

STEWARD

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Breaking News!

Should You React to It?

What causes stock and bond market prices to change? It begins with the never-ending stream of news informing us of the good, bad and ugly events that are forever taking place. For example, when there are reports that a fungicide is attacking Florida trees, orange juice futures may soar, as the market predicts that there's going to be less supply than demand.

But what does this mean to you and your investment portfolio? Should you buy, sell or hold tight? Before you jump into or flee from breaking trends, it's critical to be aware of the evidence that tells us the most important thing of all: **You cannot expect to consistently improve your outcomes by reacting to breaking news.**

Great Expectations

How the market adjusts its pricing is why there's not much you can do in reaction to breaking news. There are two principles to bear in mind here.

First, it's not the news itself; it's whether you saw it coming. When a security's price changes, it's not whether something good or bad has happened. It's whether the next piece of good or bad news is better or worse than expected. If it's reported that the aforementioned orange tree disease is continuing to spread, pricing changes may be minimal; everyone was already expecting doom and gloom. On the other hand, if an ingenious new fungicidal treatment is released, prices may change dramatically in reaction to the unexpected resolution.

Thus, it's not just news, but unexpected news that alters future pricing. By definition, the unexpected is impossible to predict, as is how dramatically (or not) the market will respond to it. Group intelligence gets in the way of those who might still believe that they can outwit others by consistently forecasting future prices.

The Barn Door Principle

The second reason to consider breaking news irrelevant to your investing is what we'll call "The Barn Door Principle." **By the time you hear the news, the market already has incorporated it into existing prices, well ahead of your ability to do anything about it.**

This is especially true in today's micro-second electronic trading world where fast global markets respond to breaking news. Evidence from a number of studies among several developed markets shows that the universal response is nearly instantaneous price-setting during the first handful of post-

announcement trades. In the U.S. markets, it is even faster than that.

In other words, unless you happen to be among the very first to respond to breaking news (competing, mind you, against automated traders who often respond in fractions of milliseconds), you're setting yourself up to buy higher (or sell lower) than those who already have set new prices based on the news – exactly the opposite of your goal.

We encourage investors to focus your attention on the factors that you can control, such as diversification by asset class, choosing funds that will move with the markets, minimizing the costs of investment management and reducing your portfolio turnover to minimize taxes. This approach will allow your portfolio to grow with the markets over time.

David Bromelkamp
President and CEO



In the 20th century, the United States endured two World Wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a fly epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497.

Warren Buffett – October 16, 2008

Headlines

- In September, Allodium hosted a wealth management workshop for clients on "Savvy Estate Planning" featuring attorney Stuart Bear
- Anne Ward earned the Accredited Investment Fiduciary (AIF®) designation
- Anne Ward and Bryan Polley were recognized with the Five Star Wealth Manager Award for 2015
- Tyler Chapman was promoted to Operations Manager, overseeing the day-to-day operations of the firm
- Financial Planning Magazine quoted Bryan Polley in an article about charitable remainder trusts on November 6th
- Dave Bromelkamp presented at the Kansas Association of Community Foundations annual conference on September 29th
- Allodium was pleased to welcome four new clients in the third quarter
- Our office will be closed on December 25th for Christmas and January 1st for New Year's Day

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

New Employee Spotlight: Matt Hansen



Allodium is growing. We are happy to welcome Matt Hansen as the newest addition to the Allodium

team. He will be coordinating client events and communication as well as assisting in the day to day operations of the Allodium office. Here are some highlights about Matt:

Role at Allodium: Marketing & Operations Assistant

Joined firm on: September 29, 2014

University attended: Concordia College – Moorhead, MN

Hometown: Chattanooga, Tennessee

Favorite movie: Lost in Translation

Favorite TV show: House of Cards

Favorite food: Bolognese pasta

Favorite news source: The New York Times

Favorite gadget: Garlic press

Favorite activities: Biking along the Mississippi, eating out

Person I admire most: My grandfather

What I'm most thankful for: Wonderful family, friends, and Minneapolis residency

Mark Your Calendars

Investment Forum

DATE: Tuesday, January 27th, 2015 **TIME:** 4:00 p.m.

Allodium is hosting an educational workshop for clients and friends titled "Going Green: What are the benefits of sustainable investment strategies?" during which the Allodium Investment Consultants advisory team will be presenting different angles of the current economic, political and investment worlds in relation to environmental and climate change issues.

More information will be sent in the near future.

WE APPRECIATE YOUR INTRODUCTIONS

To optimize 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 Matt Hansen at 612-230-3704 or mhansen@aicria.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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