

# STEWARD

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We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don't let yourself be lulled into inaction.

*Bill Gates*

One of the most important decisions investors make is determining the correct time horizon for their investment portfolios. This time horizon decision is one of the very few things that investors control directly, and it has great implications for the appropriate risk level and investment options used in a portfolio. Once investors identify the appropriate time horizon for their portfolios, they can select the most appropriate asset classes and investment options which will dictate portfolio volatility and likely rate of return over the long run.

Investors with short-term spending needs must ensure they have adequate cash available to pay bills and debts as they come due before making any commitments to long-term investment portfolios. Such short-term portfolios are usually funded with very liquid, low-risk, stable cash equivalents like checking, savings and money market accounts, certificates of deposit and short-term bond funds.

Once short-term spending needs are covered, investors can identify their long-term financial goals that require investment over many years. Common examples include saving for retirement, a child's education or a major purchase. Since money for these purposes will be invested for many years,

investments involving more risk are often appropriate to potentially earn a higher rate of return over time. Common examples include stocks or longer-term bonds or mutual funds and exchange-traded funds composed of these. Long-term investors also have the advantage of being able to allocate a portion of their portfolios to more volatile and illiquid investments like limited partnerships or appropriate alternative investments which can reduce risk and/or potentially increase returns over the long run.

In the real world, most investors have both short-term spending needs and long-term financial goals. So it often makes sense to segregate short-term and long-term investment portfolios so they both can hold appropriate investments for their respective time horizons. Maintaining an adequate short-term portfolio of stable investments for ongoing spending needs can better enable investors to stay calm and avoid making inopportune, knee-jerk changes to their long-term investment portfolios when temporary market dips occur – like during the last quarter of 2008. Fearful investors who moved their long-term portfolios to cash in fourth quarter 2008 or first quarter 2009 near the stock market's bottom may regret that decision today due to the market's spectacular rebound since then.

Investors often lose sight of the time-horizon for their long-term portfolios when financial markets fall as they did in 2008. In such times investors often spend a lot of time focusing on short-term market volatility and forget that the most important and lucrative investment decisions are often long term in nature and require a sustained long-term focus. One of the greatest assets investors may have is the ability to commit a portion of their assets to a long-term investment program. Investors who want to "buy low and sell high" by investing in assets that are either currently out of favor or low in price relative to history can benefit from a disciplined long-term investment program that does this systematically via periodic asset rebalancing to an appropriate target asset allocation.

When markets gyrate, long-term investors need to balance the risk of loss against the opportunity for gain over a portfolio's intended time horizon. Modern portfolio theory – which describes a method for diversifying an investment portfolio by asset class – suggests that long-term commitment to a broadly-diversified investment program that includes both high and low-risk asset classes should allow investors to be patient in the face of temporary volatility to achieve long-term investment goals.

Therefore, to make thoughtful investment choices and prosper, it is always wise to first identify the purpose for the money and the time horizon of the investment portfolio to select appropriate investments. For long-term portfolios, it's also helpful to stay the course in challenging markets. If you have any questions about defining appropriate investment time horizons, please feel free to contact me. I would enjoy the opportunity to discuss this with you.

*David Bromelkamp*  
President and CEO

## Headlines

- We were pleased to welcome five new clients to Allodium during the first quarter and appreciate their trust and business.
- In the February 24th issue of *The Minneapolis/St. Paul Business Journal*, Allodium was honored among the list of 2012 Premier Advisors designated by the National Association of Board Certified Advisory Practices (NABCAP). NABCAP is a nationally-registered nonprofit organization established to serve the needs of the investing public by helping identify top wealth managers.
- During the first quarter, Allodium hosted two educational events for clients and other guests:
  - On Thursday, January 12 Allodium hosted our first annual Investment Forum previewing the 2012 economic and investment outlook featuring Doug Ramsey, Chief Investment Officer from The Leuthold Group and Dave Bromelkamp, President and CEO of Allodium.
  - On Wednesday, March 7 Allodium hosted an educational workshop on the topic of retirement income planning featuring Anne Ward, Senior Investment Consultant from Allodium and Ron Kelner, CPA from Schechter Dokken Kanter CPAs.
- FYI - our office will be closed on these upcoming New York Stock Exchange holidays:
  - Friday, April 6 - Good Friday
  - Monday, May 28 - Memorial Day

## FINANCIAL PLANNING TIPS:

### Shelter More Income From Taxes in 2012

It is a new year and a good time to revisit your retirement goals and contributions. 2012 brings an opportunity to shelter additional income into your 401k or 403b plan due to an increase in contribution limits. The combined contributions that an employee and an employer can contribute to a retirement plan also increased this year. We recommend that investors defer as much income as possible to take advantage of long-term tax-deferred compound growth. Consult your tax professional and financial advisor to confirm the appropriate strategy for your situation.

#### Retirement Plan Contribution Limits

	2011	2012	Catch up contribution limit (age 50+)
401k & 403b Plans	\$16,500	\$17,000	\$5,500
Traditional or Roth IRAs *	\$5,000	\$5,000	\$1,000
Simple IRAs *	\$11,500	\$11,500	\$2,500
Combined employee & employer maximum contribution limit	\$49,000	\$50,000	\$5,500

\* 2011 IRA contributions can be made up to the tax filing deadline of April 17, 2012. Simple IRA matching contributions can be made until the tax-filing deadline (plus extensions) of the company return.

## Upcoming Events

As a client and community service, we welcome opportunities to share investment and fiduciary best practices with individuals, families and organizations. To this end, on Wednesday, June 13, Allodium will host a free educational lunch workshop for foundation and endowment leaders on the topic of how to avoid investment fraud and Ponzi schemes.

**Please contact Rachel Halverson at 612-230-3706 or rhalverson@aicria.com to be added to our invitation list for future events and 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 someone who may be looking 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 Rachel Halverson at 612-230-3706 or rhalverson@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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