

# STEWARD

*A Quarterly Publication of Alodium Investment Consultants*

**“Managed futures is one of the world’s non-correlated asset classes and should be considered in any modern portfolio.” ~ Scott Slutsky, author of *Master of the Futures***

Managed futures have been used for decades to diversify investment portfolios. However, many investors are still not familiar with what managed futures are or how they may be beneficial. I’d like to share a bit more about them here.

Managed futures are a type of alternative investment. The term “Managed Futures” describes strategies used by a group of investment managers known as Commodity Trading Advisors (CTAs) who trade futures on a discretionary basis. Managed futures strategies seek to increase investment returns beyond applicable benchmarks without adding commensurate risk. This is often referred to as “seeking alpha”.

The largest proportion of managed futures - accounting for about 90% of CTA assets strategies - are “trend following” CTAs that have the ability to go long or short in various asset classes, including stocks, bonds, currencies, interest rates and commodities. These CTAs attempt to profit in any market environment by riding the trend up when markets are rising and then switching gears to ride the trend down when markets are falling.

Academic research completed since the early 1980s suggests that an allocation to managed futures can reduce risk in certain portfolios by providing diversification benefits. Researchers found that an allocation to managed futures made an investment portfolio of stocks and bonds less risky than if only stocks and bonds were held. Generally, managed futures exhibit low or negative correlation to the equity markets and have the potential to profit in any economic environment. For example, managed futures accounts performed relatively well when almost all other asset classes fell during the 2008 financial crisis.

A typical recommended allocation to managed futures may range between 7 - 12%, depending on many factors, including investor objectives, risk tolerance, time horizon, etc. and also investment advisor familiarity and experience with managed futures. Many advisors who recommend these strategies for diversification purposes will recommend a strategic allocation to managed futures and then overweight or underweight this allocation based on the investment advisors’ expectations for future stock and bond market direction and performance.

There are several ways to access managed futures strategies, including...

- Limited partnerships which have the longest performance history, but involve the additional tax reporting complexity of a Schedule K-1.
- Mutual funds including passively-managed index funds, fund of funds that invest in multiple CTA managers or one specific active manager that has a proprietary trading strategy. Many mutual funds that use managed futures strategies have been introduced in recent years.
- Exchange-traded funds (ETFs) - also in growing numbers.

Investors should be aware of the risks related to investing in managed futures. Diversification benefits in terms of low correlation to other asset classes are not guaranteed. Investment returns are highly dependent on the experience and skill of the CTAs who manage these complex strategies. Also, managed futures accounts tend to use a lot of leverage (i.e., debt) and charge higher fees than traditional investment managers.

However, due to their diversification benefits, institutional investors have been increasingly adopting managed futures strategies over the past two decades. We expect to see this trend continue as investors become more familiar with managed futures and their potential diversification benefits when appropriately used in a well-diversified portfolio.

We believe that managed futures can be a helpful diversification tool for certain investors, and we’d welcome and enjoy the opportunity to discuss their potential benefits with you at any time.

*David Bromelkamp*

President and CEO

## HEADLINES

- We were pleased to welcome seven new client relationships to Allodium in the second quarter and appreciate their trust and business.
- On Wednesday, April 27 Allodium hosted an educational workshop featuring two local estate planning experts who discussed strategies for minimizing estate taxes in light of recent estate tax law changes. We look forward to hosting another educational workshop this fall on "Planning for Your Income Needs in Retirement". We'll share more details in the months ahead.
- Dave Bromelkamp served as a judge for the 2011 Engaged Philanthropist Award which was presented on June 16, 2011, at the 2011 Engaged Philanthropy Conference. This award recognizes individual philanthropists who invest their money, time and talents in causes they care about.
- Allodium Senior Investment Consultant Anne Ward was a guest panelist at the April 19<sup>th</sup> Financial Planning Association (FPA) meeting discussing the intricacies of alternative investments.
- FYI - our office will be closed on these upcoming New York Stock Exchange holidays:
  - Monday, July 4 - Independence Day
  - Monday, September 5 - Labor Day

UPCOMING EVENTS:

- As a thank you to our clients, on Thursday August 4<sup>th</sup> Allodium will host an informal Mississippi River cruise through the Minneapolis Mill District for our clients and their guests on the Minneapolis Queen. Invitations with more details will be mailed soon. We hope that many of our clients can join us!
- As a client and community service, we welcome opportunities to share investment and fiduciary best practices with individuals, families and organizations. To this end, Allodium will sponsor the following free educational lunch workshops for non-profit leaders:
  - Wednesday, September 28, 2011 - How to Develop a Request for Proposal (RFP) for Investment Advisors
  - Wednesday, December 7, 2011 - Socially Responsible Investing

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

**We Appreciate Your Introductions:**

We launched Allodium to provide objective investment advice and personal service to a limited number of individuals, families and organizations. We embrace our responsibility to always act in our clients' best interests. To maximize 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, and we do not receive commissions for the investment options that we recommend. If you know of a family member, friend or associate who may be looking for this type of objective investment advice, please contact Dave Bromelkamp at 612-230-3702 or [dbromelkamp@aicria.com](mailto:dbromelkamp@aicria.com) to arrange a friendly, no-obligation introduction.

**ALLODIUM TEAM PROFILE:  
DAWN COUGHLIN**

**Role At Allodium:** Operations Associate

**Joined Firm In:** 2005

**Hometown:**  
Brooklyn Park, MN

**Favorite Book:**  
Most of the John Grisham novels

**Favorite News Source:**  
Local - Kare 11



**Favorite Gadget:** I don't use many gadgets

**Favorite Activity:** Walking outside on a sunny, 70 degree day

**Person I Admire Most:** My parents

**What I'm Most Thankful For:** My health

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

**Steward**

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Please contact Cristy Leaf at 612-230-3706 or [cleaf@aicria.com](mailto: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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