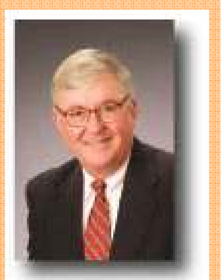
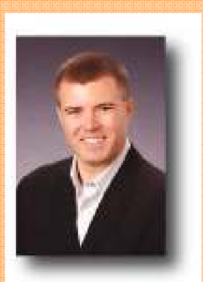
Third Quarter 2013

Investment Thoughts

This Issue





Dear Client,

We hope you've had many wonderful summer adventures and managed to check everything off of your "to -do" wish list. As the kids head back to school, it's time to face the return of earlier bedtimes and evenings filled with homework instead of free time.

To help ease you back into the swing of things (and introduce our theme for this newsletter), I'll start you off with a pretty basic math question: what is the square root of 4? If you answered "2," congrats, you listed a correct answer. Note that I said "a" correct answer, and not **the** correct answer. Because "negative 2" is equally correct and "+/- 2" covers both answers.

This math concept was the first time in school that I was faced with the notion that there wasn't always just one answer to a problem, that the world wasn't completely black and white. (Please don't get me started on the notions I had during calculus!) This realization wasn't the easiest for a first-born, Type A personality to come to grips with, but it was one of the most important. And it's one we would like to revisit in this edition of "Investment Thoughts."

For as much as we know our world is various shades of gray, we are drawn to the comfort of simplified, iron-clad rules to guide our decision making. The order imposed by such rules reduces our anxiety about making a decision, as well as the fear of remorse at concluding we made the "wrong" choice after the fact. This seems to especially be the case in the financial world, where headlines regularly proclaim such "universal truths" as:

> "Your portfolio stock percentage should be 100 minus your age."
>
> "If you set aside 10% of your income for retirement you will be fine."
>
> Either "Take Social Security benefits as soon as you can" or "Nobody should take benefits prior to age 70" (Nothing confusing there, right?)
>
> "You should own your home debt-free prior to retirement."

Of course, you aren't identical to everyone around you, so why should you make decisions based on a cookie-cutter approach that treats you as such? As our favorite attorneys have taught us (and as I suspect you recognize), the perfectly appropriate – and completely ambiguous – answer is, "It depends." It depends on resources, time horizon, personal tastes – in short, it depends on you.

Our featured article on the following page dives into the pros and cons of just one of these subjects – paying down your mortgage early. Doing so can create a new level of financial flexibility in one's budget, but it certainly isn't a good fit in every situation. The same is true for the other topics listed above, as well as for most of the financial matters that come up during our conversations with you.

And that is why we encourage you to pick up the phone, send off that e-mail or just come in for a cup of coffee whenever you have a question. Because there isn't that one single answer that you can google, or a cheat sheet to keep in your desk drawer. But when we take the time to carefully review your situation and consider your alternatives, the end result can be greater than you imagined. Sometimes 1+1 doesn't just equal 2, but can actually add up to 3. (Just don't let your 1st grader say so on her math test!)

We look forward to speaking with you again.

Sincerely,

Greg Rademacher, Chris Bugg and Jodie McLellan

"Is There Such Thing As Paying Off Your Mortgage Too Early?"
By: Mandi Woodruff
Date: June 12, 2013

When we came across Yahoo! Homes contributor Adam Hatter's story about his family's five-year triumph over their mortgage debt, we couldn't help but wince.

On the one hand, Hatter and his wife's success is something to marvel at. They borrowed $157,000 with a 30-year fixed-rate loan in 2008 and managed to pay it off 25 years early on a "quite average" dual income.

"The sooner it was paid for, the sooner we would be free from the shackles of debt," wrote Hatter, a government analyst who lives in Charleston, W. Va. "The sooner we would have the ability to use our money for more than just monthly bills."

They saved tens of thousands of dollars worth of interest in the process, but what is troubling is how far they went to do it.

In order to double up on their mortgage payments each month, Hatter and his wife put the brakes on their retirement savings, save for their 5% employer contribution. And when they realized how much they'd need to sacrifice to double up on mortgage payments each month, they also stopped contributing to 529 college savings plans for their two young children.

Every homeowner would love to be unshackled from mortgage debt, but there are few homeowners out there who are likely in good enough financial shape to go for it.

