1st Quarter 2013

# Investment Thoughts

## This Issue



Dear Client,

"Walking in a winter wonderland." It sounds so idyllic in the song, doesn't it? Of course, when it comes to the real thing many of us who live in "wonderland" try to avoid those walks whenever possible – simply trying to safely traverse an icy parking lot without slipping is enough adventure for one day! Even for the most sure-footed of us, we count ourselves lucky if we can count the number of falls on one hand by the end of the season…

Why the sudden emphasis on the negative? After all, we are self-described "eternal optimists." But while January and welcoming in the New Year usually focuses on one's hopes and dreams for the upcoming year, we thought we'd turn the table for our first newsletter of 2013 and feature an article on fears and anxieties. We found Mr. Diamond's insights (see page 2) both entertaining and relevant. As we discussed the article, we found ourselves reflecting on our own "risk mismatches," whether it was Jodie's fear of flying, Greg's bad habit of not buckling up on short drives, or Chris' love of cheeseburgers. We encourage you to take part in the exercise and identify a couple of areas where a little "constructive paranoia" could benefit you.

After completing our personal examinations, it wasn't hard for us to extend the analogy to the world of investments. Every week we are confronted with stories about investor risk aversion, about the unwillingness to believe (and invest) in the stock market, about the need to avoid the next 2008-09 at all costs. We see statistics about the record outflows from equity mutual funds over the past four years, or about the record low allocation to stocks among institutional managers, even as the stock market was in the middle of a rally that has seen it more than double. "The Lost Decade" in stocks remains fresh in investor's minds, and many of them have decided to "skip that daily shower…"

Whether approaching the issue from a personal or professional angle, we recognize that the problem isn't in the fear itself, but in the response to it. How many people who are afraid of flying drive everywhere (John Madden, for one), despite the fact that automobiles are significantly more dangerous than planes? How many investors desperate to avoid a bear market have dramatically lowered their odds of a successful retirement by sitting in cash earning 0% and/or stopping their retirement plan contributions? It's not that the fears are irrational (who wouldn't like to avoid the next crash), but occasionally the "solutions" are.

How can one avoid creating new problems through their reactions to old fears? By being honest with oneself, facing one's fears head-on, attempting to change one's thinking from "possibilities" to "probabilities," and then acting accordingly. In Jodie's case, she remains terrified of flying, but still jumps on a plane every year to spend a week in Florida. The possibility of a crash weighs on her right up until the moment the wheels touch down, but her recognition of the probability of a safe flight allows her to buy the ticket. In the market, most people can tell you about Black Monday in 1987 (and its 22% drop), but only a fraction of those would remind you that the Dow Jones and S&P 500 indices actually finished the year with gains. The possibility of a severe downturn in the market is real (and becomes almost a certainty if you extend the time horizon out far enough), but we hope you don't let it overshadow the probability of positive long-term returns that a diversified portfolio and disciplined savings plan can deliver (please refer to the new retirement plan contribution limits on page 3). Like Mr. Diamond, we must strive to prevent "our hypervigilance from paralyzing or limiting us;" our promise to you is that we'll "think constantly like a New Guinean" in our approach to your financial goals.

As always, we value your comments and questions, and enjoy our opportunities to catch up. Don't hesitate to call or come in for an appointment. We would also like to take this opportunity to say "thank you" for all the wonderful people your referrals have allowed us to meet.

Sincerely,

Greg Rademacher, Chris Bugg and Jodie McLellan

# *"That Daily Shower Can be a Killer"*

***By: Jared Diamond***

***Date: Jan. 28, 2013***

The other morning, I escaped unscathed from a dangerous situation. No, an armed robber didn't break into my house, nor did I find myself face to face with a mountain lion during my bird walk. What I survived was my daily shower.

You see, falls are a common cause of death in older people like me. (I'm 75.) Among my wife's and my circle of close friends over the age of 70, one became crippled for life, one broke a shoulder and one broke a leg in falls on the sidewalk. One fell down the stairs, and another may not survive a recent fall.

"Really!" you may object. "What's my risk of falling in the shower? One in a thousand?" My answer: Perhaps, but that's not nearly good enough.

