

Three Key Investment Strategies Hidden in Plain Sight

Plain Sight Strategy #1: Being There

When making investment decisions, most people likewise assume that the most eye-catching events matter the most: an alarming economic forecast, an exciting Initial Public Offering, hot trading tips. But there's a catch. This assumption does not hold up under evidence-based scrutiny. In reality, you have little or no control over how the most obvious news impacts your investments. The most exciting action has already been priced into any trade you might make well before you decide to make it.

Instead of fixating on the headline news, consider that liberating financial white space. There, hidden in plain sight, you'll find a number of powerful investment strategies that are freely available and far more within our control. **In this series, we'll introduce three of our favorite "plain sight" investment strategies:**

1. **Being there**
2. **Managing for market risks**
3. **Controlling costs**

We emphasize these — and we think that you should too — because (1) they're simple enough to apply once you know they're there, (2) they can have a significant impact on your investment experience, and (3) we see too many investors ignoring them at their peril.

Strategy #1: Being There

To receive a return on your investment, first you must invest (and stay invested).

Bottom line, you cannot expect your stash of cash to grow when it is lying fallow. It's hard to imagine a more basic principle than that, so why do so few investors manage to embrace it? The answer is found in a sentiment you may have heard before: *Investing is simple, but, it's not easy.*

It's relatively simple to accept the notion of no pain, no gain. To earn returns, you must put your assets at risk in ventures that are expected to compensate you for your faith that they will succeed . . . if they do. Then you must patiently await the desired success, knowing that it is expected but not guaranteed. The riskier the ventures, the less certain the outcomes, but the more you can expect to earn for enduring the uncertainty . . . if you do.

Instead, many investors panic when market risk arises and move their money to the proverbial sidelines. They also fret that they're going to miss the boat when the market surges, so they pile into whatever is the latest success story. To cite just one of many analyses of these tendencies, a 2014 Federal Reserve economic synopsis looked at performance from 1984–2012 and found annual damage of up to 5 percent attributable to return-chasing behavior. The report concluded: "[P]oor investment timing caused by return-chasing behavior has a significant impact on portfolio performance."

By chasing and fleeing hot and cold markets, you're undesirably buying high and selling low. You're also disregarding decades of empirical evidence that informs us that one

of the best ways to capture long-term market growth is to build a solid, individualized plan, and to then stick to your plan by riding out the market's near-term ebbs and flows.

With this simple strategy, you're trusting that the market will continue to do what it has done for many decades when viewed from a long-term perspective: It has grown.

Why is it that so many investors ignore this common-sense strategy — be there and stay there — and instead cut the cord during turbulent times?

To echo our aforementioned sentiment, it's simple to understand how the market's gains and pains are so closely related. But it's never easy to endure the pain when it occurs — whether that's in the form of plummeting markets or tempting trends. Like a first-time skydiver, you cannot know how you're going to feel and what you're going to do about a free-fall until you're in it. Behavioral finance informs us that, thanks to our most basic instincts, we're subjected to a host of financially damaging biases — loss aversion, recency, herd mentality and many others — that lead us astray during these sorts of "fight or flight" market conditions.

This is why you want to prepare for your investment leaps well in advance, preferably with an evidence-based adviser at your side to help you maintain your resolve. In our next piece, we'll introduce our plain-sight strategy for managing challenging market risks and temptations, so you can be best equipped in your quest for long-term investment success.

Until next time, no regrets!

David Bromelkamp
President and CEO

NEW EMPLOYEE SPOTLIGHT: SAUL BAUMANN



Allodium is growing.

We are happy to welcome Saul Baumann to our team. Get to know Saul by his profile.

Role at Allodium: Investment Consultant

Joined firm on: January 1, 2021

Hometown: Dubuque, IA

Favorite movie: *Pulp Fiction*

Favorite book: *Everything Is Illuminated* by Jonathan Safran Foer, or anything by Michael Pollan

Favorite TV show: *Curb Your Enthusiasm*

Favorite food(s): Indian and Japanese. Ramen from Ramen Kazama is a current favorite.

Favorite news source: Bloomberg Business Week (surprisingly amusing!), NYT and WSJ

Favorite place in Twin Cities: Eating at Sea Salt overlooking Minnehaha Falls always feels like a mini vacation to Europe.

Favorite gadget/technology: Anything cooking related. I'm currently exploring hand crafted Japanese knives.

Favorite activity: Downhill skiing and heirloom vegetable gardening.

Favorite music: Mostly acoustic folk and jazz. Stacey Kent, Gene Ammons, Andrew Bird, and Greg Brown are a few favorites.

Person I admire most: My grandfather. He had a genuine interest in people, a good work ethic, and was always ready to share his strong opinions (solicited or not!)

What I'm most thankful for: Family, good friends, and a natural curiosity.

Upcoming Events

May 6, 2021

Do you want your money to have a bigger positive impact on society? Join us for our Spring Wealth Management Workshop. We will discuss *How to use the Bucket Strategy to Accelerate Impact Investing*. For more information, contact Ilona Avraamides at iavraamides@allodium.com.

Headlines

- Dave Bromelkamp, Eric Hutchens, Suzanne Tudor, and Derek Van Calligan helped us stay disciplined as they presented *The Science of Investing — How to Invest Without Needing to Pick Winners* at the Allodium Investment Forum on January 27, 2021. In case you missed it, the presentation is on our website.
- Kate McBride and Allan Henriques of Fiduciary Path provided a roadmap for nonprofit leaders at our webinar *15 Ways to Enhance Donor Trust by Improving Your Investment Stewardship*. Visit our website if you missed this informative event.
- Congratulations to Dave Bromelkamp for earning the BCF™ designation. Learn more at www.allodium.com/associations/alliances-cbcf.html.
- Congratulations also to Suzanne Tudor for earning the AIF® designation. Learn more at www.allodium.com/associations/alliances-fi360.html.
- Catch our latest blog post by Derek Van Calligan on responsible investing. Subscribe so you can be alerted to all new posts at www.allodium.com/resources-2/allodium-email-subscriptions.html.
- Allodium is pleased to welcome four new clients into the firm during the fourth quarter of 2020.
- Our office will be closed April 2 and May 31 for company holidays.

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

Predicting rain doesn't count. Building arks does.

— Warren Buffett

WE APPRECIATE YOUR INTRODUCTIONS

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Steward is published quarterly by Allodium Investment Consultants. Please contact Ilona Avraamides at iavraamides@allodium.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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