

Finding Four Million Nickels

When I was kid, I would always get excited when I found a nickel on the ground. I would quickly pick it up and put it in my pocket, thrilled that I now had more money. When I see a nickel on the ground today, I still pick it up, but it is not as significant to me as when I was ten years old.

If you have a broadly diversified portfolio, there is a procedure that is the equivalent of picking up free money off the ground: rebalancing. This process simply keeps your investment pie in check. Imagine your investment pie split into eight even pieces. Over time, one part of the pie does well and becomes larger, while other parts of the investment pie underperform and become smaller. Rebalancing effectively cuts the large pieces and adds to the small pieces so all are the same size again. Rebalancing is a perfect “sell high” and “buy low” strategy.

A recent *ING Global Perspectives* report shows the benefits of asset allocation in a broadly diversified portfolio that is rebalanced

on a periodic basis. It presents a hypothetical \$100,000 portfolio invested on January 31, 1976, with a mix of 60% domestic stocks (S&P 500) and 40% domestic bonds (Barclays Aggregate Bonds index).

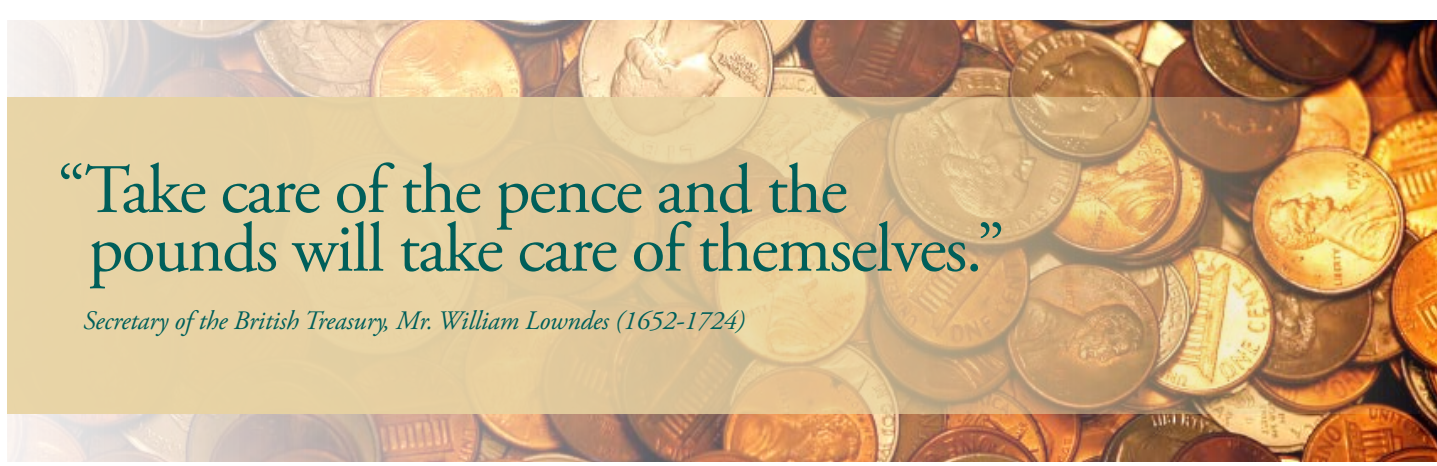
After 35 years, the 60/40 buy and hold portfolio with no rebalancing returned 9.67% annualized with a standard deviation (risk) of 11.70%. Also, the asset mix had drifted to a 72% equities and 28% bonds mix due to the higher returns experienced by the stock market versus bonds over that period. In contrast, a portfolio that started out with the same 60/40 mix *and rebalanced on a quarterly basis* produced a higher annualized return of 9.88% with a lower risk of 9.90% and ended with the same 60/40 asset mix as the initial portfolio.

This study shows that when the 35 year period ended, regular rebalancing increased returns and reduced risk compared to a buy and hold approach which allows allocations to drift away from the intended targets.

