Volatility and Wealth

INVESTMENT STRATEGY

ALLODIUM INVESTMENT CONSULTANTS

Seeking low portfolio volatility can enhance your wealth. Designing optimal investment portfolios involves not only considering potential risk and return, but also evaluating the consistency or "volatility" of those returns. If two portfolios with the same average return are compared, the portfolio with more consistent returns (less volatility) will have the potential for greater compounded returns over the long run.

Why is Low Volatility Better?

For example, two portfolios both average an annual rate of return of 8% over 5 years. One might conclude that their ending values would be identical. However, the second, less volatile portfolio generates more wealth after five years than the portfolio with higher volatility. The graph below illustrates the mathematical concept that, all else being equal, a portfolio with less volatility has a higher return potential.

Comparison of Low and High Volatility

PORTFOLIO #1: MORE VOLATILITY

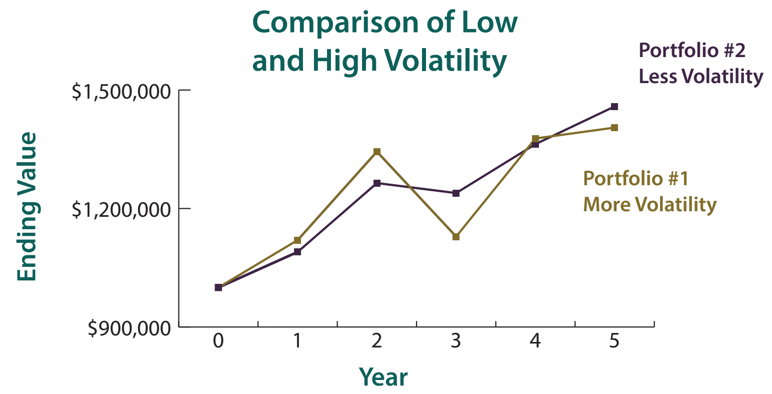
Year	Rate of Return	Ending Value
0		$1,000,000
1	12%	$1,120,000
2	20%	$1,344,000
3	-16%	$1,128,960
4	22%	$1,377,381
5	2%	$1,404,878

Average Annual Return: 8.00%
Compound Annual Return: 7.04%

PORTFOLIO #2: LESS VOLATILITY

Year	Rate of Return	Ending Value
0		$1,000,000
1	9%	$1,090,000
2	16%	$1,264,400
3	-2%	$1,239,112
4	10%	$1,363,023
5	7%	$1,458,435

Average Annual Return: 8.00%
Compound Annual Return: 7.84%



"Slow and Steady Wins the Race"

The goal of creating more consistent investment returns is a key consideration when designing portfolios. One of the reasons that alternative strategies are included as a complement to stocks and bonds is because they tend to reduce the overall volatility of a diversified portfolio.

Adding a variety of alternative strategies to traditional stocks and bonds may increase the potential to earn higher and more consistent returns over time. Diversification provides a more stable experience and may increase the likelihood of reaching financial goals.

These hypothetical portfolios demonstrate the impact of volatility and do not represent specific investments.