"People today are woefully under-saved for both emergencies and retirement," Greg McBride, mortgage expert for Bankrate.com, told Business Insider. "They need to be maximizing their financial responsibility by padding their emergency savings, utilizing tax favored retirement options and not pouring every spare nickel into their home, which is an illiquid asset."

There's no telling how much that money would have grown over half a decade in an IRA or 529 account, but one thing is for certain: there's no way to get it back now.

"That extra money applied to the mortgage is effectively gone until they sell the house and whether you're selling or staying there, it's not a free house once you get the loan paid off," McBride said. "You still have property taxes, maintenance and upkeep, not to mention you've really compromised your financial security in the meantime."

Hatter family aside, in what case would it be wise to pay off a mortgage early? Ideally, you'd first be able to meet these criteria:

- You are able to continuously max out your 401(k) or IRA contributions
- You have at least six to 12 months of emergency savings
- You have no other high-cost form of debt (student loans or credit debt, for example)
- You have contributed to your children's' future education costs

And if you don't? The smartest move the Hatters made was to refinance their mortgage as soon as they could, dropping their interest rate to a fixed 4.375%. That's one way to tackle huge interest payments and cash in on today's low rates, which are slowly starting to creep back up.

Personal finance expert Richard Barrington supports the early mortgage pay-off approach, if homeowners have examined every option and decided they're fiscally fit enough to go for it.

Here are the simple questions he recommends asking before taking extreme measures to pay down your mortgage:

1. **Are there prepayment penalties?** Actually, it's best to ask this question before you sign up for a mortgage. If you can minimize prepayment penalties, it will give you more options down the road.
2. **Is your income solid?** This is essential for making sure you don't run into a liquidity problem by putting too much into your mortgage too soon.
3. **Have interest rates fallen or risen?** If interest rates have risen (and assuming you have a fixed-rate mortgage), you might do better by investing at higher rates while continuing to pay a low rate on your

“Is There Such Thing As Paying Off Your Mortgage Too Early?”
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mortgage. If rates have fallen, you face a choice of paying down the mortgage early or refinancing, which leads me to my final suggestion.

At the end of the day, each case is different, and every family should strategize carefully for paying off any debt as large as a home loan.

"Look, it's not like [the Hatters] took out all that equity and went and spent the money ... but it's certainly not their optimal move," McBride said.

"It may be 10, 20, 30 years for them to realize that, when their kids go to college and they haven't accumulated enough savings and they have to borrow student loans. And yeah, they don't have a mortgage, but they sure won't have as much saved in retirement as they would have liked."

Investor Education Center

Our children don’t have to be the only ones resuming their education this month - we all know we should never stop learning. To help further that goal, we’re happy to introduce our “Investor Education Center” in this quarter’s newsletter. Each issue we’ll highlight a couple of interesting videos, articles or facts to hopefully peak your investing awareness. This quarter’s selections include:

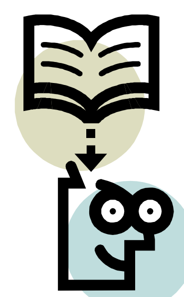
Could Watching “Shark Week” Increase Your Odds of a Shark Attack? This 2-minute video from Franklin Templeton’s “Behavioral Finance for Everyday Investors” does a great (and entertaining) job of explaining how our thoughts are influenced by our most recent experiences. Find it at:

www.franklintempleton.com/retail/pges/generic_content/home/splash_PUB/availability_bias.jsf

Breaking the Cycle of Investment Regret A more detailed, 8-page report on how emotions impair our ability to make investment decisions and the 5 most common mistakes investors make. Read it at:

https://www.franklintempleton.com/forms-literature/download/BCIR-PERWP

Notes from the Road If you’ve ever wondered what “doing your homework” means at American Funds, this series from shares “photos, stories and anecdotes from investment professionals as they travel the world to conduct in-depth research.” Share their experiences at:



https://www.americanfunds.com/resources/perspectives/notes-from-the-road.html

If you have any trouble accessing these links, just send an e-mail to linda@btnwd.com and we’ll be glad to reply with the proper link.

Care to save a tree?

If you would prefer to receive our newsletter electronically, just let us know and we will send it via email each quarter.

Email linda@btnwd.com or call 608-827-6405.

"I believe in the discipline of mastering the best that other people have ever figured out. I don't believe in just sitting there and trying to dream it up all by yourself. Nobody's that smart."

- Charlie Munger

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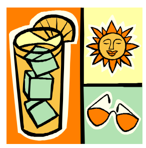

Q3 Newsletter

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