Life expectancy for a healthy American man of my age is about 90. (That's not to be confused with American male life expectancy at birth, only about 78.) If I'm to achieve my statistical quota of 15 more years of life, that means about 15 times 365, or 5,475, more showers. But if I were so careless that my risk of slipping in the shower each time were as high as 1 in 1,000, I'd die or become crippled about five times before reaching my life expectancy. I have to reduce my risk of shower accidents to much, much less than 1 in 5,475.

This calculation illustrates the biggest single lesson that I've learned from 50 years of field work on the island of New Guinea: the importance of being attentive to hazards that carry a low risk each time but are encountered frequently.

I first became aware of the New Guineans' attitude toward risk on a trip into a forest when I proposed pitching our tents under a tall and beautiful tree. To my surprise, my New Guinea friends absolutely refused. They explained that the tree was dead and might fall on us.

Yes, I had to agree, it was indeed dead. But I objected that it was so solid that it would be standing for many years. The New Guineans were unswayed, opting instead to sleep in the open without a tent.

I thought that their fears were greatly exaggerated, verging on paranoia. In the following years, though, I came to realize that every night that I camped in a New Guinea forest, I heard a tree falling. And when I did a frequency/risk calculation, I understood their point of view.

Consider: If you're a New Guinean living in the forest, and if you adopt the bad habit of sleeping under dead trees whose odds of falling on you that particular night are only 1 in 1,000, you'll be dead within a few years. In fact, my wife was nearly killed by a falling tree last year, and I've survived numerous nearly fatal situations in New Guinea.

I now think of New Guineans' hypervigilant attitude toward repeated low risks as "constructive paranoia": a seeming paranoia that actually makes good sense. Now that I've adopted that attitude, it exasperates many of my American and European friends. But three of them who practice constructive paranoia themselves — a pilot of small planes, a river-raft guide and a London bobby who patrols the streets unarmed — learned the attitude, as I did, by witnessing the deaths of careless people.

Traditional New Guineans have to think clearly about dangers because they have no doctors, police officers or 911 dispatchers to bail them out. In contrast, Americans' thinking about dangers is confused. We obsess about the wrong things, and we fail to watch for real dangers.

Studies have compared Americans' perceived ranking of dangers with the rankings of real dangers, measured either by actual accident figures or by estimated numbers of averted accidents. It turns out that we exaggerate the risks of events that are beyond our control, that cause many deaths at once or that kill in spectacular ways — crazy gunmen, terrorists, plane crashes, nuclear radiation, genetically modified crops. At the same time, we underestimate the risks of events that we can control ("That would never happen to me — I'm careful") and of events that kill just one person in a mundane way.

Having learned both from those studies and from my New Guinea friends, I've become as constructively paranoid about showers, stepladders, staircases and wet or uneven sidewalks as my New Guinea friends are about dead trees. As I drive, I remain alert to my own possible mistakes (especially at night), and to what incautious other drivers might do.

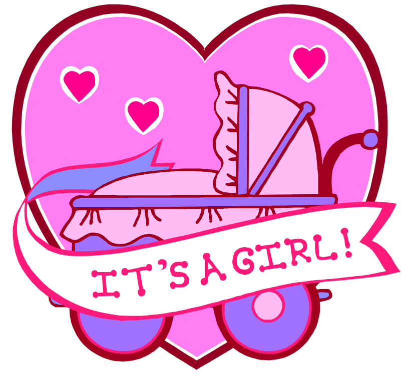
My hypervigilance doesn't paralyze me or limit my life: I don't skip my daily shower, I keep driving, and I keep going back to New Guinea. I enjoy all those dangerous things. But I try to think constantly like a New Guinean, and to keep the risks of accidents far below 1 in 1,000 each time.

*Jared Diamond, a professor of geography at the University of California, Los Angeles, is the author of the new book "The World Until Yesterday: What Can We Learn From Traditional Societies?"*

# Andrea's Baby News!!!!

## Welcome Aria Quinn Widner!

My husband, Eric, and I welcomed Aria Quinn Widner to the world at 11:09 pm on 11/28/12. She weighed in at 9lbs 4oz and was 21 inches long. Aria's a smiley baby who loves to coo and babble. The past few months have been an absolute whirlwind and more fun than I could have ever imagined. Thank you all for your kind words and thoughts. I'm excited to be back at work and ready for action!




