



**PORTFOLIO Strategies**  
INVESTMENT MANAGERS

# *Guardian Portfolio*

## INVESTMENT POLICY STATEMENT

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**Money Managers Since 1982**



# INVESTMENT POLICY STATEMENT

## INTRODUCTION

This Investment Policy Statement (IPS) provides information about the **Guardian Portfolios** offered by Portfolio Strategies, Inc. (PSI).

This IPS serves as a guide to help you understand your portfolio selection. Your **Guardian Portfolio** selection was constructed based upon your investment time horizon, risk tolerance, investing objective, and personal financial profile. The IPS summarizes your investment goals and describes how PSI will use professional, active money managers and specific portfolios to assist you in the effort to achieve those goals.

The investment process described in the IPS should be ongoing, reflecting changes in your financial situation. Descriptions in this IPS should reflect your current philosophy regarding the investments in the portfolio. Your objectives should be reviewed periodically in order to assure that the investments adequately reflect any changes which may have occurred in your preferences, financial capability, and/or risk tolerance.

It is extremely important to realize that the results of the IPS are intended to help you identify what your optimal program may be. It is not intended as a complete investment profile or proposal. Please be sure to discuss and review these results with your representative before investing.

## ASSET ALLOCATION: RE-DEFINED

Is your portfolio allocation appropriate for current market conditions? This is a fundamental question asked by PSI money managers every day.

The problem with traditional asset allocation, which we call *strategic asset allocation*, is that it is less able to adapt to current market conditions. Although this problem is seemingly masked by a rising market, because most of the portfolio could be making gains, it leaves you completely exposed to market losses which can quickly take away profits. Regardless of how diversified you may be in various asset classes, you may still have exposure in areas that are not currently favorable.

*Tactical asset allocation* is a response by money managers to identify rising, falling, and sideways market trends and to attempt to re-allocate your portfolio to be better positioned to deal with market losses and to participate in market gains. Tactical money management can come in many forms. PSI provides multiple programs with distinct money management disciplines. By using one or more of these programs, you can enjoy professional money management inside your **Guardian Portfolio** account giving you the flexibility to be better positioned in all types of markets.

## INVESTMENT OBJECTIVES DEFINED

PSI makes portfolio recommendations based on quantitative research. PSI keeps two major objectives in mind: efficiency and investor preferences. The proposed allocations are designed to provide the highest return for a given level of risk, while taking into consideration the investor's long-term needs and comfort level with risk. The following are objective descriptions of the six investment categories:

- **Conservative Income / 2010:** The conservative income range is designed for an investor with a low risk tolerance and/or a short time horizon, such as 1 to 5 years. It is targeted toward the investor who wishes to avoid risk and emphasize protection of principal as his/her primary objective with some opportunity for growth. Historically, fluctuations in similar portfolios have been minor under ordinary market conditions. Even so, the possibility of abnormal fluctuations within these portfolios does exist and is not without precedence.
- **Conservative / 2015:** The conservative range is designed for an investor with a low risk tolerance and a time horizon of 6 to 10 years. It is targeted toward the investor seeking investment stability and liquidity from his/her investable assets. The main objective of the individual in the conservative risk range is to preserve capital. Historically, fluctuations in similar portfolios have been minor under ordinary market conditions. Even so, the possibility of abnormal fluctuations within these portfolios does exist and is not without precedence.
- **Moderate Conservative / 2025:** The moderate conservative risk range is appropriate for the investor who seeks both modest capital appreciation and income from his/her portfolio. The portfolio may be appropriate for the investor with a time horizon of at least 11 to 20 years and a risk profile of at least a moderate conservative level. While this range is still designed to preserve the investor's capital, fluctuations in the values of these portfolios may occur from year to year.
- **Moderate / 2035:** This range will best suit an investor who seeks relatively stable growth from his/her investable assets with a low level of income return. This portfolio may be appropriate for the investor with a time horizon of at least 21 to 30 years and a risk profile of at least a moderate level. The main objective of an individual within this range is to achieve steady portfolio growth while limiting fluctuations to less than those of the overall stock market.
- **Moderate Growth / 2045:** The moderate growth range is designed for an investor with a relatively high tolerance for risk and a relatively longer time horizon (at least 31 to 40 years). This investor has a low need for current income and seeks above-average growth from his/her investable assets. The main objective of this risk range is capital appreciation, and an investor placed in this range is able to tolerate moderate fluctuations in his/her portfolio values.
- **Growth / 2055:** This range is appropriate for an investor who has both a high tolerance for risk and a long investment time horizon, such as 41 years or more. The main objective of the aggressive risk range is to provide high growth for the investor's assets with very low current income. Portfolios in this range may experience substantial fluctuations in value from year to year, making this category suitable for an investor who has an extended investment horizon and the ability to withstand market-like volatility.

