Winter 2010

Investment Thoughts

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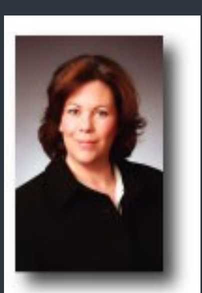

Dear Client,

We often meet people who ask us, "And what do you do?" When we respond "investment advisor" they nod, but we realize they don't know. And we realize it's possible you don't really know, either. So, what do we DO?

There are two broad categories where we seek to add value for our clients: investments and financial planning. In our profession, the common vernacular would use phrasing such as, "We utilize the principles of asset allocation to build diversified portfolios designed to meet that client's unique objectives." And that is 100% true. But our hunch is that such a description still leaves you wondering, "But what does that really mean?" Given all that has occurred over the past two years, we don't want there to be any question about how we're working for you. And that requires a more detailed explanation. So, here we go…

Investing

The investing side is probably the first thing that comes to mind, and covers the red portion of the statement above. We want your portfolio to include investments that behave differently – ideally, some will always be going up and some will always be going down. This is probably counter-intuitive (why can't they all go up?), but investments that go up together tend to go down together as well. As long as each investment provides a positive return over the long term (we aren't talking about Lehman Brothers or GM), we can use that differing pattern of returns to your advantage.

Take a look at the table at the top of the next page. Let's imagine a world where we only have two investment choices, A or B. Investment A goes up 100% in Year 1, and then loses 50% in Year 2. Investment B has the opposite results (down 50%, then up 100%). If you had $100 and chose to put 100% in either investment, and held onto it for the entire period, you would end up right back where you started. (Chris and David illustrate these cases in the table.) The same would be true of any mix of the two investments if you didn't make any changes to the portfolio.

Now, "rebalancing" is one of our favorite terms to use, and you're about to see why. What happens when you start with a mix of the two investments, and rebalance back to that original mix after Year 1? As you can see by Greg's results (now isn't that convenient?), you end up with $156.25 – that's 25% per year, compared to 0% without rebalancing! Even if you are taking out 6% per year to live on (Florence), rebalancing leaves you with $138.06 (after withdrawing $16.32 over the two years).

This is a pretty extreme example (30-year Treasuries and emerging market stocks in '08 and '09 might come close, but those weren't exactly "normal" times), but clearly rebalancing works. So why doesn't everyone do it? Because doing so requires courage, discipline and patience – 3 traits that are often in

	Investment	Start	Year 1 Return	12/31/yr1 Balance	Rebalanced Portfolio	Year 2 Return	12/31/yr 2 Balance	Rebalanced Portfolio	24-month Gross Return	Annualized Return
Chris	A	$100.00	100%	$200.00	$200.00	-50%	$100.00	$100.00	0.00%	0.00%
David	B	$100.00	-50%	$50.00	$50.00	100%	$100.00	$100.00	0.00%	0.00%
Greg	A	$50.00	100%	$100.00	$62.50	-50%	$31.25	$78.13		
	B	$50.00	-50%	$25.00	$62.50	100%	$125.00	$78.13		
	Total	$100.00		$125.00	$125.00		$156.25	$156.25	56.25%	25.00%
Florence*	A	$50.00	100%	$100.00	$58.75	-50%	$29.38	$69.03		
	B	$50.00	-50%	$25.00	$58.75	100%	$117.50	$69.03		
	Total	$100.00		$125.00	$117.50		$146.88	$138.06	38.06%	17.50%

** Florence's 6% distributions amount to $7.50 at the end of year 1 and $8.81 at the end of year 2*

short supply. "Buy low, sell high" sounds simple, but executing it is anything but simple when it involves selling your favorite bank stock in October 2007 to buy CD's paying 2%, or taking those CD proceeds to buy emerging market stocks in March 2009. That's where we come in.

We can provide the discipline (picking the right asset classes and capable fund managers) and courage (believing in the process even when emotions run high). What we ask of you is patience – to trust that our system works, to keep the long-term in focus when every short-term instinct is screaming at you to sell everything and run for the door. Thank you for providing that patience throughout the trying times of 2008-09.

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Financial Planning

We tend to summarize the second part of our job in two questions: "How much do you need and when do you need it?" But really, it encompasses a lot more. If you have a question about anything financial – *anything* – we want you to feel comfortable calling us about it. There is nothing worse than hearing a client say, "Oh, I didn't know you did that…" Some of the most frequently asked questions include:

- When can I retire, and how much can I expect to live on?
- When should I begin taking Social Security?
- Should I refinance my home?
- Is it better to contribute to my employer plan or a Roth?
- What is the best way to make a charitable donation?
- How can I eliminate my credit card debt?
- What annuity/pension option should I take?
- How much life insurance should I have, and what type of policy should I use?
- What is the best way to structure my estate for my heirs?
- What is the best way to pay for college tuition?
- How/when should I discuss money with my children?

The list is virtually endless – and we're glad it is. A large part of our rationale for using mutual funds instead of individual stocks is that we are hiring professional managers to evaluate which companies to buy and sell on a daily basis; this allows us to work with you (and coordinate with your tax and legal professionals) on these other financial matters without neglecting your portfolio. Please, take advantage of that opportunity.

