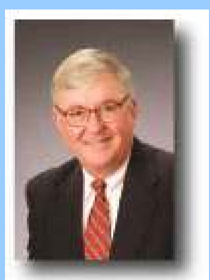
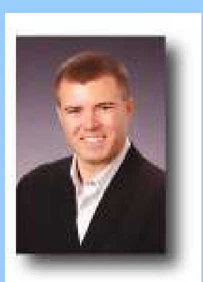
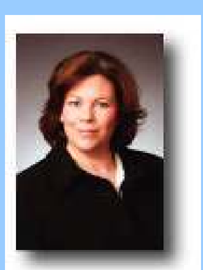
Summer 2011

Investment Thoughts

This Issue







Dear Client,

The Dog Days of Summer, indeed. If only the weather had been the only thing responsible for making us feel a little uncomfortable. I guess we weren't the only ones, either - over the past three weeks we have fielded more calls than at any point since the market bottom (February/March2009) following the financial crisis. The typical conversation was highlighted by one question: "Is there something I/we should be doing?" It is a perfectly rational inquiry, and important enough that we felt repeating the answer here (or allowing you to read it for the first time) was a worthy opening to our summer newsletter.

Should you be doing something with your portfolio? That answer is more than likely "no" – with the important caveat of "unless your goals have changed." The (considerable) list of concerns that we've been dealing with these past two-plus years is not unusual coming out of a recession, nor is the pause we are experiencing in the stock market this year (the major indices are roughly breakeven for 2011 as we write this). In fact, "Since World War II there have been 10 occurrences of back-to-back double-digit advances; the average return in the third year has been 1.7%, and only twice (1951 and 1994) did the market extend the streak of 10%-plus to three." The market has seen 7-10% declines twice since spring, but both have stopped well short of the 16% swoon we experienced in the spring of 2010. Basically, everything we are experiencing is safely within the realm of "normal" market behavior.

If this short-term movement is normal, what about the long-term? We remain confident that we'll look back in March 2019 (a decade out from the depths of the financial crisis) and be pleased with the returns of your stock funds. Part of that confidence comes from the fact that, following the two prior "lost decades" (1929-39 and 1964-74), 10-year returns have averaged a touch over 15% (American Funds, "After big declines, potential opportunities"). Of course, that's much easier to say after markets have basically doubled in the first two years of the recovery. What does that mean for the remaining eight years? Well, in order to reach that 15% annual return in March 2019, stocks would average just over 9.2% per year. Not quite what we've seen the past two years, but certainly a figure that rewards you for investing for the long-term.

So, should you be doing something? Yes, you should be saving as much as you can (see the article on page 3) and keeping us up-to-date on any big changes in your life (see page 2). Oh, yes, and the most important item of all – enjoying the final month of summer before it is gone!

Sincerely, Chris Bugg, Greg Rademacher and Jodie McLellan

"MEET" YOUR BUTTONWOOD TEAM

With the very welcome addition of our new assistant, Linda, to our team, we've wanted to offer you a refresher on our team structure. Chris, Greg and Jodie work together to manage your accounts. They are our decision people and work hand in hand with each other to make sure that your investments are coordinated with your goals. If you have an investment question – what should my 401k look like, can I afford to buy a new car, is now a good time to change my portfolio? – they are the people to talk with. We all try to be as aware as possible of what's going on in your account, so don't hesitate to ask for any of us if your "primary" contact isn't available.

Andrea is their assistant, and she sees herself as your assistant as well. She is not the one to ask questions of, but rather, the one to make requests to – please send funds to my bank account, change my address, schedule a time for me to meet with Chris, etc. She tries to make sure that if you need anything, we help you get it.

Linda, our most recent addition, was hired to help Andrea out a bit. Linda will be a taking over the paperwork, which includes opening new accounts, processing forms, creating the newsletter, etc. She will also be Andrea's back up for the times when Andrea is not available.

MEET OUR NEW ASSISTANT…

Hello! My name is Linda Kwiatkowski and I am delighted to be joining Buttonwood Partners. Chris, Greg, Jodie and Andrea have been wonderful to work with. My position as Office Assistant means I see to many of the administrative needs of the group. Let's face it, financial management generates a lot of paperwork, and it is my job to help keep everything organized and complete.

I am a lifelong resident of Madison and worked as an Administrative Assistant in a law office for the past five years. I am finding the switch to the financial industry to be fascinating and I love the new challenge. When I am not working, my favorite activities include being a mother to two daughters (ages 12 & 10 - they keep me on my toes), going to my family's cottage up north, and theatre.

I have enjoyed becoming acquainted with some of you already and look forward to the opportunity to meet many more of you in the near future. I will always be happy to assist you in any way I can.

"IS IT TIME TO CALL BUTTONWOOD?"

