Fall 2009

Investment Thoughts

This Issue

Dear Clients,

When I was a kid in the 50's and 60's, it was common knowledge that Wednesday afternoon doctor appointments were simply out of the question. It took me many years to realize that Wednesday afternoons was golf time for the M.D.'s of America. Similarly, on Wednesday afternoons in the 80's (while I was with the Milwaukee Company), I noticed that by 2 p.m. I was often the only broker still in the office. Wednesday afternoon was the time for brokers to meet their clients on the links. I had little kids at home and always excused myself by saying that I made a choice "between my family and my career." But I really didn't like golf, so it wasn't much of a sacrifice; in fact, not displaying my golfing ability in public may have also been a good career choice.

A good number of our client meetings involve retirement planning and answering the question, "What next?" Next month I'll turn 62, so it isn't unusual for me to be having the conversation with someone younger than me. Whether it's explicitly asked or not, the question of "what's next?" is understandably a two-way street.

For me, "what next?" will be about the same as it has been. In my family (and in Peggy's family) we generally don't retire early. My brother is now 65 and he's still at it. Our dad kept going pretty much forever (our mom made it to 97.9). Peggy's mom tried to retire, but she didn't like it and ended up back in the office. The general philosophy is "if you like what you're doing, why quit?" Makes perfect sense to me.

The plain truth is that I do enjoy coming to the office each morning (well, at least 90% of the time). And the fact is I have a pretty good set up right now – Greg, Jodie and Andrea do most of the heavy lifting, while I get to meet with our clients, which is the part I (obviously) enjoy the most. Greg and I are three years into a 10-year deal, at which point we'll reevaluate. As I approached age 60, I had no doubt that I wanted to work until at least age 70; three years hasn't changed my mind one bit.

So is it time, finally, to take up golf? Not likely. Will you be seeing my smiling face in the office for years to come? You bet. But maybe I'll start to view Friday afternoons the way those doctors viewed Wednesdays…

Chris

Greg's Thoughts

Did you ever imagine thinking that Rip Van Winkle was one lucky fellow? Well, one commentator from our featured article does. And after the stock market's roller coaster ride over the last 12-months, can you blame her? While most of us can't ignore the happenings in the financial world, there is one vital lesson to be learned that can bring us closer to the peaceful sleep of our friend Rip: *stay the course*.

Despite one of the worst stock market declines in history, the average investor who continued contributing to a plan is in pretty good shape, and is likely to see new account highs well before the market indices return to their highs. Of course, an investor's ability to stick to that plan was heavily influenced by having a portfolio that allowed one to sleep at night, even during the market lows in March.

A savings plan and appropriate asset allocation is every bit as important as investment performance.

If anything in your financial situation has changed, or if you would simply like to review your plan and/or portfolio, please call to schedule an appointment.

Surprise! That 401(k) Account Is Looking Good

By Karen Blumenthal

The Wall Street Journal

Published October 21, 2009

Get this: Despite the biggest and broadest decline in financial markets in a generation, the median 401(k) retirement account at Vanguard Group on Sept. 30, 2009, was up 7% from where it was two years earlier, when the market was near its all-time high.

Seems impossible, doesn't it?

If you've looked at your investments lately, you might be surprised at how much they have rebounded as the Dow Jones Industrial Average has climbed back above 10000, especially if you've got a healthy mix of stocks and bonds and you've continued to make new contributions. Even if your portfolio is down, the losses are probably much smaller than you might have feared, given that the broad stock market is still down about 30% from its 2007 highs.

"If you were Rip Van Winkle and had fallen asleep for a year, you wouldn't have known we had a crisis—and you would have saved a lot of sleepless nights," says Alexandra Armstrong, a Washington, D.C., financial planner.

Stephen Utkus, a principal with the Vanguard Center for Retirement Research, took a look at Vanguard's 3.5 million 401(k) and other retirement-savings accounts and found that 60% of those who had accounts on Sept. 30, 2007, showed balances that were flat or up this year compared with two years ago.

To be sure, the results are quite uneven—and they don't mean that investors have recovered all of their principal. Many people are still showing substantial losses, especially if they were heavily invested in stocks or have stopped adding to their accounts, or both. Vanguard found that just over a quarter of its accounts remain down 11% or more, while investors 45 years old and older are much more likely than younger ones to still have significant declines in their retirement accounts.

Even so, more than half of those in the 45-to-54, 55-to-64 and 65-plus age ranges had as much in their accounts or more than they did two years ago. And younger people—those under 35—fared much better, with more than three-quarters of their retirement accounts even or ahead of September 2007.

Other major firms haven't crunched the numbers, but they say they, too, have anecdotally seen retirement accounts regain ground faster than expected. And the results are consistent over the long term: The Employee Benefit Research Institute looked at six million retirement-plan participants who have been with the same employer at least five years, and found that those investors saw their balances climb to an average of $86,513 at the end of 2008 from $61,106 at the end of 2003, an annual increase of about 7%—even after the October 2008 nightmare.

What's going on here?

