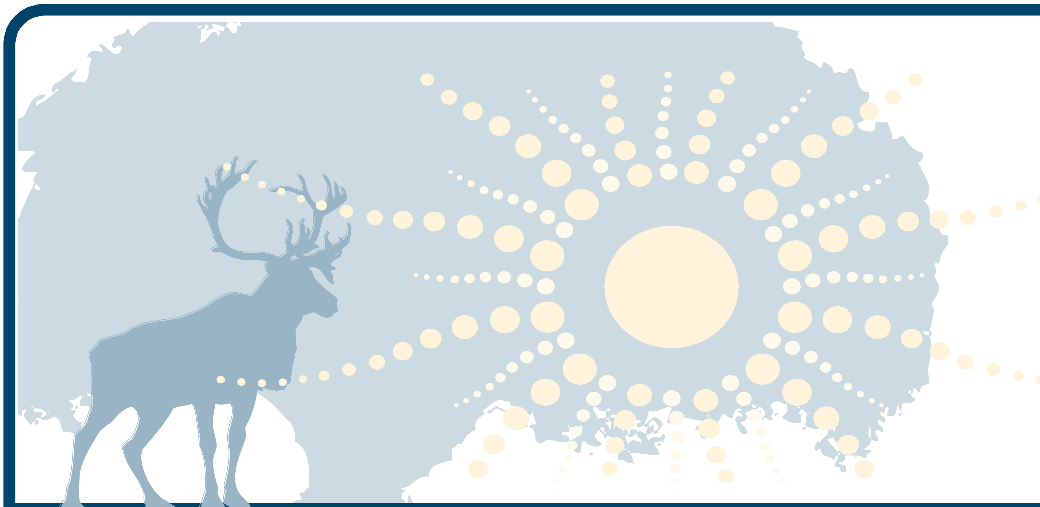

Investment Thoughts

This Issue:

Summer 2017

Chris Bugg

Greg Rademacher

Jodie McLellan

Dear Clients,

Twenty years ago this month, on 7/7/97, Greg and I came to Buttonwood Partners. He was not quite 21, and I was not quite 50. It's been a pretty good run thus far. Over the years we've been joined by Jodie, Andrea, Linda and Nate (but see page 3 – sad emoji), and their additions have made it an even better run. We're excited to look back as we approach this milestone, but are even more enthusiastic about the path that lies ahead.

As many of you know, I stopped coming to the office on Thursdays as of January 2014. And at the start of 2016 I added (subtracted) Tuesday afternoons. This January, to celebrate my 70th birthday (I keep double-checking the math, but 50+20 keeps equaling 70) I will drop Tuesday morning and Friday afternoon. That leaves Monday, Wednesday and part of Friday. Everyone (with Peggy's encouragement, I will add) has said they're going to coax me to show up pretty regularly for my 2½ days, and my plan is to keep that schedule for about 5 years. During that time, Greg has agreed to gradually buy my share of the business. It seems like a pretty good plan to me, but I want you all to know I'll be a little harder to find starting in 2018. You likely already call Greg or Jodie if you need something important (or Andrea or Linda if it's Really Important!), but you can still call me or come see me on Mondays and Wednesdays, just to make an old guy feel important. Twenty years is a pretty big milestone, but I'm not yet ready for it to be the finish line.

Now, back to investments. I am admittedly a sucker for "click-bait" - those headlines that make you want to read the story. The one that caught my eye a few days ago said, "20 funds without a single loss in 2 decades!" Two decades. That's how long I've been at Buttonwood, and there have been some historically exciting (or you can fill in your own adjective) years during that stretch. I wondered what the funds on the list were, and clicked to read more...

Continued on page 2

Chris' Letter Continued...

Actually, it doesn't take too much deep thought to realize that they're all short-term bond funds. The list is filled with names like Prudential Short-Term Corporate Bond Fund, Weitz Short Duration Income Fund, and Colorado Bond Shares Tax-Exempt Fund. And yes, it is indeed true that none of them lost a penny in any of the last 20 calendar years; the problem is that they haven't made very many pennies, either. You can guess where I'm going here. The 3 funds I named above averaged almost exactly 4%/year for the past 15 years (I have easy access to 15-year data and want to make an apples-to-apples comparison), with the bigger gains accumulating through 2008 as interest rates dropped to almost zero. In that terrible year of 2008, they averaged (positive) 1.25%.

If you need some cash to pay for a wedding in August, or to pay your taxes this December, that's the kind of fund you need. But what if you're 50 and want to invest for retirement, say starting at 65 and going to 85 or 90? Or what if you're already 65 and need some growth for 20 or 25 years. The "safe" funds may not even keep up with inflation.

