Fall 2011

Investment Thoughts

This Issue

Dear Client,

I have 3 birdbaths in my backyard, all heated. On the weekend of November 11, I plugged in 2 of them, but put the 3rd one off. On the night of November 15, the third one froze. Somehow, this came as a big surprise to me.

What about the snowstorm here in Madison on November 9th? At this point – that is, looking back – we say, "Of course I wasn't surprised." But nearly every client conversation that day began with "How about this snow?" or "I'm not ready for this yet!" And in mid-October, when it was an unseasonable 80 degrees (it was warmer here than in Phoenix!), people were saying there was no chance of a White Christmas this year.

It is human nature to get caught up in the moment, to believe that "what is" is the same as what "will be." Are the odds of a White Christmas in Madison any different today than they were in mid-October? Probably not. But if you compared the opinions of 100 residents now to 100 residents then, I think you would see dramatically different results.

I have 100+ years of data on record (in the good old Farmer's Almanac), and 60+ years of personal experience, to tell me when to plug in the bird baths. But I made a decision based on what I was seeing that moment and ended up with a frozen bird bath. It wasn't "different this time."

We chose the "Sit Tight" article on the next page because we disagree with the "roughly 3 out of 4 advisors." Just like the historical weather patterns in Madison, Wisconsin, we have over 100 years of market data and 40+ years of experience to draw on, if we are just willing to step back from the moment and use it. I read the article and think, "Boy, how can so many smart people get it that wrong?" Greg says it's a natural outcome given the incentives of each party. The 401k providers want to keep the plans. Their goal is to provide advice that will lead employees to tell their employers the plan did a good job. Since an employee really can't "pull the account" while still working, the providers are judged over a fairly long time frame. The goal of an advisor with a nervous client on the phone is to hang on to the client – that day. Give him what he's asking for. "Stop the bleeding! Do Something!"

Our thinking is more like our old friend Edwin's. "Don't just do something. Stand there." If you have tuition due in January (or next September), or a new car to purchase sometime next year, those funds belong in cash. But if you are 58 years old and expect to retire in 5 years, and then live on your retirement funds for another 25 or 30 years, your time horizon is 30 to 35 years. Corporate profits grow over long periods; and eventually (eventually), the stock market follows. In the meantime, all this crazy volatility is your friend. Buy low.

Our phones were pretty quiet on May 3, when the Dow was at 12,800. Nobody said, "I'm going to move my entire 401k to cash." Those calls tend to come on days like October 4th, with the Dow at 10,400. "Keeping one-third of a portfolio tactical" so that investors can "move out of equities," as the article states, means one-third of the portfolio probably would have been in cash and would have missed October this year. Which, as you may have noticed from your statement, was a pretty good month. If your payday deposit went in, as usual, on October 4, you're up something like 13%. When (not if) we get back to 12,800, that October deposit should be up about 23%.

The market lesson is not to get caught up in the moment. The life lesson is to enjoy the moment because you have the right perspective. You really enjoy that 80-degree October day because you know the November snowstorm is on its way. And next year I'll remember to plug in that third bird feeder.

We are thankful for all of our blessings this year, which includes the privilege of working with clients like you. Thank you for your continued trust and referrals. And Happy Thanksgiving!

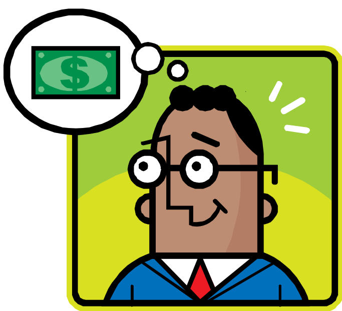
Sincerely, Chris Bugg

Retirement Plans to Savers: Sit Tight
By: Jonnelle Marte
Date: October 10, 2011

At a time when many advisers and professionals are giving up on "buy and hold," many large 401(k) companies are telling investors to stand pat. Who's right?

During the worst three-month period for stocks since 2008, employees who turned to their 401(k) plans for advice heard an almost uniform message: avoid drastic portfolio changes and keep contributing. Fidelity has told investors to keep contributing so they can take advantage of gains when the market recovers. After Standard & Poor's downgraded U.S. government debt, T. Rowe Price posted a message online from its chairman telling 401(k) savers to stick with their long-term strategies. "When you allow short term events to impact your decision making, it very rarely is successful," says Michael Skinner, a vice president and head of client experience for T. Rowe Price Retirement Plan Services.

