

THE SCIENCE OF INVESTING:

Can a Nobel Laureate Beat Wall Street?

On October 14, the 2013 Nobel Prize in Economic Sciences was awarded to three economists for their “empirical analysis of asset prices”. One of these economists was Eugene F. Fama.

Fama is the Robert R. McCormick Distinguished Service Professor of Finance at the University of Chicago Booth School of Business. He is known as the “father of modern finance” and also the father of the efficient market hypothesis, a theory that says the market quickly and efficiently incorporates all known information into asset prices. The Royal Swedish Academy of Sciences stated that “Beginning in the 1960’s, Eugene Fama and several collaborators demonstrated that stock prices are extremely difficult to predict in the short run, and that new information is very quickly incorporated into prices. These findings not only had a profound impact on subsequent research but also changed market practice. The emergence of so-called index funds in stock markets is a prominent example.”

Eugene Fama’s groundbreaking research created the foundation for a philosophy that Dimensional Fund Advisors (DFA) calls the “Science of Investing”. This philosophy considers markets to reflect the vast, complex network of information, expectations and human behavior. These three forces drive stock and bond prices to fair value, ensuring no investor can expect greater returns without bearing greater risk.

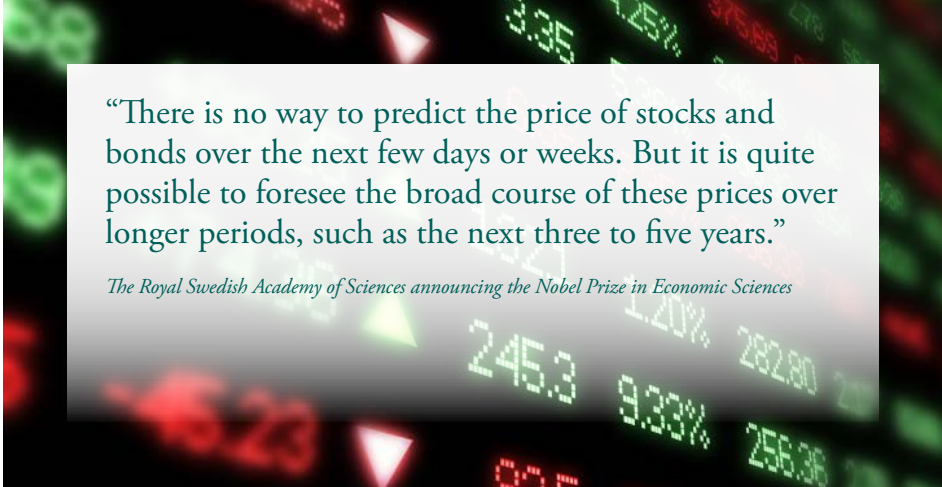
Research shows that Wall Street professionals do not seem to outperform well-diversified passive investments over time. It reinforces that stock market speculation, trading rules, black box technical systems, stock market newsletters, and other “market-beating techniques” have essentially no power beyond luck to forecast stock prices.

Fama’s research argues that markets still function regardless, as capital markets and economies continue to thrive. **The futility of stock market speculation is good news for the investor** — it means prices for public securities are fair and that persistent differences in average portfolio returns are explained by differences in average risk. **It is certainly possible to outperform markets, but not without accepting increased investment risk.**

We understand the need for investors to adopt a long-term perspective and have the discipline to stick to their investment program during both good and bad market environments. Our clients can benefit from this knowledge by adopting strategic asset allocation portfolios that are broadly diversified by asset class and implemented with low cost, passive investment managers — particularly in traditional domestic and international equity asset classes.

This Nobel Prize in Economic Science is a big deal, and we congratulate Mr. Fama on his recognition. Allodium is proud to incorporate into its investment strategy the research and philosophies developed by some of the greatest financial academics of our time.

David Bromelkamp
President and CEO



“There is no way to predict the price of stocks and bonds over the next few days or weeks. But it is quite possible to foresee the broad course of these prices over longer periods, such as the next three to five years.”

The Royal Swedish Academy of Sciences announcing the Nobel Prize in Economic Sciences

Mark Your Calendars

DATE: Thursday, January 16th, 2014

TIME: 3:30 p.m.

Right after the New Year's holiday, we are hosting our annual Investment Forum at the Golden Valley Country Club. The presentation for the event is titled "The Science of Investing." This fun and fascinating presentation will give insight into the successes and failures of investors over the past decade and introduce a compelling philosophy of investing developed by some of the great academics of our time.

Our speaker is Weston Wellington. Weston is a Yale graduate and a Vice President at Dimensional Fund Advisors. He is a frequent speaker to financial advisors nationwide about science-based strategies as the most reliable way to achieve investment success.

We highly encourage clients to attend the event, and guests are also welcome.

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



Are you inadvertently paying Uncle Sam's holiday bonus?

The stock market has experienced sizeable gains since the 2008 financial crisis, resulting in many investors using up their capital loss carry-forwards. In addition, taxpayers are being hit with eight new federal tax increases in the 2013 tax code, and unprepared individuals will feel the sting in their tax return. Fortunately, it may not be too late for some last minute tax-planning, such as year-end charitable gifting. Talk to your CPA this tax season about strategies for minimizing the impact.

As several increases in the federal tax code are tied to investment income, tax-efficient investing and tax-deferral strategies are essential components of a sound financial plan. Also, start the new year off right by maximizing the amount you contribute to these strategies. The new contribution amounts are as follows:

RETIREMENT PLAN CONTRIBUTION LIMITS

	2013	2014	Catch up contribution limit (age 50+)
Traditional or Roth IRAs *	\$5,500	\$5,500	\$1,000
Simple IRAs *	\$12,000	\$12,000	\$2,500
401k & 403b Plans	\$17,500	\$17,500	\$5,500
Define Contribution Limits – employee & employer	\$51,000	\$52,000	

* 2013 Traditional/Roth IRA contributions can be made up to the tax filing deadline of April 15, 2014. Simple IRA matching contributions can be made until the tax-filing deadline (plus extensions) of the company return. Ask your CPA about eligibility.

Headlines:

- Dave gave a presentation on Investment Stewardship at the Minnesota Planned Giving Conference on September 26.
- Congratulations to two of our team members: Bryan became a NAPFA Registered Financial Advisor and Rachel obtained her Registered Paraplanner designation.
- Dave was featured in the December issue of Minneapolis St. Paul Magazine, where he discussed building a Legacy by giving back to organizations that impacted his life.
- Allodium was pleased to welcome three new clients in the third quarter.
- Our office will be closed on the following holidays: Christmas Day (December 25) and New Year's Day (January 1).

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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