

STEWARD

A Quarterly Publication of Allodium Investment Consultants

“The stock market goes down quite a bit. It goes up more than it goes down. That’s all you need to know.” Peter Lynch

Obviously Peter Lynch was providing advice for the long-term investor. In the shorter term, investors have been concerned about the American economy and the outlook for corporate profits. Investors have been repeatedly disappointed by news coming out of the financial sector (banks and brokerage firms) revealing that some of their risky mortgage-related investments have gone bad. Financial institutions have been hurt by a softer residential real estate market and the related decline in housing prices that has not been seen in this country for decades. The financial problems that culminated in the collapse of Bear Stearns and the heroic actions by the Federal Reserve to remedy the related liquidity crisis were the end result of a multi-year housing bubble. This housing bubble is a big story that still has a few chapters left in the book. Investor confidence has suffered due to the liquidity crisis, leading to massive outflows from equity mutual funds as investors have been seeking the short-term safety of government treasury bonds and money market accounts. Historically, the first quarter of 2008 represented the worst performance for the S&P 500 since 2002 and the end of the worst five-month period since 1990.

There is no doubt that the financial problems on Wall Street are having a negative impact on consumer confidence and on the economy as a whole. Economic growth has slowed, and this negative economic environment has been compounded by the inflation in oil, grains, industrial metals and the more common commodities like gas for your car and groceries for your dinner table. Add to this negative news the increased volatility in the stock market, and you have many investors asking for advice about what to do next.

We have always focused on developing long-term investment strategies that depend on reducing investment risk through diversification. Bad equity markets provide the well-diversified long-term investor with the opportunity to rebalance their portfolio back to a pre-determined, long-term asset allocation strategy.

For example, as government bonds have increased in value over the past six months as investors have piled into safe fixed-income mutual funds (prices go up with increased demand for a limited supply of bonds) an investor with a diversified portfolio can sell bonds (sell high) while reinvesting the proceeds in asset classes that might be out of favor like stocks (buy low). Investors with well-diversified investment portfolios are intellectually prepared to buy low and sell high, even though their emotions may resist investing in an asset class that has just declined in value.

I have always admired successful investors like John Templeton who have the long-term perspective and the courage to implement rational investment strategies. Templeton says that “to buy when others are despondently selling and to sell when others are greedily buying requires the greatest fortitude and pays the greatest potential reward.” As you watch the fluctuating financial markets, remember that volatility like we have just experienced will occur periodically. Your greatest asset is your ability to maintain a long-term investment perspective and to take advantage of stock market declines as an opportunity to rebalance your portfolio on the margin. There are always going to be short-term oriented, emotional investors in the market who are willing to accommodate your wish to buy some assets that might be low in price and to sell some assets that might be high.

Relative to the recent stock market decline, the best advice I have seen is from Jim O’Shaughnessy at O’Shaughnessy Capital Management. Jim says: “You need long-term strategies to reach long-term goals, and paying attention to short-term fluctuations in the stock market is one of the most destructive things you can do for your long-term financial health.” We agree. Stay the course. DB

HEADLINES

- We're honored to report that our clients rated their overall satisfaction with our firm at 4.7 out of a possible 5.0 points on our recent client satisfaction survey. We're also very appreciative that 58% of the clients who received our survey took the time from their busy lives to complete it – a terrific response rate. Thanks to all who did so! Your feedback is very valuable to us as we strive to achieve our vision of making Allodium the best investment consulting firm in the eyes of our clients and other key stakeholders.
- In February, Allodium was nominated for the 2008 Minnesota Business Ethics Award which is sponsored by the Center for Ethical Business Cultures, the Twin Cities Chapter of the Society of Financial Service Professionals and the Rotary Club of Edina. This award recognizes Minnesota firms for ethical business practices and cultures of integrity.
- Using a six iron on a 160 yard par 3, Jeremy Graff recently celebrated his first hole-in-one on the Windstar Golf Course in Naples, Florida!
- Dave Bromelkamp recently attended the fi360 Annual Conference in Charlotte, North Carolina where over 500 financial professionals gathered to learn more about the Global Fiduciary Standards of Excellence and how these best practices are being applied across the United States to improve investment stewardship. For a free copy of the Self-Assessment of Fiduciary Excellence please call Cristy at 612-230-3706 or email cfaltinosky@aicria.com.

UPCOMING EVENTS:

Upcoming educational lunch workshops for Foundation & Endowment leaders sponsored by Allodium Investment Consultants:

- Wednesday, June 18, 2008 - How To Build Board Consensus with Your Investment Policy
- Wednesday, September 17, 2008 - How to Establish an Effective Investment Committee for Your Organization

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



Back Row: Jeremy Graff, David Bromelkamp, Susan Johnson, Cristy Faltinosky
From Row: Kelsi Rahm, Kerry Kaluza, Dawn Coughlin, Wade Fowler

We Appreciate Your Introductions:

Allodium is a registered investment advisor that provides objective investment advice to institutional and individual investors with portfolios greater than \$2 million. If you know of a friend or associate who may be looking for an independent investment advisor, please contact David Bromelkamp at 612-230-3702 or dbromelkamp@aicria.com to arrange an introduction.

Steward

Published quarterly by Allodium Investment Consultants.

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



Allodium Investment Consultants, LLC ("Allodium") is an SEC registered investment adviser with its principal place of business in the state of Minnesota. This newsletter is limited to the dissemination of general information pertaining to its investment advisory/management services and is not intended to provide investment, tax, legal or other advice. While taken from sources deemed to be accurate, the information contained herein is subject to change, and Allodium makes no representations about its accuracy, completeness or appropriateness for any given situation. Allodium makes no warranties regarding the information contained herein or the results obtained by its use, and disclaims any liability arising out of use of or reliance on this information. For additional information about Allodium, including fees and services, please send for our disclosure statement as set forth on Form ADV using the contact information herein. Please read the disclosure statement carefully before you invest or send money.