

**INVESTMENT POLICY STATEMENT**  
***KJH FINANCIAL SERVICES***

Prepared for Client and Co-Client

DATE

## **INVESTMENT PHILOSOPHY**

### **The Importance of Asset Allocation**

We are advocates of Modern Portfolio Theory (MPT), a theory regarding the construction of portfolios with the goal of maximizing returns given a level of risk, and emphasizing that risk is an inherent part of higher reward. We believe that your overall asset allocation is the primary determinant of long-term portfolio performance, and that appropriate asset allocation is far more critical to investment success than individual security selection or any attempt to time the market.

Because we believe so strongly in the importance of asset allocation, we generally avoid investments that lack clearly defined philosophies, or that deviate from their objectives (referred to as style drift). Because we are skeptical of market timing, we tend to avoid mutual funds that concentrate in a single business sector.

### **The Importance of Time Horizon**

Historically, the risk of investing in stocks and stock mutual funds has been inversely related to the investor's holding period. Assuming a well diversified portfolio, the volatility associated with increased equity exposure decreases as the investor's time horizon increases. Consequently, it is critical that investors define their time horizon and create a portfolio that matches it.

Because short-term volatility is an inherent characteristic of investing, we do not believe one should invest in the market if their time horizon is less than two years. Money that will be utilized within two years should be placed in cash, money market funds, or high quality fixed income securities.

### **Risk Tolerance**

An investor's risk tolerance is unique to the individual, and it is a significant factor in personal wealth management. There are many investment-related risks; however, we believe the most important risk investors face is the risk of not achieving their goals.

We construct investment strategies based on your objectives and your risk tolerance. Our effectiveness is measured by your success in attaining your goals and maintaining financial peace of mind.

## **Tax and Expense Constraints**

Taxes and expenses have an erosive impact on a portfolio, and they should be considered in every investment decision.

The goal of tax planning should be to maximize after-tax returns, not simply to minimize taxes. The term associated with this is "tax efficiency."

Mutual fund expenses are essentially a hidden cost, and research indicates that a fund's long-term returns are inversely related to its expenses. This is always a consideration when selecting mutual funds for our client portfolios, as we strive to minimize the impact these expenses have on your wealth.

## **Active versus Passive (index) Investing**

The choice between active and passive investment management is not an either/or decision, and both types of investments may be suitable for your portfolio. Relevant factors used in the determination of active versus passive strategies include your objectives, the particular asset class, the tax status of the account, and integration with your other holdings.

## **Investment Vehicles**

For the stock portion of a portfolio, no-load mutual funds and exchanged traded funds (ETF) are often the most appropriate investment vehicles. Their built-in diversification and low trading costs are virtually impossible for most investors to attain with individual stocks.

The fixed income portion of a portfolio is affected by many factors, including your need for income, tax bracket, time horizon, the economic environment, and savings rate. Depending upon these factors, we may recommend no-load bond mutual funds or individual bonds.

## **Asset Class Benchmarks**

Benchmarks are useful in assessing investment performance, although the selection of a particular benchmark is important when making the comparison. For instance, it would be inappropriate to measure the performance of a large-cap mutual fund against the Russell 2000 Index, which is an index representing small companies. Large-cap investments should be measured against the Standard & Poor 500 Index, which is composed of the 500 largest companies traded on the New York Stock Exchange, or the Russell 1000 Index, which represents the 1000 largest companies, traded in the overall market.

*KJH Financial Services* uses the following benchmarks to assess performance of assets:

<b>Asset Class</b>	<b>Benchmark Index</b>
Domestic large cap equity	Vanguard S&P 500 Index
Domestic small cap equity	Russell 2000 Index
Foreign equity	Vanguard Total International Stock Market Index
Fixed income	Vanguard Total Bond Market Index
Inflation	Consumer price index

### **Investing versus Speculating**

Investing is a tool to assist you in meeting your financial objectives, and it should be coordinated with your goals, objectives, and constraints. It is a long-term process that requires a well constructed plan, the ability to implement it, the discipline to follow it, and the flexibility to adjust the plan as your circumstances change.

Investing is not chasing returns, timing the market, or seeking the next "can't miss" mutual fund, stock, or business sector. Those kinds of behaviors are considered to be speculative in nature.

# INVESTMENT POLICY OVERVIEW

## Investment policy statement purpose

The purpose of this investment policy statement (IPS) is to provide guidance in the effective management, monitoring, and evaluation of your investment portfolio. This IPS outlines your investment objectives and the strategy that we have agreed to follow while managing your portfolio. It is built around your personal objectives, and it should be revised as your personal objectives, time horizon, risk tolerance, and financial circumstances evolve.

## Client Profile

### Investment objectives

Your major investment objectives as we understand them include the following:

- (Add narrative)

### Time horizon

■ This portfolio is intended to be a long-term investment. You do/do not anticipate withdrawing funds from this portfolio for at least \_\_\_ years. Again, investments in the stock market are not appropriate if the principal will be required to fund objectives within 2 years.