The rebalanced portfolio outperformed the buy and hold portfolio by 21 basis points or about ¼ of 1% over the period with 15% less risk. As a result, the hypothetical \$100,000 investment grew to \$2.7 million in the buy and hold strategy and grew to \$2.9 million in the rebalanced portfolio. *The rebalanced portfolio produced a lot of “extra nickels” (four million extra nickels, to be exact) for the investor who had the patience and discipline to rebalance on a quarterly basis.*

Just like how the ten-year-old Dave Bromelkamp benefited from picking up a nickel off of the street, the 53-year-old Dave Bromelkamp can benefit by taking a few minutes to periodically rebalance his investments. Take the time to perform the helpful function of “picking up nickels” by regularly rebalancing your portfolio. You will be doing yourself a favor.

David Bromelkamp
President and CEO



“Take care of the pence and the pounds will take care of themselves.”

Secretary of the British Treasury, Mr. William Lowndes (1652-1724)

Headlines

- On December 12th, Allodium helped sponsor the Youth Frontiers Leadership Forum. Anne Ward and Bryan Polley attended the event with two Allodium clients.
- Dave Bromelkamp delivered a presentation to the MN Association of Financial Professionals in January.
- At its Annual Investment Forum on January 16th, Allodium invited Weston Wellington, a vice president with Dimensional Fund Advisors, to speak about "The Science of Investing".
- Dave Bromelkamp will be presenting at the fi360 National Conference in April and the St. Thomas Social Entrepreneurship Symposium in May.
- On May 13th, Dave will join other distinguished faculty members to teach a Continuing Legal Education (CLE) seminar for Legal and Financial Professionals.
- Allodium was pleased to welcome one new client in the fourth quarter.
- Our office will be closed on the following holidays: Good Friday (April 18) and Memorial Day (May 26).

NOTE: To find out more about our events, please visit our new blog on the Allodium website.

FINANCIAL PLANNING TIP

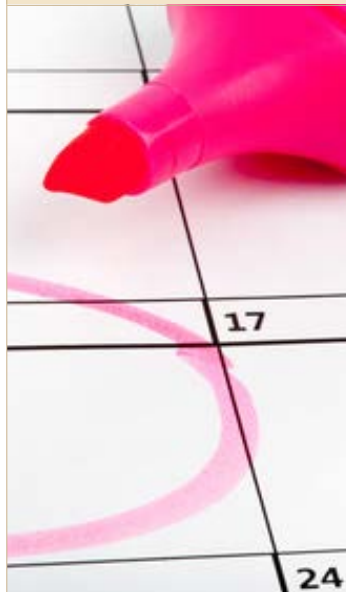
How to "Trust" Your Home in the Hands of Insurance

Placing one's home into a trust is a frequently used strategy found in estate plans. While this may be a good move for probate avoidance and tax planning, it could expose your home and pocketbook to some serious uninsured claims. Why? Because insurance companies are only obligated to fulfill claims for the "insured" listed in their policy. If the trust or trustee is not named as "insured" under the homeowners' policy definitions, it is no longer the insurance company's responsibility to cover losses. This could result in homeowners paying for insurance coverage when in reality they have no coverage at all.

The simple solution:

If you have transferred the title of your property to a trust, be certain to inform your insurance agent. They will list the trust and trustee as additional insured on the insurance policy in the format required by the insurance company to adequately provide coverage.

We recommend that you talk to your property & casualty insurance agent about the legal ownership of your home as part of your annual insurance review.



Mark Your Calendars

DATE: Thursday, March 20, 2014
TIME: 3:30 p.m.

Allodium will host a workshop for Foundation and Endowment Leaders titled: **How to Develop a Socially Responsible Investment Program.** We will help fiduciary investors identify investment decision-making processes that will allow them to define, document and incorporate their socially responsible investment preferences into their investment strategy.

For more information or to RSVP, please contact Tyler Chapman at 612-230-3705 or tchapman@aicria.com.

WE APPRECIATE YOUR INTRODUCTIONS

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. 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 Tyler Chapman at 612-230-3705 or tchapman@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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