

16. I will only sell investments...

Examples:

- When I rebalance
- When they become overvalued
- When there are better opportunities elsewhere in the markets
- When I need cash flow for spending needs
- After a minimum 2 year holding period

17. My investment philosophy summed up in one line...

Examples:

- I only invest in index funds
- I invest aggressively to increase risk & reward
- I'm only looking for stable income
- I'm constantly on the lookout for undervalued assets
- I'm slowly building wealth through buy and hold

18. I will review and update my common sense IPS...

Examples:

- Annually or when my circumstances change significantly

Legendary football coach Bear Bryant once said: *"Have a plan. Follow the plan, and you'll be*

surprised how successful you can be. Most people don't have a plan. That's why it's easy to beat most folks."

That's the goal here. Have a plan. Look at it any time you are considering doing something out of the ordinary.

Further Reading:

[Why you need an investment policy statement \(CBS\)](#)

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