Table of Contents

[Scope and Purpose 3](#_Toc524282258)

[Define the Context 3](#_Toc524282259)

[Define the Investor 3](#_Toc524282260)

[Define the Structure 3](#_Toc524282261)

[Investment, Return and Risk Objectives 3](#_Toc524282262)

[Objective 3](#_Toc524282263)

[Risk Tolerance 3](#_Toc524282264)

[Relevant Constraints 4](#_Toc524282265)

[Risk Management 4](#_Toc524282266)

# Scope and Purpose

## Define the Context

The investor John Smith currently has income generated by working full time at The Boeing Company. He has some investments through 401k retirement funds and stock options for the company. John is also in the middle of starting a second job as a business broker in order to increase the wealth of his family and be able to do more investments.

## Define the Investor

The investment policy statement that is being written is for the investment portfolio for John Smith with joint partnership with his wife Selena Smith.

## Define the Structure

The financial advisors are responsible for creating the policy statement and ensuring that any changes are made accurately and promptly. The advisor will need to communicate to the clients John and Selena Smith before making those changes. Changes can include anything related to economic issues which would impact the portfolio. The advisor will need to monitor investments which can be added or traded out and announce that to John and Selena for recommendations. John and Selena are responsible in understanding and approving the statement and any changes made to it. Lastly, the advisor needs to review this investment policy statement with the clients at least once a year.

# Investment, Return and Risk Objectives

## Objective

This investment policy is created to provide funds for John and Selena Smith for their future house in 6 to 10 years and expenses for their children’s college in 15 years. Once the portfolio has $80,000 to $100,000 the funds will be used for a down payment for a house and then after the funds will be kept until their children go to college.

## 

## Risk Tolerance

Using a questionnaire, I was able to come up with an agreement with the client for an appropriate risk level of moderate. The client has only a limited knowledge of investments and is concerned about losing value and not gaining value in the portfolio. Taking the risk into considerations it would be ideal for the client to invest mostly into large – cap investments, fixed income stocks which could be 70 to 75% of the portfolio and the rest of 25 to 30% in international or small cap equities. Currently, John has investments in the 401-K retirement fund through his employer, so the risk tolerance is not that high. The worst case for John would be if the portfolio lost 25% value in one fiscal year. The investments and policies need to be in place to minimize that loss or risk.

## Relevant Constraints

For the client, the one main constraint is the economy and the business cycle. Whether the economy is in a recession or inflation which can negatively impact the portfolio. Foreign currency or foreign investments for this case will not be a constraint as the investments will be made only in U.S companies. There are also some other considerations based on the investment strategy from John and Selena Smith’s view that will change or affect the process. John and Selena Smith believe that investing in U.S market equites for the short term will not provide profits consistently which means that there will be no short-term investments made. Proxy votes or any form of security lending will not be actioned on for this investment strategy.

# Risk Management

There are numerous formulas and techniques used to measure the risk and performance of an investment portfolio. For this strategy, the beta of the investment and the benchmark will be calculated to obtain the risk level after each quarter. To evaluate the performance, the overall return of the portfolio vs the benchmark will be considered also at each quarter to identify any gaps. Rebalancing will not be used as a strategy. The products used for the investments will be stocks, so the weight of the portfolio will not have bonds or T-bills.