### Income needs

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### Risk tolerance and portfolio constraints

- Based on our discussions and evaluation of your situation, you agree with *KJH Financial Services* that your risk tolerance is conservative/moderate/aggressive.
- Again, please note that equity investments (stock and stock mutual funds) can be extremely volatile over short periods of time (less than 5 years), but a great deal of the volatility in a well diversified portfolio has historically been abated as the holding period increases.
- Restraints/no restraints have been placed on the types of asset classes used to construct this portfolio.

### Target asset allocation and rebalancing guidelines

- In light of your objectives, time horizon, and risk tolerance, we have agreed to an overall portfolio allocation of \_\_\_% equity (stock mutual funds) and \_\_\_% fixed income (cash and bond mutual funds). This is a conservative/moderate/aggressive portfolio allocation.
- Over time, it is expected that divergent asset class returns will shift your portfolio's actual allocation away from the target allocation. Consequently, your portfolio may require rebalancing in order to retain its integrity and risk/return characteristics.

- *KJH Financial Services* will review your account annually to determine if asset allocation variance thresholds have been exceeded.
- The sub-asset class targets (large/small, foreign/domestic, value/growth) will be allowed to vary by as much as  $\pm 5\%$ . When the portfolio's sub-asset classes exceed this variance threshold, rebalancing will be considered.
- The process of rebalancing may result in withdrawing assets from investments that have performed well or adding assets to investments that have performed poorly in the most recent period.
- Rebalancing may also necessitate the purchase and/or sales of securities, which might create additional transaction costs to the account and the recognition of capital gains and/or losses. The trading costs and tax implications will be weighed before any decision to rebalance is made.

### **Expected investment performance characteristics**

- The most appropriate benchmark for your portfolio is our equity-tilted benchmark (5% cash, 20% bonds, 75% stocks). A reasonable expectation for the long-term, pre-tax rate of return of your portfolio based on this benchmark is (10 yr portfolio - +/- benchmark return), or 5.01% greater than the rate of inflation as measured by the Consumer Price Index (CPI). This expectation is based on the assumption that future real rates of return will approximate the historic, long-term real rates of return experienced for each asset class in your Investment Policy.
- It is important to realize that stock and bond market performance fluctuates and that the expected real rate of return is not a guaranteed rate. In fact, the expected real rate of return may not be meaningful during certain time periods. You acknowledge that there is a correlation between expected investment rates of return and expected volatility.
- This portfolio's volatility, as measured by its projected three-year standard deviation, is 11.85%. Standard deviation is a measure of risk. The higher the number, the greater the risk. The three-year standard deviation of the general bond market is 4.45%; the three-year standard deviation of the S&P 500 is 17.27%

### Custody, discretion, and proxy voting

- *KJH Financial Services* will not have custody of your investment assets, which will be held in your name at .. All investment deposits to your investment account should be made payable to TD Ameritrade/your custodian.
- *KJH Financial Services* does not retain discretion to change your portfolio allocation or select new investment vehicles without your prior approval.
- Unless otherwise noted, *KJH Financial Services* retains restricted investment discretion that is limited to the following:
  - Invest and rebalance your assets according to this Investment Policy Statement
  - Invest monthly deposits in accordance with your target asset allocation.

- Invest dividend and capital gains distributions in accordance with your target asset allocation.
- Sell assets to raise sufficient cash for paying the account's quarterly management fee.
- *KJH Financial Services* does not vote proxies for client investments. Proxies will be sent to you directly and are your responsibility. Please be aware that proxy voting is optional; it is your prerogative how active you wish to be.

### **Treatment of portfolio income, interest, and dividends**

- All dividends, interest, and capital gains distributions that come from mutual funds in your portfolio will be reinvested in those funds.
- Or, all dividends, interest, and capital gains distributions from mutual funds in your portfolio will be credited to your money market account.
- Stock dividends and bond interest will be credited to your account and allocated in accordance with this policy's target asset allocation.
- Or, stock dividends and bond interest will be credited to your money market account.

### **Portfolio reporting and annual reviews**

- *KJH Financial Services* conducts quarterly internal reviews of all accounts and will present our recommendations to you, if any.
- *KJH Financial Services* will provide semi-annual performance reports on all accounts under management.
- A comprehensive meeting to review your portfolio will be scheduled at least annually.
- Tax reports summarizing your taxable interest, investment income, and capital gains will be provided at the end of each calendar year by your custodian.

Please contact ***KJH Financial Services*** at any time to discuss or review issues related to your personal wealth management.

Advisor and the client each agree to the terms of this Investment Policy Statement.

**KJH Financial Services**

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Kimberly J. Howard, CFP®, Owner  
KJH Financial Services

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Date

Client

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