

## The Fed can induce inflation without the formality of a vote, hearing, or even public debate.

*Russ Koesterich, iShares Chief Investment Strategist in The Ten Trillion Dollar Gamble*

**T**o position your investments appropriately, long-term investors must consider the long-term outlook for the economy, interest rates, inflation and taxes. In this regard, some major changes may be on the horizon. The loose monetary policy that has been in place in recent years may soon result in some very different economic outcomes than the falling interest rates, low inflation and stable tax rates we've experienced in recent times. Therefore, investors may want to reposition their portfolios for a new economic environment that may soon arrive.

The current economic environment may soon feel the effects of annual federal government spending that far exceeds tax revenue that is being collected — or federal “deficits” as this is called. For example, in fiscal year ending September 30, 2010, the U.S. federal government collected total revenue of \$2.381 trillion while total expenditures were \$3.552 trillion, resulting in a deficit of \$1.171 trillion. That's \$1,171,000,000,000 in excess spending in only one year! The accumulated federal debt at the end of

fiscal year 2010 stood at nearly \$14.1 trillion, and based on the current political environment, deficit spending may continue for years to come.

### Federal Reserve Chairman Ben Bernanke has said that the high federal deficit is likely to lead to:

1. An increase in interest rates
2. Greater inflation
3. Decline in the value of the U.S. Dollar
4. Slower economic growth
5. Higher taxes

Source: Eaton Vance on Taxes and Politics, June 28, 2011 Legislative Update

Unfortunately, we share Mr. Bernanke's view. Therefore, we are positioning investor portfolios accordingly by introducing a number of new asset classes intended to help mitigate negative impacts of the difficult combination of rising interest rates, taxes and inflation.

To mitigate inflationary impacts, we believe that real assets like commodities, real estate and infrastructure can provide benefits to investors. In particular, investments in economic infrastructure — like airports, highways, bridges and pipelines — can be attractive income-producing investments due to the cash flow they can generate — like fees charged for the use of toll roads or bridges.

Other examples of economic infrastructure investments include companies that build and operate oil and gas pipelines. Generally organized as Master Limited Partnerships (MLPs), these companies distribute energy that fuels the economy. Because these pipeline companies have a monopoly on oil and gas distribution, they are closely regulated by the federal government but are allowed to raise prices with inflation. In recent years, numerous mutual funds and exchange-traded funds have been created to enable investors to invest in a basket of these infrastructure companies to generate dividend income and capital growth with the additional benefits of inflation protection.

We encourage investors to anticipate and prepare for the potential new economic realities foreseen by Mr. Bernanke. If you have any questions about how to do so, please feel free to contact me. I would enjoy the opportunity to talk with you and share our disciplined approach for investing in an inflationary economic environment.

*David Bromelkamp*  
President and CEO

## Upcoming Events

**As a client and community service, we welcome opportunities to share investment and fiduciary best practices with individuals, families and organizations. To this end, Allodium will host these upcoming events:**

- **Thursday, January 12, 2012:** Allodium will host an Investment Forum previewing the 2012 economic and investment outlook. Invitations with more details will be sent out soon.
- **Wednesday, March 7, 2012:** Allodium will host a client educational event on the topic of retirement income planning. Invitations with more details will be sent in February.

Please contact Rachel Halverson at 612-230-3706 or rhalverson@aicria.com to be added to our invitation list for future events and workshops.

## Headlines

- We were pleased to welcome two new clients to Allodium in the fourth quarter and appreciate their trust and business.
- Dave Bromelkamp recently spoke at two sponsored events:
  - On Tuesday, October 25th Dave spoke at the Minnesota Society of CPAs 31st Annual Not-For-Profit Conference on the topic of Investment Policy Decisions for Nonprofit Organizations.
  - On Thursday, November 3rd Dave presented to the Minnesota Association for Financial Professionals on the topic of Responsible Investing and the Fiduciary Role of Institutional Investors.
- Our office will be closed to celebrate these upcoming holidays:
  - Christmas: Monday, December 26
  - New Year's: Monday, January 2
  - Martin Luther King Jr. Day : Monday, January 16
  - President's Day : Monday, February 20

## FINANCIAL PLANNING TIPS:

### The end of the year is upon us, so consider these year-end tax planning strategies:

- Take advantage of the depressed investment market by harvesting tax losses
- Consider a Roth conversion to "pre-pay" tax on your IRAs if you believe tax rates may rise in the future
- Donate appreciated securities to charity
- Pre-pay state income taxes
- Fund health savings accounts and retirement plans, taking advantage of the catch-up contribution, if eligible

Talk to a qualified tax professional for advice relative to your situation.

### New rules make mortgage refinancing available to more homeowners

Just when we thought mortgage rates couldn't go any lower... they did. Thirty-year mortgage rates recently fell to around 4%, with 15-year rates hitting 3.3%. And now the Government is making it easier for homeowners to refinance, even if their homes are "underwater". New rules under the Home Affordable Refinance Program (HARP) allow homeowners with mortgages backed by Fannie Mae or Freddie Mac to refinance their mortgages even if they do not have equity in their homes. The new program was made available in mid-November. Inquire about refinancing with your mortgage lender or broker.

## We Appreciate Your Introductions

We launched Allodium to provide objective investment advice and personal service to a limited number of individuals, families and organizations. We embrace our responsibility to always act in our clients' best interests. 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, and we do not receive commissions for the investment options that we recommend. If you know someone who may be looking this type of objective investment advice, please contact Dave Bromelkamp at 612-230-3702 or [dbromelkamp@aicria.com](mailto:dbromelkamp@aicria.com) to arrange a friendly, no-obligation introduction.

*Steward* is published quarterly by Allodium Investment Consultants. Please contact Rachel Halverson at 612-230-3706 or [rhalverson@aicria.com](mailto:rhalverson@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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