

STEWARD

A Quarterly Publication of Allodium Investment Consultants

“You can't manage what you don't monitor or measure.”

In today's volatile financial markets, actively managing investment risk is more important than ever to protect and grow wealth over time. Three vital tools for this are...

- 1) Comprehensive investment monitoring
- 2) Comprehensive investment diversification
- 3) Periodic investment portfolio rebalancing.

As the quote above suggests, tool #1 is required to enable tools #2 and #3. Let's take a brief look at each.

Comprehensive Investment Monitoring:

To manage investment risk comprehensively, it is important to track performance of ALL investment assets including stocks, bonds, mutual funds, limited partnerships, alternative investments, etc. - no matter where each asset is held - on a single consolidated report so that the risk of the entire portfolio can be evaluated and managed to align with investor goals and risk tolerance. Unfortunately many investors do not manage the risk of their investment assets comprehensively due to a variety of reasons. Some common examples include...

- Lack of understanding about why comprehensive asset tracking, reporting and risk management are important and beneficial.
- Lack of tools or ability to comprehensively track performance of investment assets held at several firms.
- Lack of an investment advisor who will do this for them. (Some brokers or advisors will only track assets held at their firm or that they advise on.)

Fortunately technology enhancements have made it possible to aggregate and report on investment assets held at multiple institutions. Even such assets as 401k accounts, alternative investments, limited partnerships and other assets can be aggregated into a single performance report for tracking and management purposes. We believe this should be done at least quarterly.

As another benefit, some advisors like Allodium who do comprehensive investment monitoring and reporting for investors can also provide comprehensive year-end investment tax reporting to eliminate the time-consuming task of assembling tax information from multiple sources.

Comprehensive Investment Diversification:

In 1990, Harry Markowitz won the Nobel Prize for his theory of asset allocation to manage investment risk. This theory applies the basic wisdom of not putting all of your eggs in one basket. It calls for diversifying an investment portfolio across multiple asset classes of varying risk. To manage risk appropriately, the amount of assets allocated to each asset class is dictated by an investor's needs, goals, time horizon and risk tolerance. This means that more conservative investors should have a greater percentage of their investment portfolios allocated to less volatile assets than more aggressive investors. Each investor should have a target asset allocation that is well aligned with their needs, objectives, time horizon and risk tolerance, and this target asset allocation should be adjusted over time as their circumstances change.

Of course, comprehensive investment monitoring and reporting - as described above - are essential to comprehensive asset allocation and risk management. Without understanding where all assets are invested, it's difficult or impossible to arrive at an appropriate asset allocation to achieve investor goals.

Periodic Investment Portfolio Rebalancing:

As investors' circumstances change and financial markets fluctuate, it is important to periodically adjust the amount of assets invested in each asset class to remain aligned with an investor's target asset allocation. Without such periodic portfolio rebalancing, an investment portfolio may begin to diverge widely from an investor's target asset allocation over time. Therefore, we recommend at least a quarterly review of an investor's actual asset allocation versus their target to determine if adjustments are needed.

Again, comprehensive investment monitoring and reporting - as described above - are essential to assessing the status of an investor's asset allocation versus their target portfolio. This simply cannot be done without an understanding of where all assets are invested at various points in time.

Therefore, for optimal investment risk management over time, we recommend that investors employ all three tools described above - as we do for clients of Allodium. We're happy to discuss each tool in more detail with you at any time.

David Bromelkamp

HEADLINES

- We're pleased to announce that our own Cristy Faltinosky has had a name change to Cristy Leaf due to her marriage in September. Her wedding was terrific. Please join us in wishing Cristy and her new spouse Chris a long and happy future together.
- FYI - in the first quarter of 2009, our office will be closed to observe the following holidays:
 - Thursday, January 1 - New Year's Day
 - Monday, January 19 - Martin Luther King Day
 - Monday, February 16 - President's Day

UPCOMING EVENTS:

- Allodium is sponsoring the following upcoming free educational lunch workshops for foundations & endowment leaders:
 - ◇ Wednesday, December 10, 2008 - How to Establish an Investment Policy for an Endowment Fund
 - ◇ Wednesday, March 11, 2009 - How to Manage Risk with Alternative Investment Strategies

Please contact Cristy Leaf at 612-230-3706 or cleaf@aicria.com to RSVP or to be added to our invitation list for future workshops.
- Dave Bromelkamp will speak at the following upcoming conferences:
 - ◇ MN Society of CPA's Caffeinated Conversations— Tuesday, February 24 and March 24, 2009. Topic: Fiduciary Investment Management Best Practices for Corporate CPAs.

**ALLODIUM TEAM PROFILE:
SUSAN JOHNSON**

Role At Allodium:
Client Service Associate
Joined firm when launched in 2005



Hometown:
Cut Bank, MT & St. Louis Park, MN
Favorite TV Show:
Eli Stone & Dancing with the Stars
Favorite Movie:
Tootsie
Favorite Vacation Spot:
La Jolla, CA
Favorite Hobby:
Biking & Scrapbooking

If I won the lottery I... wouldn't retire. I would help my family members and friends, especially with my grandchildren's future college expenses. I would then give money to help families having trouble with education, housing and food expenses. I would also give money to Lutheran Social Services Adoption Department.

Click [here](#) to see more about Sue on our website.

We Appreciate Your Introductions:

We launched Allodium to provide unbiased, objective investment advice and personal service to a limited number of individual and institutional investors. We embrace our responsibility to always act in our clients' best interests. To avoid any hint of real or perceived conflicts of interest, we are a fee-only registered investment advisor that is completely independent from banks and brokerage firms. If you know of a friend or associate who may be looking for this type of objective investment advice, please contact David Bromelkamp at 612-230-3702 or dbromelkamp@aicria.com to arrange a no-obligation introduction.

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Please contact Cristy Leaf at 612-230-3706 or cleaf@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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