

Will You Make More Money Using ‘Star Managers’?

All the time and effort that people devote to picking the right fund, the hot hand, the great manager, have in most cases led to no advantage.

Peter Lynch, *Beating the Street*

Investors pay a lot of attention to active investment managers who attempt to identify mispricing in securities on a consistent basis. These active investment managers often rely on forecasting techniques to pick securities and time the markets. This approach generates higher expenses, higher trading costs and excess risk. We believe that you're ill-advised to spend a lot of time and money to seek a high cost, pinch-hitting expert to compete for you. As Morningstar strategist Samuel Lee has described, managers who have persistently outperformed their benchmarks are "rarer than rare."

Group Intelligence Wins Again

We have learned over time that independently thinking groups (like capital markets) are better at arriving at accurate answers than even the smartest individuals in the group. That's in part because their wisdom is already bundled into prices, which adjust with fierce speed and relative accuracy to any new, unanticipated news.

The Proof Is in the Pudding

Maybe you know of an extraordinary stock broker or TV personality who strikes you as being among the elite few who can make the leap. Maybe they have a stellar track record, impeccable credentials, a secret sauce or brand-name recognition.

Should you turn to them for the latest market tips, instead of settling for "average" returns?

Let's set aside market theory for a moment and consider what has actually been working. Bottom line, if investors who did their homework were able to depend on outperforming experts, we should expect to see credible evidence of it. Not only is such data lacking, the body of evidence to the contrary is overwhelming. Star performers — "active managers" — often fail to survive, let alone persistently beat comparable market returns.

A 2013 Vanguard Group analysis found that only about half of some 1,500 actively managed funds available in 1998 still existed by the end of 2012, and only 18% had outperformed their benchmarks. Dimensional Fund Advisors found similar results in its independent analysis (see chart below) of 10-year mutual fund performance through year-end 2013.

David Bromelkamp
President and CEO

Outsmarting Other Investors is Tough

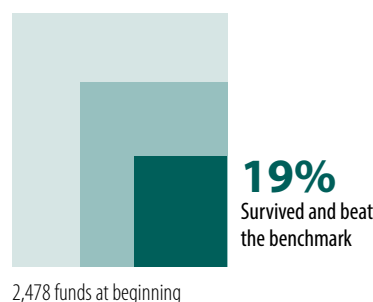
Few mutual funds survive and beat their benchmarks.

10-yr period ending December 31, 2013.

Source: Dimensional Fund Advisors

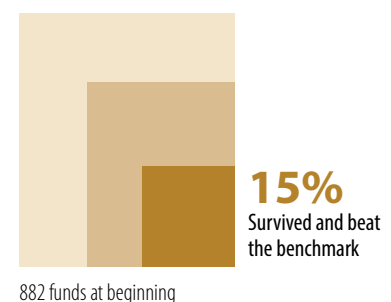
EQUITY FUNDS

Beginning Survivors Winners



FIXED INCOME FUNDS

Beginning Survivors Winners



FINANCIAL PLANNING TIP

Tax-Deferred Investing Strategies

As we enter into this tax season we are painfully reminded that investors are paying more in taxes in the past two years than they had in previous years. Whenever possible, investors should take advantage of tax-deferred investing strategies that defer tax on earnings to a future date, or possibly eliminate taxation altogether.

For investors with access to employer-provided retirement plans, contributing to a retirement plan is a simple way to build tax-deferred accounts. Beginning in 2015 investors can now save an additional \$500 per year. The new contribution amounts are as follows:

RETIREMENT PLAN CONTRIBUTION LIMITS			
	2014	2015	Catch up contribution limit (age 50+)
401k & 403b Plans	\$17,500	\$18,000	\$6,000
Combined total to Traditional IRA, Roth IRA, and/or myRA	\$5,500	\$5,500	\$1,000
Simple IRAs	\$12,000	\$12,500	\$3,000
Combined employee & employer maximum contribution limit	\$52,000	\$53,000	\$1,000

* 2014 Traditional/Roth IRA contributions can be made up to the tax filing deadline of April 15, 2015. Simple IRA matching contributions can be made until the tax-filing deadline (plus extensions) of the company return. Ask your CPA about eligibility.

Other strategies to consider:

- If your income is too high to contribute to a Roth IRA and you have no Roth 401k option, consider Roth IRA conversion strategies.
- 2014 was another year with significant gains in US stocks. You may have large gains in your taxable investments. If so, 2015 may be a perfect time to consider gifting highly appreciated shares to charity or to a donor advised fund.
- If you are considering a sale of your business or investment real estate, contact your tax advisor **prior** to the sale to discuss tax planning strategies.

Please contact Allodium or your CPA for more information.

Headlines

- Allodium is celebrating its 10 year anniversary this year
- In January, Allodium hosted an Investment Forum, "Going Green: What are the Benefits of Sustainable Investment Strategies?"
- Dave Bromelkamp will be presenting at the 2015 fi360 Insights national conference in Orlando on March 19
- Bryan Polley was promoted to Senior Investment Consultant on January 1st
- Allodium was pleased to welcome seven new clients in the fourth quarter of 2014
- Our office will be closed on April 3rd in observance of Good Friday and May 25th in observance of Memorial Day

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

WE APPRECIATE YOUR INTRODUCTIONS

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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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