

STEWARD

A Quarterly Publication of Allodium Investment Consultants

“Inflation is as violent as a mugger, as frightening as an armed robber and as deadly as a hit man.”

~ Ronald Reagan

Our government’s unprecedented response to the global financial crisis and the resulting economic weakness has sparked concerns about potential future inflation. In response to the “great recession”, high unemployment and the possibility for price deflation, our government - and others around the world - implemented aggressive and expansionary fiscal and monetary policies which added significant government debt that will have to be repaid. Some fear that US leaders may be tempted to repay these enormous debts with devalued dollars by allowing for future inflation.

Inflation is commonly defined as an increase in the Consumer Price Index (CPI) which tracks the cost of goods and services purchased by consumers. Inflation increases the cost of these goods and services, reducing consumer purchasing power over time as it takes more money to buy the same things. US inflation averaged about 3% annually from 1926-2009, meaning that prices for goods and services tracked by the CPI increased about 3% per year during this period.

Inflation is a risk for investors since it reduces the purchasing power of investment portfolios and the income they produce. Therefore, expectations about future inflation rates are crucial to setting an appropriate asset allocation for an investment portfolio. When anticipating rising inflation, investors may want to adjust their portfolios to protect against inflation’s negative impacts and/or take advantage of the opportunities that inflation may create.

Stocks: Over the long run, stocks are the only traditional asset class that has provided significant growth after accounting for inflation. Therefore, some investors consider stocks to be an inflation hedge. Foreign stocks, particularly from emerging markets in commodity-rich countries, may be particularly attractive during inflationary periods.

Bonds: As inflation expectations rise, investors anticipate higher interest rates which will reduce bond values, particularly on long-term US Treasury bonds. Therefore, during periods of rising inflation, investors may want to move to bonds with shorter maturities since their values tend to decline less than longer-term bonds as interest rates rise. The Treasury Inflation-Protected Securities (TIPS) market is a “straight-forward” inflation-hedging bond

option. Also, global and international bond funds may provide a hedge against a declining dollar during inflationary periods.

Real assets: Real assets - like real estate, commodities and collectibles (coins, stamps, art and antiques) - are tangible assets that tend to be desirable during inflationary periods. Oil, gas, industrial metals (copper, aluminum, steel, zinc and platinum) and real estate can be good inflation hedges. However, agricultural commodities are not necessarily good long-term inflation hedges, because farmers can adjust their crops each season in response to changing demand and prices.

Alternative investment strategies: Alternative investments include investment managers with flexible trading strategies that can focus on non-traditional asset classes beyond stocks, bonds and cash. During inflationary periods, investors may benefit from utilizing alternative investment managers who have the ability and experience to invest in real assets that can serve as an inflation hedge and to take advantage of tactical trading opportunities in an inflationary environment.

Looking ahead, we believe the huge governmental economic stimulus and related increase in our national debt do increase inflationary risk. Therefore, long-term investors may want to position their portfolios appropriately. Sticking with a traditional portfolio of stocks and bonds may disappoint investors in the coming years if the rate of inflation rises significantly for an extended time period.

To help position their portfolios well, investors may benefit from retaining professional investment advisors who have experience and skill in building portfolios that protect against inflation and/or take advantage of opportunities that inflation may present. If you have questions about how inflation may affect your portfolio, please contact me. I’d enjoy the opportunity to talk with you.

David Bromelkamp

President and CEO

HEADLINES

- We're proud to announce that in 2010 Allodium is celebrating our fifth year in business. We enjoy the opportunity to serve our clients and appreciate their trust in us. We look forward to serving local investors for many more years to come!
- Allodium was pleased to welcome eight new clients during 2009.
- We're proud to announce that Jeremy Graff - one of our founding principals and Director of Financial Planning - was recently elected to the Board of Directors of the Washburn High School Foundation in the role of Treasurer.
- We're also proud to announce that in February Allodium was nominated for the 2010 Minnesota Business Ethics Award™ which is given annually to Minnesota businesses that exemplify a strong commitment to civic and social responsibility, integrity and ethical conduct. The award is sponsored by the Center for Ethical Business Cultures®, the Minnesota Society of Certified Public Accountants and the Twin Cities Chapter of the Society of Financial Service Professionals.
- FYI - our office will be closed for the following upcoming New York Stock Exchange holidays: Friday, April 2 - Good Friday; Monday, May 31 - Memorial Day.

UPCOMING EVENTS:

Allodium will sponsor the following free educational lunch workshops for foundation and endowment leaders:

- Wednesday, June 9 - How to Monitor Your Investment Managers
- Wednesday, September 15 - How to Select Investment Advisors

Please contact Cristy Leaf at 612-230-3706 or cleaf@aicria.com to RSVP or to be added to our invitation list for future workshops.

As a community service, Dave welcomes and enjoys all opportunities to share investment management and fiduciary best practices with individual investors and foundation and endowment leaders.

We Appreciate Your Introductions:

We launched Allodium to provide objective investment advice and personal service to a limited number of individual and institutional investors. We embrace our responsibility to always act in our clients' best interests. To avoid any hint of real or perceived conflicts of interest, we are a fee-only registered investment advisor that is completely independent from banks and brokerage firms, and we do not receive commissions for the investment options that we recommend. If you know of a friend or associate who may be looking for this type of objective investment advice, please contact David Bromelkamp at 612-230-3702 or dbromelkamp@aicria.com to arrange a friendly, no-obligation introduction.

ALLODIUM TEAM PROFILE: DAVID BROMELKAMP

Role At Allodium: President & CEO

Joined Firm In: 2005



Hometown:
Rochester, MN

Favorite TV Show:
CNBC Squawk Box

Favorite Movie:
Jerry Maguire

Favorite Vacation Spot:
Sanibel Island

Favorite Hobby: Reading

If I won the lottery I'd... share with the most in need

Click [here](#) to see more about David on our website.

Steward

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Please contact Cristy Leaf at 612-230-3706 or cleaf@aicria.com if you have any comments about this publication or would like to be added to or removed from our mailing list.
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