

Get Along, Little Market

In the past we have described how diversification by asset class and investment security plays a key role in minimizing unnecessary investment risks and helping you to better manage those that remain. There is an additional benefit to be gained from a well-diversified stable of investments: creating a smoother ride toward your financial goals.

Diversifying for a Smoother Ride

Like a bucking bronco, near-term market returns are characterized more by periods of wild volatility than by a “steady-as-she-goes” trot. Diversification by both asset class and investment security helps you tame the beast, because, as any rider knows, it doesn’t matter how high you can jump - if you fall out of the saddle, you’re going to get left in the dust.

When you crunch the numbers, diversification is shown to help minimize the leaps and dives you must endure along the way to your expected returns. Imagine several rough-and-tumble, upwardly mobile lines that represent several kinds of holdings. Individually, each represents a bumpy ride. Bundled together, the upward mobility by and large

remains, but the jaggedness along the way can be dampened (albeit never completely eliminated).

If you’d like to see a data-driven illustration of how this works, check out this post by CBS MoneyWatch columnist Larry Swedroe, “[How to diversify your investments.](#)”

Covering the Market

A key reason diversification by asset class works is related to how different market components respond to price-changing events. When one type of investment may zig due to particular news, another may zag. Instead of trying to move in and out of favored components, the goal is to remain diversified across a wide variety of them. This increases the odds that, when some of your holdings are underperforming, others will outperform or at least hold their own.

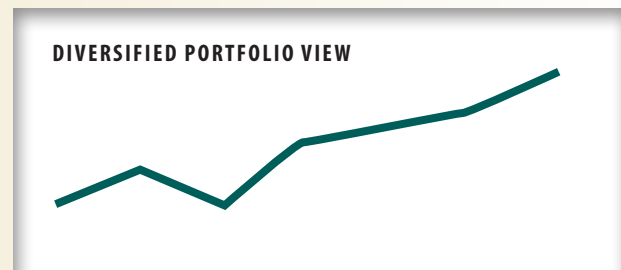
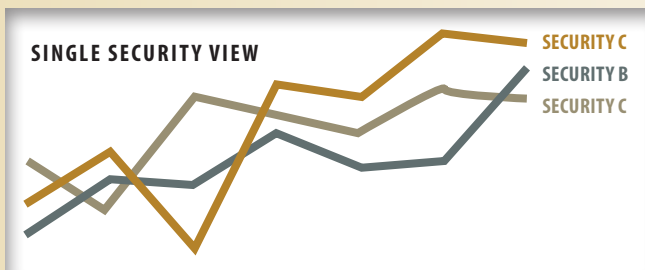
The results of diversification aren’t perfectly predictable. But positioning yourself with a blanket of coverage for capturing market returns where and when they occur goes a long way toward replacing guesswork with a coherent, cost-effective strategy for managing desired outcomes.

Maybe you have seen versions of the asset class quilt chart which is a classic illustration of this concept. The quilt chart shows the performance of the various major asset categories by year which helps investors to understand that the returns on the major asset classes is random. After viewing a color-coded layout of which market factors have been the winners and losers in past years, it’s clear that the only discernible pattern is that there is none. If you can predict how each column of best and worst performers will stack up in years to come, your psychic powers are greater than ours.

Your Take-Home

We’ve introduced some of the challenges investors face in efficient markets and how to overcome many of them with a structured, well-diversified portfolio. Diversification by asset class and by investment security offers you wide, more manageable exposure to the market’s long-term expected returns as well as a smoother expected ride along the way. Perhaps most important, it eliminates the need to try to forecast future market movements, which helps to reduce those nagging self-doubts that throw so many investors off-course.

David Bromelkamp
President and CEO



Headlines

- We held an educational and well-attended workshop on Long Term Care in late October with guest speakers Jayne Clairmont & Bob Cohen. Contact us if you're interested in slides from the presentation.
- Abbey Spoo was accepted into National Association of Personal Financial Advisors (NAPFA).
- Anne Ward was quoted in two separate US News articles: one about improving finances before retirement and the other about income-earning opportunities for older workers.
- Dimensional Fund Advisors (DFA) Vice President Weston Wellington visited Allodium in November to speak with small groups of clients.
- Allodium was pleased to welcome three new clients in the fourth quarter of 2015.
- We look forward to having our annual Investment Forum in January. Details to come in the near future.
- Our office will be closed on December 25th, January 1st and January 18th for company holidays.

Note: To find out more about Allodium's breaking news, please visit the blog on our website www.aicria.com.

FINANCIAL PLANNING TIP:

Important Changes to Social Security Claiming Strategies

For years, financial planners have been recommending advanced Social Security strategies to maximize the amount of Social Security income an individual could receive over their lifetime. As part of the Bipartisan Budget Act of 2015, Congress effectively eliminated two of the most commonly used strategies for individuals under the age of 62 this year: the file and suspend and restricted application strategies. Both strategies allowed an individual to earn an 8% per year increase in their own Social Security benefit while a current or previous spouse collected a spousal benefit or while the individual collected the spousal benefit.

A few exceptions to the new rule:

1. Those who are already receiving benefits are not impacted.
2. Those who are already full retirement age (65-66) or will reach full retirement age in the next six months will still have an opportunity to file-and-suspend before **April 30, 2016**.
3. Those born in 1953 or earlier (age 62 or older) who want to take advantage of the restricted application for spousal or divorced ex-spouse benefits can do so at any time.

The next four months mark an important period to evaluate your Social Security claiming strategies. If you are nearing or over age 62 and have yet to start your benefits, we encourage you to talk with your financial advisor about your planning opportunities.

WE APPRECIATE YOUR INTRODUCTIONS

To optimize our objectivity and avoid conflicts of interest, we are a fee-only registered investment advisor that is completely independent from banks, brokerage firms and other financial product providers.

If you know someone who may be looking for this type of objective investment advice, please contact Dave Bromelkamp at 612-230-3702 or dbromelkamp@aicria.com to arrange a friendly, no-obligation introduction.

Steward is published quarterly by Allodium Investment Consultants. Please contact Tyler Chapman at 612-230-3705 or tchapman@aicria.com if you have any comments about this publication or wish to be added to or removed from our mailing list.



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