I asked our new intern, Nick, to find me the "best" funds for the past 15 years, which includes the disasters of 2002 <u>and</u> 2008. But with the markets sitting near all-time highs, once again there is no need to overthink the answer. ProFunds Internet UltraSector Fund owns FANG – that's **<u>F</u>**acebook, **<u>A</u>**mazon, **<u>N</u>**etflix and **<u>G</u>**oogle (now Alphabet). It has made 21% per year for the past 15 years, including 48% in the last year. And during 2008? It lost 62%. How's your stomach?

Greg and Jodie and I prefer a little more measured approach. We don't think you should sacrifice the potential upside in exchange for the relative safety of those funds without a loss in twenty years. But by engaging in a little planning and setting reasonable goals (the article on page 2 is a good starting point), you also don't need to ride the biggest roller coaster in the park (along with the inevitable temptations to jump off at the wrong time).

Along the lines of "Goldilocks and the Three Bears," you don't want to eat the meal that is "too hot" or "too cold," or sleep in the bed that is "too hard" or "too soft;" the quest is to find the one that is "just right." That is what we've done for the past 20 years, and what we anticipate doing for the next 20.

Sleep tight.

Chris, Greg and Jodie

Latest on the DOL Fiduciary Rule

One of the most common questions clients ask us is, "Are you a fiduciary?" For better or for worse, it has never been a straightforward answer. The brokerage industry holds its representatives to a "suitability standard," which means that the investments must be reasonably in line with your stated investment objectives. The fiduciary standard raises the bar, requiring recommendations be in the "best interests" of the client. It is a higher hurdle to clear, especially as it pertains to any potential conflicts of interest.

The Department of Labor ("DOL") has been working to implement a fiduciary standard for financial advice as it pertains to retirement accounts, and as of June 9th, 2017 the rule became effective. That means that, at least for IRA's, Roths and other retirement accounts, the answer to "Are you a fiduciary?" is a much clearer "yes."

Of course, we have always taken pride in holding ourselves to a much higher standard than the legal minimum. Whether or not we have technically been a fiduciary in the past, we have always sought to act in your best interests. As our website states, "If we would not accept a decision for ourselves, we will not undertake it for a client."

We are always happy to answer your questions, and encourage you to reach out regarding the DOL Fiduciary Rule if you would like to learn more.

"Finding a Budget that's the Right Fit for You"

By: Anna Bahney

Date: May 15, 2017

Just because most Americans say they keep a household budget, doesn't mean they do it well.

About 20% of people budget "in their heads," according to a study by Bankrate. That may be why a majority of Americans don't have enough savings to cover an unexpected $1,000 expense.

Keeping a mental money tally may work for a precious few. But budgets, which personal finance experts say are best tracked on paper, a spreadsheet or one of the many budgeting apps available, are not one-size-fits-all.

The level of your career, where you live, how much debt you owe and the time you have to track your spending day-to-day can all point to which budget will set you up best for success.

Whether you're a beginning budgeter or an experienced money tracker looking for a better fit, there is a budget for you.

Here are six common budgets, how they work and who they fit best.

50/30/20 Budget

How it works: The method is simple: 50% of your take-home pay goes to needs, 30% to wants and 20% goes to debt and savings.

The hard part for some beginners, says Tyler Dolan, a certified financial planner who helps people manage their financial lives at Society of Grownups, is determining a "need" from a "want."

The 50% to cover essentials should include housing, food, utilities and transportation. The 30% is for obvious extras like dinners out, new shoes and travel, but also your cell phone plan, cable and subscription plans.

The 20% for debt payment and savings is your "get ahead" bucket.

Best fit for: First-time budgeters and young people with straightforward expenses.

Get started: Use this Google template to begin.

Top-Down Budget

How it works: You are the CEO of "You Inc.," setting the percentages of your take-home pay devoted to the priorities you choose. The categories are more specific than the 50/30/20 budget like: groceries, clothing, internet, gas, dinners out.

But you are still focused on big ideas like wanting to retire with 85% of your income at 60 or attending 13 weddings this summer. With a top-down budget you'll be able to arrange your spending and saving to reach the goal.

Best fit for: Big-picture people and those with specific saving goals.

Get started: Use an app like Level Money to create categories for spending.

Bottom-Up Budget

How it works: Rather than beginning at the top with a big picture goal, you start at the bottom with the actual costs of your daily expenses.

Bottom-up is the way to go for people who are already locked into some pretty big expenses, like a mortgage, fixed transportation costs or costs associated with having children including diapers and child care.

Those expenses will be more difficult to change than curbing how many margaritas you're grabbing with friends. A bottom-up budget includes those costs from the beginning and shows you what you have remaining. From there you can work to curb expenses or set savings goals.

Best fit for: People with existing hefty fixed expenses and those looking to better understand their spending.

Get started: Use Mint, the Personal Capital app or this personal-budget template on Google to track your expenses.

Continued on page 4

“Finding a Budget...” Continued from Page 3

Zero-Sum Budget

How it works: Give each dollar a job. Pay yourself first by allocating the first dollars to your debts or your savings goals. Then place each dollar of your monthly income into an allotted space so that you're left with zero (or maybe a bit of checking account surplus).