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 we discuss with clients include:

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

In addition, there are certain times when we really must insist that we hear from you, such as:

- Changing jobs
- Getting married
- Buying a house
- Having a child
- Receiving an inheritance
- Retiring

If a life event will impact your answers to the questions, "How much do I need?" and "When do I need it?" then it's time to pick up the phone (or fire up the computer) and contact Buttonwood Partners. We'll look forward to hearing from you.

WHAT TO BRING TO A MEETING

Now that you know the different areas in which we can help you, the inevitable question is "What should I bring to the appointment?" Chris likes to say that you should bring a list of "everything you own and everything you owe". Since even that can be a daunting task, we can help narrow it down a bit. The most useful documents you can bring to a meeting are:

- Account statements
- Social Security statements
- Pension plan statements
- Previous year tax return
- Information on home mortgage and car loans
- Credit cards statements or balance and interest rate information

These are a few examples of the information that will help your meeting run smoothly and allow us to give you the best financial advice we can.

3 Biggest Drivers of Retirement Savings Success

By Catey Hill
July 1, 2011

As retirement nears, many boomers are coming face to face with the fact that their nest egg might not provide them with enough income to last through retirement. In fact, more than 40% of baby boomers are at risk of not even having enough retirement income to pay for basic retirement expenses like uninsured health-care costs, according to a 2010 study by the Employee Benefit Research Institute. And in looking at this situation, it seems clear that whatever we're doing to save for retirement just isn't cutting it. So, what works?

A survey of nearly 3,000 workers by Putnam Investments reveals that, while there's not a magic bullet for our stagnating nest eggs, some strategies tend to lead to greater retirement savings than others. Here are the three behaviors that have the greatest impact on the size of Americans' nest eggs:

1. Employing a consistent, long-term savings and investing strategy.

It may seem like a 'duh,' but let's face it, a lot of people simply don't practice a disciplined approach to long-term savings and investing, which, Putnam says, is "the most powerful factor" in determining the size of our nest eggs, regardless of income level. Case-in-point: The people who seemed most able to replace their current income in retirement – those who were on track to replace 100% or more of their current income — and the people who seemed least able – those who were on track to replace less than 45% — had the same annual mean household income, $93,000. "A clear difference-maker appears to be behavior around savings," not income, the survey concludes.

How to do it: At regular intervals, say, every two weeks or once a month, put away a percentage of your salary — experts recommend saving at least 10% of your income — into your retirement fund. Then, leave it alone, revisiting your investment selections with your financial adviser about once a year or so.

2. Working with a financial adviser

Those with a paid financial adviser had an 82% chance of replacing all of their current income in retirement, while those without a paid adviser had just a 61% chance, the study found. This finding held true across income levels. (Note: Putnam sells its funds through advisers.) Jon Goldstein, a spokesperson for Putnam, says these findings can at least partially be explained by a so-called "multiplier effect" — part of this retirement success is due to the fact that advisers make people save more, and part of it is due to the fact that people who are likely to save more and more diligently are also more likely to seek out advisers.

How to do it: If you don't already have an adviser, look for one in your area at NAPFA.org — the National Association of Personal Financial Advisors' Web site, which lists thousands of accredited, fee-only advisers. You can also check out BrightScope.com's new adviser tool, which allows you to see customer ratings of advisers.

3. Saving money in your workplace retirement plan

"The best-prepared Americans are participants in 401(k) or other defined-contribution plans who currently are contributing 10% or more of their income to their plan," the study concluded. What's more, even those who are currently contributing just 4% to 10% of their income to their retirement plan are still doing pretty well, with an 84% chance of being able to replace their current income in retirement. On the flip side, the least-prepared Americans are those who are not eligible for an employer-based retirement plan (that's roughly half of the U.S. population, the study finds); this group only has a 46% chance.

How to do it: Aim to save a least 10% of your income in your 401(k) plan, more if you're behind on your retirement savings. If your employer doesn't offer a retirement plan (and even if it does), open an IRA or Roth IRA so you can take advantage of these tax-advantaged retirement options, experts say.

To be sure, this study isn't the final word on effective retirement savings. For one, as anyone who's glanced at a newspaper recently knows, our Social Security payments may look quite different in the coming decades than they do now — a fact that could have a large impact on retirement income. What's more, while the Putnam study highlights that some of these trends hold true regardless of our income levels, it doesn't focus a lot on the fact that income matters: It's often much easier for affluent people to boost their savings rate and afford an adviser than it is for those in lower income brackets.

Still, the Putnam findings – though not earth-shattering – serve as a gentle reminder that taking simple steps like contributing regularly to a 401(k) and reviewing your financial plan with an adviser once a year can make a big difference in your bottom line.

"Annual income twenty pounds, annual expenditure nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery. "

-Charles Dickens

David Copperfield

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Summer Newsletter

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