

Bringing the Evidence Home

Welcome to a recap of our Evidence-Based Investment Insights series. We hope you've enjoyed reading our series in previous newsletters as much as we've enjoyed sharing it with you. Here are the key take-home messages from each installment:

1. You, the Market and the Prices You Pay.

Understanding group intelligence and its effect on efficient market pricing is a first step toward more consistently buying low and selling high in free capital markets.

2. Ignoring the Siren Song of Daily Market Pricing.

Rather than trying to react to ever-changing conditions and cut-throat competition, invest your life savings according to factors over which you can expect to have some control.

3. Financial Gurus and Other Unicorns –

Avoid paying costly, speculative “experts” to pinch-hit your market moves for you. The evidence indicates that their ability to persistently beat the market is “rarer than rare.”

4. The Full-Meal Deal of Diversification.

In place of speculative investing, diversification is among your most important allies. To begin with, spreading your assets around dampens unnecessary risks while potentially improving overall expected returns.

5. Managing the Market's Risky Business.

All risks are not created equal. Unrewarded “concentrated risk” (picking individual stocks) can and should be avoided by diversifying away from it. “Market risk” (holding swaths of the market) is expected to deliver long-term returns. Diversification helps manage the necessary risks involved.

6. Get Along, Little Market.

Diversification can also create a smoother ride through

bumpy markets, which helps you stay on track toward your personal goals.

7. What Drives Market Returns? At their essence, market returns are compensation for providing the financial capital that feeds the human enterprise going on all around us.

8. The Essence of Evidence-Based Investing. What separates solid evidence from flakey findings? Evidence-based insights demand scholarly rigor, including an objective outlook, robust peer review, and the ability to reproduce similar analyses under varying conditions.

9. Factors That Figure in Your Evidence-Based Portfolio. Following where robust evidence-based inquiry has taken us so far during the past 60+ years, three key stock market factors (equity, value and small-cap) plus a couple more for bonds (term and credit) have formed a backbone for evidence-based portfolio construction.

10. What Has Evidence-Based Investing Done for Me Lately? Building on our understanding of which market factors seem to matter the most, we continue to heed unfolding evidence on best investment practices.

11. The Human Factor in Evidence-Based Investing. The most significant factor for investors may be the human factor. Behavioral finance helps us understand that our own, instinctive reactions to market events can easily trump any other market challenges we face.

12. Behavioral Biases – What Makes Your Brain Trick?

Continuing our exploration of behavioral finance, we share a half-dozen deep-seated instincts that can trick you into making significant money-management mistakes. Here, perhaps more than anywhere else, an objective advisor can help you avoid mishaps that your own myopic vision might miss.

Your Take-Home

When we began this series, we promised to skip the technical jargon, replacing it with three key insights for becoming a more confident investor.

- **Understand the Evidence.** You don't have to have an advanced degree in financial economics to invest wisely. You need only know and heed the insights available from those who do have advanced degrees in financial economics.
- **Embrace Market Efficiencies.** You don't have to be smarter, faster or luckier than the rest of the market. You need only structure your portfolio to play with rather than against the market and its expected returns.
- **Manage Your Behavioral Miscues.** You don't have to – and won't be able to – eliminate every high and low emotion you experience as an investor. You need only be aware of how often your instincts will tempt you off-course, and manage your actions accordingly.

How have we done in our goal to inform you, without overwhelming you? As always, please feel welcome to give us a call if you'd like to discuss any of these ideas further. Next quarter we'll explore another investment insight that we hope that you'll find of interest.

David Bromelkamp
President and CEO

Headlines

- We had a wonderful time with clients who were able to join us at the 57th MN Prayer Breakfast on May 16.
- Allodium was pleased to welcome one new client in the first quarter of 2017.
- Our office will be closed on July 4th and September 4th for company holidays.

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

Upcoming Events

JUNE 27, 2017:

Markets Group 4th Annual Great Plains Institutional Investor Forum

Dave Bromelkamp will be moderating a panel on "Impact Investing for Foundations and Endowments" at the Markets Group 4th Annual Great Plains Institutional Investor Forum on June 27 at the Hyatt Regency in Minneapolis.

JULY 13, 2017:

Sustainable Investing Symposium

Anne Ward will be a panelist speaking at the Sustainable Investing Symposium on July 13.

AUGUST 8, 2017:

Annual Summer Client Appreciation Event

Allodium will be hosting our Annual Summer Client Appreciation Event at Pinstripes in Edina, MN on August 8 for clients and friends. Join us for a fun night of dinner and bowling! Look for more details to follow soon!

For more information about the Client Appreciation Event or to RSVP, please contact Victoria Simpson at (612) 230-3704 or vsimpson@aicria.com.

FINANCIAL PLANNING TIP:

Stay Organized For Loved Ones

In this world of internet hackers, data security is of the utmost importance. It is estimated that companies spend over \$75 billion per year worldwide on cybersecurity software, services and hardware. Banking and financial firms are the clear leaders in cybersecurity spending. Although we appreciate the increased security, we all know the perils of forgetting a password and being locked out of our own accounts. Password requirements have become so complex that we no longer can use the same password for every application. Organizing our own numerous online passwords can be a challenge.

Now imagine if you had to organize someone else's passwords. What would you do if your significant other or close relative unexpectedly dies and you are suddenly charged with the responsibility of managing their finances? What if you have no instructions, no passwords, and no idea where their assets are located? Where do you even start to figure out what assets they have and how to pay their bills?

To help your loved ones avoid this type of difficult situation, Allodium recommends that you organize your financial information:

- Develop an annual [Personal Net Worth Statement](#), and update it each time you buy or sell an asset.
- Use an online password manager to create, save and store passwords. These tools often have a master password that allows access to all the sites and passwords. Cautiously share the master password and your Personal Net Worth Statement with your significant other, child, or trusted friend or relative who will assist you if you are unable to pay bills.
- Store your estate planning documents electronically in a safe location that your personal representative can access easily in the event of your death. People commonly make the mistake of locking up their estate documents in a safety deposit box that is difficult to access.
- Make sure your personal representative knows your most important professional relationships, such as your estate planning attorney, financial advisor and insurance agents.

Informing your loved ones where to find your important documents and where your financial assets are stored allows them to grieve your loss, without the stress and burden of tracking down estate items. It takes a small amount of effort for you to get organized and saves your loved ones tremendous amounts of time.

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 Ilona Avraamides at 612-230-3711 or iavraamides@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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