

The Full-Meal Deal of Diversification

Among your most important financial friends is diversification. After all, what other single action can you take to simultaneously dampen your exposure to a number of investment risks while improving your overall expected returns? While they may seem almost magical, the benefits of diversification have been well-documented and widely explained by some 60 years of academic inquiry. Its powers are both evidence-based and robust.

Global Diversification: Quantity AND Quality

What is diversification? In a general sense, it's about spreading your risks around. In investing, this means it's more than just ensuring you have many holdings, it's also about having many different kinds of holdings. If we compare this to the adage about not putting all your eggs in one basket, an apt comparison would be to ensure that your multiple baskets contain not only eggs but also a bounty of fruits, vegetables, grains, meats and cheese.

While this may make intuitive sense, many investors come to us believing they are well-diversified when they are not. They may own a large number of stocks

or stock funds across numerous accounts. But upon closer analysis, we find that the bulk of their holdings are concentrated in large-company U.S. stocks.

Think of a concentrated portfolio as the undiversified equivalent of many baskets full of plain, white eggs. Over-exposure to what should be only one ingredient among many in your financial diet is not only unappealing, it can be detrimental to your financial health. Lack of diversification:



1. **Increases your vulnerability** to specific, avoidable risks
2. **Creates a bumpier, less reliable** overall investment experience
3. **Makes you more susceptible** to second-guessing your investment decisions

Combined, these three strikes tend to generate unnecessary costs, lowered expected returns and,

perhaps most importantly, increased anxiety. You're back to trying to beat the market with hyper-active management instead of playing along with a powerful market.

A World of Opportunities

Instead, consider that there is a wide world of investment opportunities available these days from narrowly focused and tightly managed mutual funds intentionally designed to facilitate meaningful diversification. They offer efficient, low-cost exposure to the numerous capital markets found all around the globe.

Your Take-Home

To best capture the full benefits that global diversification has to offer, we advise turning to the sorts of fund managers who focus their energies – and yours – on efficiently capturing diversified dimensions of global returns.

In our last newsletter, we described why brokers or fund managers who are instead fixated on trying to “beat the market” are likely wasting their time and your money on fruitless activities. You may still be able to achieve diversification, but your experience will be hampered by their unnecessary efforts, extraneous costs and irritating distractions to your resolve as a long-term investor. Who needs that, when diversification alone can help you have your cake and eat it too?

The positive attributes of a broadly diversified portfolio explains why diversification is sometimes referred to as one of the only “free lunches” in investing.

David Bromelkamp
President and CEO

One should always divide his wealth into three parts: a third in land, a third in merchandise, and a third ready to hand.

Rav Isaac (Babylonian Talmud: Tractate Bava Mezi'a 42a)

NEW EMPLOYEE SPOTLIGHT: Eric Hutchens



Role at Allodium: Senior Investment Consultant

Joined firm on: June 1st, 2015

University attended: BS, University of Wisconsin-Madison; MBA, University of St. Thomas

Hometown: Edina

Favorite movie: Lord of the Rings trilogy

Favorite book: *Unbroken* by Laura Hillenbrand

Favorite TV show: Sports

Favorite food(s): Anything my wife makes

Favorite news source: CNBC

Favorite gadget: My Samsung Galaxy smartphone

Favorite activity: Playing games of any kind, listening to music, or relaxing in the pool with a margarita

Person I admire most: Jesus Christ

What I'm most thankful for: My family and all of the opportunities I've been blessed to receive

Headlines

- As part of our 10th anniversary celebration, we have posted a new 90-second Allodium introductory video on our website
- Allodium employees and families will enjoy a Twin's baseball night at Target Field in mid-June
- Allodium was pleased to welcome four new clients in the first quarter of 2015
- Our office will close at 3 PM on July 3rd and will be closed on July 4th in observance of Independence Day

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



SPOTLIGHT

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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