

What Has Evidence-Based Investing Done for Me Lately?

In last quarter's newsletter, we introduced three key stock market factors (equity, value and small-cap) plus a couple more for bonds (**term** and **credit**) that have formed a backbone for evidence-based portfolio construction.

Continued inquiry has found additional market factors at play, with additional potential premiums (which also seem to result from accepting added market risk, avoiding ill-advised investor behaviors or both). In academic circles, the most prominent among these are **profitability** and **momentum**:

- **The Profitability Factor** – Highly profitable companies have delivered premium returns over low-profitability companies.
- **The Momentum Factor** – Stocks that have done well or poorly in the recent past tend to continue to do the same for longer than random chance seems to explain.

A Closer Look at Newer Factors

Before we get ahead of ourselves, let's discuss a few caveats.

- **Wet Paint Warning** – While these "new" factors may or may not have existed for some time, our ability to isolate them is more recent. As the ink still dries on the research papers, some among the evidence-based community are still assessing their staying power.

- **Cost versus Reward** – Just because a factor exists in theory, doesn't mean it can be implemented in real life. We must be able to capture an expected premium without generating costs beyond its worth.

- **Dueling Factors** – Sometimes, it can be difficult to build one factor into a portfolio without sacrificing another. For example, as Jared Kizer explains, "One generally can't tilt toward both value and momentum at the same time, because the two strategies tend to be highly negatively correlated." Benefits and tradeoffs must be carefully considered at the fund level as well as for your individual goals.

As a result, opinions vary on when, how or even if profitability, momentum and other newer factors should play a role in current portfolio construction. We would be happy to speak with you individually about our evolving approach. To help you assess whether they may make sense for you, let's explore how to think about investment information.

Investment Information: A Double-Edged Sword

As time marches on, relentless questioning from scholars and practitioners alike has been essential to evidence-based investment theory and application, dispelling illusions and laying the foundation for the insights we now routinely harness.

Similar inquiry must continue to pave the way to future improvements. But one need only glance at daily headlines to notice a never-ending stream of

ideas from competing, often conflicting voices of authority. While being informed is helpful, being overloaded by it can do as much harm as good to well-intended investors. Even when the news is solid (which is never a given), hyperactive reaction can strip away all the advantages of an enlightened investment approach.

Investment Reality: Choose Your Allies Carefully

So, how do you know what to heed and who to ignore? ***This is where we believe an evidence-based advisor relationship is critical to your wealth and your well-being.*** Calls to action that erupt overnight based on scant evidence and concentrated events are unlikely candidates for building into a durable investment discipline. Whenever we assess the validity of existing and emerging market insights, we ask pointed questions that can take years to resolve:

- Have the results been replicated across factors, over time and around the world?
- Is there robust analysis, not only from industry insiders but from disinterested academics?
- Has it survived extensive peer review, if not unscathed, at least free of mortal wounds?

Your Take-Home

By considering each new potential factor according to strict guidelines, our aim is to extract the diamonds of promising new evidence-based insights from the considerably larger piles of misleading misinformation. We feel you are best served by heeding those who take a similar approach with their advice.

David Bromelkamp
President and CEO

Mark Your Calendars

WEALTH MANAGEMENT WORKSHOP: Wednesday, October 5th, 2016 at 3:30PM

Allodium's advisors will be providing an educational workshop at Golden Valley Country Club for clients and associates about strategies for navigating the non-financial side of retirement. More details will be sent out in the near future!

For more information on events or to RSVP, please contact Victoria Simpson at 612-230-3704 or vsimpson@aicria.com.



NEW EMPLOYEE SPOTLIGHT: Renae Mottaz

Role at Allodium: Client Service Associate

Joined firm on: August 17th, 2016

Hometown: Browerville, MN

Favorite movie: *The Blind Side*

Favorite book: *Power of Positive Thinking* by Norman Vincent Peale

Favorite TV show: Survivor

Favorite food(s): Anything prepared on the grill. (Burgers, ribs, chicken, veggies, potatoes)

Favorite news source: Bring Me The News, MSN.com

Favorite place in Twin Cities: Live Theater (Orpheum, Ordway, Guthrie, Chanhassen)

Favorite gadget/technology: My smartphone (Samsung 4 Note)
Yes, it has a very big screen!

Favorite activity: Quilting, walking, hanging with my family

Favorite music: Acoustic rock, blues, classic rock

Person I admire most: Anyone who sees a need, has a passion and follows through on it. Mary Jo Copeland and Allan Law come to mind.

What I'm most thankful for: How fortunate I am. I have been blessed with a great family, good health, and wonderful friends.

Headlines

- Allodium is proud to announce that it is the first fee-only investment advisory firm in Minnesota to earn the CEFEX certification through the Center for Fiduciary Excellence.
- Thanks to the many clients who were able to join us at Allodium's annual client appreciation event at Pinstripes in August. We enjoyed our time with you!
- Allodium appeared as one of only 11 Minnesota Registered Investment Advisor (RIA) firms in Financial Advisor magazine's 2016 Survey & Ranking of the 612 RIA firms surveyed nationally by the magazine for their July 2016 issue.
- Dave will be giving a presentation in September on Impact Investing with other thought leaders.
- Allodium was pleased to welcome one new client in the second quarter of 2016.
- Our office will be closed on November 24th and 25th for a company holiday.

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

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 Victoria Simpson at 612-230-3704 or vsimpson@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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