These calls to stay calm may fly in the face of the advice employees are getting from their personal advisers. Last month, roughly three out of four advisers said they believe a tactical approach -- trading and tweaking with market movements -- can outperform a passive, "set it and forget it" strategy over the long term, according to a survey of 500 financial advisers surveyed by Jefferson National, a company that provides investments and services to financial advisers.



Data suggest at least some employee savers are listening to their advisers and getting more active, even within their 401(k) plans. In retirement plans sponsored by Vanguard, about 2.5% of employees made trades in August, and while that's still a tiny minority, it's almost twice as many as did so in May and June. About 2% of 401(k) participants at T. Rowe Price made changes, moving mainly from equity funds to fixed income, says Skinner.

After years of telling investors to hang in there, advisers now argue that moving from overpriced areas to sectors that provide stability and income can help investors reduce volatility, advisers say. Jeff Seymour, a wealth manager in Cary, N.C., said he took gains on long-term Treasurys in late September, after the Federal Reserve's announcement that it was going ahead with a policy meant to lower long-term rates. He sold equities earlier this year, he says, and is looking to buy beaten-down stocks starting next spring.

For their part, firms like Fidelity and T. Rowe Price say saving for retirement requires a long-term focus and often point out investors who don't do anything at all come out ahead. A Fidelity analysis of 401(k) performance during the 2008 downturn found that investors who maintained their allocations throughout the crisis saw their balances increase by 50% through June, double the 25% increase for those who temporarily pulled out of stocks during the market decline.

But some providers have recommended making minor changes. ADP Retirement Services told clients to evaluate their accounts at least quarterly. And in an online Q&A, Vanguard told investors to consider tweaking their allocation if they find themselves uncomfortable with their strategy. For those who are anxious, but want to avoid dramatic moves, some advisers recommend limiting trading to only a portion of a portfolio. Steve Blumenthal, chief executive officer of CMG Capital Management Group, says he recommends keeping one-third of a portfolio tactical so that investors can have the leeway to move out of equities and reduce volatility when the market is bumpy, without losing all equity exposure. "Being tactical makes more sense," says Blumenthal.

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Year-End Planning Checklist for Investments

- ☐ Review your retirement plan contributions. As shown below, the IRS limits have gone up for 2012. If you have been contributing the maximum, be sure to raise your contribution to the new limit. No matter how much you are contributing, you should absolutely take full advantage of any employer match. If you can, try to increase your contribution by 1% or more each year.

- ☐ Plan to contribute to a Roth IRA – 2011 through April 15th or create a regular savings plan for 2012.

- ☐ Do a preliminary review of your tax return. Should you pay your property taxes in 2011 or 2012? Are there any charitable donations you should make prior to year-end? Do you have any appreciated securities that you could use to make the donation?

- ☐ Review your capital gains or losses for the year. Are there any unrealized losses you should take advantage of to reduce your taxes? If you are in the 15% bracket, should you realize any capital gains (which would be taxed at the special 0% capital gains rate)?

- ☐ If you are over age 70 ½, did you take your required distribution from your IRA?

- ☐ If you are saving for college through an EdVest account, make your contribution by 12/31 to get the state tax deduction.

2012 RETIREMENT PLAN CONTRIBUTION LIMITS

	PLAN TYPE			
	401(k), 403(b), 457	**Simple**	**Traditional or Roth IRA**	**SEP**
2012 Deferral Limit	$17,000	$11,500	$5,000	N/A
Catch-up if age 50+	$5,500	$2,500	$1,000	N/A
2012 Contribution Rates	100% of pay or $17,000, whichever is less	100% of pay or $11,500, whichever is less	100% of pay or $5,000, whichever is less	N/A
Employer Contributions	Match and/or profit-sharing	Up to 3% match	N/A	20% of pay or $50,000, whichever is less
Annual pay eligible for contributions capped at $250,000				

It's the holiday season, so let's spend time with loved ones...

Due to the schedule of the New York Stock Exchange, Buttonwood Partners, Inc. will be closed on the following dates, giving us all time to enjoy our family and friends:

- November 24 (Thanksgiving Day)
- December 26 (in observance of Christmas Day)
- January 2 (in observance of New Year's Day)
- January 16 (Martin Luther King, Jr. Day)

On Friday, November 25th, we will be open from 8:30 a.m. until 12:00 p.m.

"If you would be wealthy, think of saving as well as getting. "

-Benjamin Franklin

Fall Newsletter

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