What do we do? Investments and financial planning. We hope you now have a better perspective on what that means to you.

The 2010 Roth IRA Conversion Opportunity

In addition to annual Roth IRA contributions (see the next section below), you have the opportunity to convert existing traditional IRA funds to a Roth IRA. Basically, deciding to convert involves paying ordinary income tax on the current balance in exchange for the Roth's tax-free treatment of any future growth. Depending on your expected tax bracket and number of years until withdrawals will begin, this trade-off can be very beneficial to you.

Of course, there was a catch (isn't there always?): the opportunity to convert was limited to individuals with income under $100k. However, a clause in the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) removes that restriction for 2010. This creates a new opportunity for you to evaluate whether a Roth conversion is an attractive option.

Unfortunately, there is once again a catch: the Wisconsin legislature has yet to adopt the Federal standard, leaving the conversion a prohibited transaction for state income tax purposes (and imposing tax penalties that make conversion prohibitively expensive unless Wisconsin conforms to the federal standard). The conversion rule has been adopted by every state other than Wisconsin, so only Wisconsin residents have to deal with this uncertainty. We will continue to monitor the situation closely and keep you apprised of any changes. This issue does fall under the umbrella of "topics we want to discuss with you," so please contact us to see if a Roth conversion may be right for you.

ROTH IRA REMINDER

You have until April 15th to make your 2009 Roth IRA contribution. The maximum amount for 2009 is $5,000, or $6,000 if you were over 50 years old in 2009. We are convinced that the Roth IRA is nearly a 'no brainer' as a savings vehicle. It combines significant long-term tax savings with more liquidity potential than other retirement structures. Take advantage of it!

In addition, if you have a retirement plan, you should review your contribution rate. For 2010, the maximum you can contribute to your 403(b), 401(k), or 457 plan is the lesser of $16,500 or 100% of your income. If you are age 50 or older, you may contribute more to "catch up". This year, for instance, you may increase your contribution by $5,500, for a total of $22,000. If you have a Simple IRA the standard limit is $11,500 with a catch-up of $2,500.

The Roth contribution limits will remain the same for 2010. The maximum you can contribute in 2010 is $5,000 with an additional $1,000 catch-up for those 50 and over.

It is a great time to review your account and investment objectives. Please give us a call to set up an appointment or to discuss your account.

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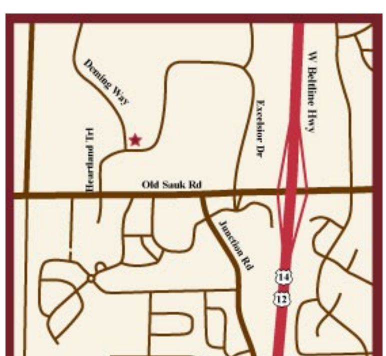

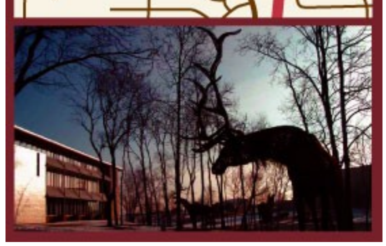

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Winter Newsletter

This Just In...

Bill for cheaper Roth IRA conversions unanimously approved by Legislature

State residents of all income levels will be able to convert traditional individual retirement accounts to Roth IRAs without penalties under a bill the Assembly passed unanimously Thursday.

The bill already had been unanimously approved by the Senate earlier this month, and now heads to Gov. Jim Doyle for his signature.

"Middle class families and our military families want to have as many opportunities (as possible), and we want to give them as many opportunities, to save for retirement. And where appropriate, to take retirement savings and invest them to help create jobs and grow our economy," said Rep. Louis Molepske Jr., D-Stevens Point, the chief Assembly sponsor of the bill.

Under current law, only Wisconsin residents who earn less than $100,000 a year can convert their accounts without penalties. If the bill is signed, the state will conform with federal law, which as of January began allowing people of all incomes to make penalty-free conversions. Many states have adopted the federal standard, but Wisconsin currently still charges penalties, which can range from about 5 percent initially to 2 percent annually.

"With so many people still struggling in these tough economic times, it's critical that we do what we can to protect Wisconsin's middle class families from losing the nest eggs they've worked years to build," Assembly Speaker Mike Sheridan, D-Janesville, said in a statement. "Eliminating penalties on retirement accounts will help Wisconsin families secure their financial futures."

Under the bill, members of the military - including the reserve and National Guard - will benefit through a variety of provisions. Those include service members and their families being allowed to draw from IRAs without penalties if they are called to active duty, and people who receive military death benefits will be allowed to contribute to a Roth IRA regardless of contribution limits. Reservists called to active duty will also be able to make withdrawals from health savings accounts without penalties.

It's estimated that the legislation will reduce state tax collections, according to the Legislative Fiscal Bureau, but is expected to save taxpayers money.

Business groups such as Wisconsin Manufacturers and Commerce applauded the bill's passage.

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