Continued regular savings matter a lot. If you have continued contributing to your retirement account throughout the stock-market debacle—and even better, if your employer continues to match your contributions—your account probably has more in total dollars than you expected. Younger people, who have smaller balances to begin with, will see a bigger impact from their regular savings.

Counting Contributions

You may argue that those contributions shouldn't count, especially since a higher balance doesn't mean that you have real investment gains. Take this hypothetical illustration from American Funds using Thomson Reuters data: Assume an individual invested $10,000 on Sept. 30, 2007, putting 60% in the Standard & Poor's 500-stock index and 40% in an investment-grade-bond index, and then contributed $200 a month. At Sept. 30, 2009, that account would have been worth $13,893, even though $14,800 had been invested.

In other words, the individual still had disappointing investment losses; after all, when you save $1, you hope to have $1.05 a year later, and not 94 cents. But given the risks inherent in investing—and given the stomach-plunging experience of the last year—having nearly $14,000 is consid

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erably better than having less than $10,000.

Most important, a larger sum moves us closer to meeting our long-term financial goals—which is, after all, why we save and invest in the first place. "At the end of the day, what matters is how much you've got in your retirement account," says Michael Doshier, vice president of Fidelity Investments' workplace investing group.

Good Discipline

So-called dollar-cost averaging helps. Contributing with every paycheck, as you do in a 401(k) account, isn't necessarily the most-profitable or sexiest way to invest, but it's a good discipline that helps smooth out the impact of buying in when the market is at high and low points. And it kept you investing during the devastating declines of last March, when swimming in a shark tank seemed less risky than buying stocks.

When the market came roaring back, those cheap purchases scored bigger gains, reducing overall losses. Using the American Funds example above, an investor who put $10,000 into a 60/40 portfolio in September 2007 and then didn't add another penny was down 27% at the end of February and had $8,943 at the end of September, a loss of 10.6%. The investor who put in an additional $200 a month was down about 26% at the end of February, but only 6% at the end of September.

Another lesson: Diversification still works. Last year, with both stock and bond funds down sharply, some analysts proclaimed that diversification was dead. But this year, a mix of stock and bond funds has served you well as areas like technology, emerging-markets, energy and midcap stocks have roared back. Those who moved into cash or entirely into bonds, however, missed out on those returns.

Overall, though, more-conservative mixes have sprung back a bit faster than stock-heavy brews. Morningstar's tally of fund returns shows that most stock categories are still in negative territory over the past three years, but most bond funds are up over that time. So-called target-date funds—in which investments become more conservative over time—aimed at those who retired or will retire between 2000 to 2015 are essentially flat over the period.

In uncertain times, the basics still apply. Having more money today is encouraging and reassuring, but in this case, it doesn't call for celebration just yet. Stocks still have a ways to go, and the economy is still wobbly, particularly with unemployment high and real estate markets shaky. Prices could tumble again with a streak of bad news.

For retirees and those who can't contribute any more to their accounts, restraining spending or skipping the minimum IRA withdrawal, as allowed by Congress this year only, can have a similar effect as additional savings, giving your portfolio a bit more time to recover.

For everyone else, continuing to save regularly in a diverse mix of investments will keep you moving toward your goals and set you up for bigger gains when economic growth kicks in—and it will—and the stock market really takes off.

2010 Retirement Plan Contribution Limits

		Plan Type	
	401(k), 403(b), 457	Simple	Traditional or Roth IRA
2010 Deferral Limit	$16,500	$11,500	$5,000
Catch-up if age 50+	$5,500	$2,500	$1,000

		Plan Type	
	SEP	Simple	401(k) or Profit-Sharing
2010 Deferral Limit	20% of pay or $48,000, whichever is less	100% of pay or $11,500, whichever is less	100% of pay or $49,000, whichever is less
Catch-up if age 50+		$2,500	$5,500
Annual pay eligible for contributions capped at $245,000			

Congratulations Andrea!

I am thrilled to announce that my Halloween celebration involved getting married in New Orleans. It was a terrific experience, and Eric and I are already planning return trips for future anniversaries. I will be changing my name to Andrea Widner, which you will notice in all of my signatures; however, my email remains the same (andrea@btnwd.com). Thank you for all of your warm wishes and notes of congratulations.

Fall Newsletter

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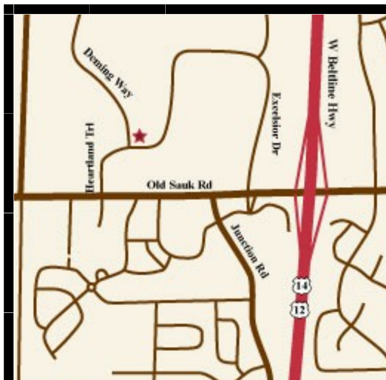

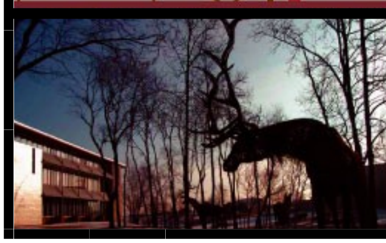

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