## 2013 RETIREMENT PLAN CONTRIBUTION LIMITS

| | PLAN TYPE | | | |
|---|---|---|---|---|
| | **401(k), 403(b), 457** | **Simple** | **Traditional or Roth IRA** | **SEP** |
| **2012 Deferral Limit** | **$17,500** | **$12,000** | **$5,500** | **N/A** |
| **Catch-up if age 50+** | **$5,500** | **$2,500** | **$1000** | **N/A** |
| **Employer Contributions** | **Match and/or profit-sharing** | **Up to 3% match** | **N/A** | **25% of pay or $51,000, whichever is less** |
| ***Annual pay eligible for contributions capped at $250,000*** | | | | |

## Chris' Update

*"The combination of this being who I am and what I do and having absolutely no other interests makes me think this is what I'll be doing for a while," Lloyd Blankfein, CEO of Goldman Sachs*

As many of you know, I celebrated my 65th birthday earlier this year. Maybe it had to do with filling out my Medicare application (or perhaps it had more to do with preparing to become a grandpa), but this birthday caused me to pause and reflect a bit more than most.

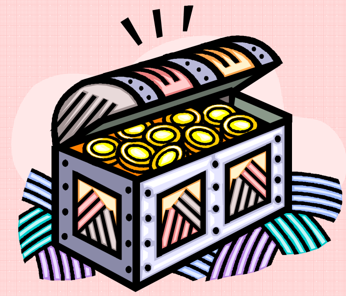
Back in the Fall of 2009, I wrote that, "As I approached age 60, I had no doubt that I wanted to work until at least age 70; three years hasn't changed my mind one bit." I'm happy (and somewhat proud) to report that these past 2 ½ years haven't altered my thinking, either. Like Lloyd, this is part of "who I am and what I do." After 30 years, I still find my tendency to spend many a weekend morning in the office a comforting routine rather than a tedious chore, and I'm rather looking forward to another 5 years with my team here at Buttonwood.

Now, unlike Lloyd, I have discovered that Peggy and I do have a bit of an interest in traveling, so I'll freely admit to being away from the office more than has been my norm in the past. But I've also discovered that the benefit of technology and surrounding oneself with top-notch people is that I'm able to do so and barely miss a beat. If you happen to catch me during one of those stretches (or did in 2012), I trust you'll agree.

So check back with me in January 2018 and we'll see what my plan is at that time; until then, I look forward to continuing our dialogue (and exchange of stories!) for a few more years.

"Be you in what line of life you may, it will be amongst your misfortunes if you have not time properly to attend to pecuniary [monetary] matters. Want of attention to these matters has impeded the progress of science and of genius itself."

**William Cobbett**

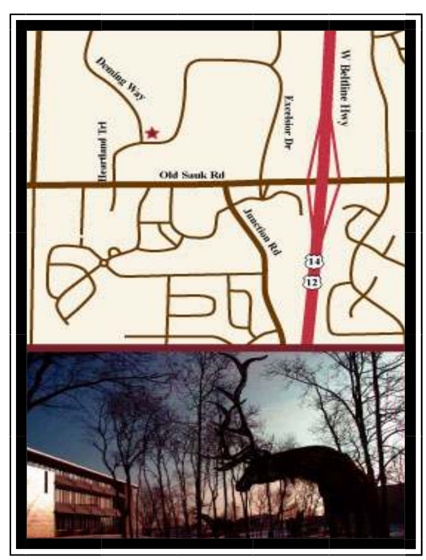



*Buttonwood Partners, Inc.*
*701 Deming Way, Suite 100*
*Madison, WI 53717*


*Q1 Newsletter*

B&I ADVISORS
A DIVISION OF BUTTONWOOD PARTNERS, INC

buttonwoodpartnersinc.com





**Christopher Bugg**
**President**
**(608) 827-6412**
**cbugg@btnwd.com**

**Greg Rademacher**
**Partner**
**(608) 827-6414**
**greg@btnwd.com**

**Jodie McLellan**
**Registered Representative**
**(608) 827-6413**
**jodie@btnwd.com**

**Andrea Widner**
**Registered Assistant &**
**"Keeper of the Calendar"**
**(608) 827-6411**
**andrea@btnwd.com**

**Linda Kwiatkowski**
**Administrative Assistant**
**(608) 827-6411**
**linda @btnwd.com**