By basing next month's budget on last month's expenses and income you'll have a real-time picture of your spending and expenses.

But be warned: "This is a very hands-on budget," says Dolan. It is good for people who want to track metrics.

Best fit for: Detail-oriented people and those with high fixed expenses or who have a hard time controlling their spending.

Get started: Use an app like You Need a Budget (YNAB) to give every dollar a job.

Reverse Budget

How it works: Like a zero-sum budget, you pay yourself first. But rather than focus on categories, you identify specific savings goals.

Once you've set aside savings, the rest of the money trickles down to cover basics like housing and food and all the extras, which might vary from month-to-month and are less rigid than in the zero-sum. The focus is mostly on the savings.

If you're still counting pennies each month, work up to this one. This budget works best for people who have some financial cushion and want to push themselves to reach specific saving goals.

Best fit for: The budget-savvy and those with specific financial goals.

Get started: Use an app like Qapital to set goals and reach them.

Envelope Budget

How it works: Set aside an envelope for each of your spending categories every month -- gas, groceries, utilities, rent. Once you've spent what is in the envelope, you're done.

It works best for people who are paid in cash, but can be adapted to digital envelopes or accounts.

Also, it's a grounding budget to come back to when you need to reign in spending. Use it as an add-on to other budgets in categories where your spending runs wild. You may want to have an envelope just for "going out" or "groceries."

Best fit for: Those with cash, visual people and those who need to curb their spending.

Get started: Use an app like Goodbudget or some sturdy envelopes.

What Are Our Budget Types?

Chris: “Bottom up” (read: Mortgage and Having Children) but with a pay-yourself-first rider; has morphed into “Reverse” as the kids have gotten older.

Greg: Reverse Budget. As long as I’ve identified the long-term goals and am accounting/saving for those right off the bat, I don’t feel the need to track the dollar-by-dollar details of the discretionary categories. Fits the “pay yourself first” mentality that my parents helped instill going way back to “matching contributions” for anything we put into the bank out of our allowance or earnings from doing extra chores. (I remember I got $0.25 for each room dusted/vacuumed and $2.50 for mowing the lawn or washing the car…)

Jodie: Envelope Budget – Though I don’t use cash, I use a written bucket system. I allocate the amount I can spend in each bucket, and when it’s empty, I can’t spend any more. Every penny I spend, whether it’s for bills or savings, is allocated with this budget. And if there is an upcoming expense that I want to budget for, I’m able to plan accordingly by creating a new bucket and adjusting my budget.

Nate: Envelope Budget. I like it when a yearly bill arrives, the money is already set aside.

Andrea: Zero-Sum Budget – If I have one dollar, I find a way to spend two. The zero-sum budget keeps me honest about where my money goes and what my needs are.

Linda: I’m a Bottom Up Budgeter, but I plan to try the Zero-Sum Budget soon, because I overspend too regularly.

Nick: Bottom-Up Budget. I pay for things I need and am required to pay for, then use what’s left for saving and discretionary spending.

Summer Reading Suggestions

Academic:

- Happy Money by E. Dunn and M. Norton
- A Random Walk Down Wall Street* by Burton G. Malkiel
- The Intelligent Investor* by Benjamin Graham
- Thinking Fast and Slow *by Daniel Kahneman

Fiction:

- Atlas Shrugged by Ayn Rand
- The Way we Live Now by Anthony Trollope*

Narrative:

- Lords of Finance by Liaquat Ahamed
- The Ascent of Money by Niall Ferguson

Self-Help:

- How to Stop Worrying and Start Living by Dale Carnegie
- The Millionaire Next Door by Thomas Stanley and William Danko
- The Tao of Pooh by Benjamin Hoff
- A Smart Girl's Guide to Money (American Girl, for children/teens) by Nancy Holyoke
- Rich Dad, Poor Dad by Robert T. Kiyosaki

*These titles are making an encore appearance on this list.

Best Wishes for Nate

While Nate recently celebrated his 3rd anniversary with Buttonwood, it unfortunately turned out to be his last. Nate has decided to re-locate to the Washington, DC area and accept a position with Bank of America. Of course, the decision may have been slightly influenced by the fact his girlfriend Jana is attending law school there and still has two years remaining. Nate has been a wonderful member of the Buttonwood family and will be dearly missed.

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

2017 Summer Newsletter

"Beware of little expenses; a small leak will sink a great ship."
- Benjamin Franklin

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

Greg Rademacher CFP, CFA
Partner
(608) 827 6414
greg@btnwd.com

Jodie McLellan
Vice President
(608) 827 6413
jodie@btnwd.com

Andrea Widner
Registered Assistant
(608) 827 6411
andrea@btnwd.com

Linda Kwiatkowski
Administrative Assistant
(608) 827 6415
linda@btnwd.com

ButtonwoodPartnersInc.com