## TIME HORIZON

Knowing one's time horizon helps an investor to determine his/her ability to absorb risk. It identifies how long a client expects to keep money invested as well as the number of years a client has available to invest.

Two factors are relevant when determining a time horizon:

1. Time until the investor makes withdrawals. This is the time until the investor reaches his/her financial goal, such as retirement.
2. Time during which the investor expects to make withdrawals from investment portfolio.

Time horizon is a necessary constraining variable, especially for an investor with a short time horizon. An investor who has a short time to accumulate portfolio wealth may not be able to recoup losses that an aggressive portfolio may experience. Therefore, it is necessary to restrict an investor with a short time horizon from investing in a portfolio that has a high probability of experiencing short-term declines. If a client has a longer time horizon, he/she can afford a higher level of investment risk. The longer the money is invested, the higher the chance to recover from market downturns.

## RISK TOLERANCE

Investor risk tolerance is another essential factor in determining what portfolio is appropriate for the investor. Risk tolerance is a measure of the investor's attitudes and perceptions towards the uncertainties associated with investing. More specifically, risk tolerance can be defined as a person's willingness to accept portfolio losses.

A risk-averse investor requires greater certainty of portfolio returns (places more emphasis on the importance of protecting the portfolio against loss, rather than to capture high portfolio returns if it means taking more risk to get those returns), while a risk-tolerant investor is willing to accept higher volatility of returns in exchange for potentially higher average returns. A risk-averse investor becomes anxious when his/her portfolio declines in value by even a small percentage. A risk-tolerant investor is able to endure market fluctuations and to focus on the expected end result.

## INVESTOR PROFILE QUESTIONNAIRE

Emotions can play a significant role in how investment assets are allocated and portfolio managers are selected. The Investor Profile Questionnaire responses help to identify the level of risk an investor is willing to accept.

An investor's time horizon and risk tolerance combine to establish his/her investment objective and should be matched with a financial profile to help determine the appropriate portfolio. See the Portfolio Strategies Investor Profile Questionnaire. It will serve as a guide to help you understand which **Guardian Portfolio** may be most appropriate for you. Our portfolios are designed to help you maintain a disciplined investment strategy. It is your decision as to whether to invest more conservatively or more aggressively than your profile would suggest.

## ***Guardian Portfolio* INVESTMENT MONITORING**

The on-going monitoring of investments is a regular and disciplined process. It is the mechanism for revisiting the investment option selection process and confirming that the criteria originally satisfied remain so. While frequent change is not expected, the process of monitoring investment performance relative to specified guidelines is an on-going process.

Monitoring will occur on a regular basis by the PSI Investment Advisory Board appointed by Portfolio Strategies, Inc., and will use the same criteria that were the basis of the investment selection decision.

PSI monitors the selected portfolios to ensure consistency with their stated strategies. At least annually, PSI will perform a review of the individual portfolios to ensure continued correlation with investment goals and efficiency in their respective combinations. Changes to the composition of your portfolio will be considered and implemented when market conditions and/or shifts in performance make it necessary. Such changes will take place to ensure that your investments are properly aligned with your stated investment objectives. Changes to either the portfolio composition and/or its respective allocations may be made in this review process.

If overall satisfaction with the investment option is acceptable, no further action will be taken. If areas of dissatisfaction exist, PSI will take steps to remedy the deficiency by adjusting the portfolio composition to underweight or remove the respective allocation.

Your financial representative will contact you annually to review your investment objectives. The questionnaire process you have just completed should be repeated during this time to measure your investment preferences, financial capacity, and risk tolerance. Changes indicated from the review process should be implemented as required.

### **Important Disclosure Information**

Please remember that different types of investments involve varying degrees of risk, and that past performance may not be indicative of future results. Therefore, it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Portfolio Strategies, Inc.) will be profitable. Please remember to contact Portfolio Strategies, Inc. if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you want to impose, add, or to modify any reasonable restrictions to our investment advisory services. A copy of our current written disclosure statement discussing our advisory services and fees continues to remain available for your review upon request.