# Investment Thoughts

**This Issue:**


Our Letter

Financial Resolutions That Will Doom You To Failure

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Book Recommendations for All Ages


First Quarter 2019

Greg Rademacher

Jodie McLellan

Chris Bugg

Dear Clients,

We hope the start of 2019 has treated you well. New years offer new beginnings, and we are presenting multiple messages of "enabling change" in this edition of "Investment Thoughts." And yet, if you are like me, your New Year's resolutions may already be a distant memory. Why is it so hard to change, to behave in a manner we know is in our best interests?

One theory is that, behaviorally, we respond to positive reinforcement. Diets work great in the early days when we see the scale move. Short-term savings goals are effective because you get to enjoy that vacation or new purchase within a reasonable amount of time. It is much easier to deny yourself a desire in the present when the reward for doing so feels attainable. But once a diet plateaus and the scale stops moving, it becomes much more difficult to remain motivated.

How does that translate to budgeting and long-term financial planning? For one, the tangible reward for good behavior is missing. The mental process is, "Hooray, I met budget for the month! Now I get to…start all over again." Or, "I maxed out my Roth IRA contribution this year – only 27 years to go until retirement!" Or even, "I've set aside my emergency fund. Now it can…sit there until I incur an unexpected, unpleasant expense. At which point I have to start building it up again." Not exactly inspirational stuff, is it?

The other issue is that financial goals tend to be more abstract due to their long-term nature. "I want to lose 10 pounds in 30 days" is a specific and measurable goal. Setting a goal of, "I want to retire in 20-25 years, depending on what my life situation looks like then?" Not so much. Where does one even begin?

We've selected a couple of articles that provide sage advice on how to set more concrete financial goals. And you can always start a conversation with your friendly financial planner – it's what we're here for, after all!

How can one address the lack of positive reinforcement when working on longer-term goals? For that we can turn to a less traditional source of wisdom – the Super Bowl commercial. The ad from this year's game that has stuck with me shows a robot crushing workouts at the gym while humans struggled through, only to end up staring longingly through a window as the "less accomplished" athletes enjoy a beverage. The tagline is, "It's only worth it if you can enjoy it." Complete deprivation is difficult, if not impossible, to maintain. And it isn't what we are advocating! I suspect you have heard Chris encourage you to "eat dessert first" and "enjoy every sandwich." So, allow yourself to enjoy your accomplishments and celebrate the small victories along the way. If cutting out Starbucks or dining out is what it takes to create the necessary savings, then treat yourself with that indulgence once for every period you are successful. Small "cheats" won't derail your overall progress – they might even make it more likely you ultimately reach your goal. Reinforce the behavior that will allow you to truly enjoy your success over the long term – even if the goal line is 20 or 30 years away.

Finally, if your 2019 resolution was to be more productive in your downtime or taking more time for yourself, we've provided a recommended reading list that could be right up your alley. Given the recent weather, curling up in front of a fire with a good book sounds like all the positive reinforcement we need!

Sincerely,
*Greg Rademacher, Chris Bugg, and Jodie McLellan*


# "The Financial Resolutions That Will Doom You To Failure In 2019"

By Michelle Singletary Date 12/20/2018

You mean well. You tell yourself every new year that you'll do better with your money.

But by spring, you're no better off. You haven't made progress with any of your financial resolutions. Then you get discouraged. Off to the mall you go to soothe your soul with a sale.

Fidelity Investments looked at what people say are their top financial resolutions for 2019. They want to, in this order: Save more money. Pay down debt. Spend less.

Here's the problem. You can't achieve your financial goals with vague promises. You need to be specific, and you have to have an actionable plan with a timeline.

In my experience working with individuals trying to clean up a financial mess that is years in the making, you'll probably fail at your resolutions if you just say:

-- "I'm going to save more money."
-- "I want to get rid of debt."
-- "I'll spend less this year."

Instead, rework the top three most popular financial resolutions using the SMART criteria. The acronym stands for: specific, measurable, attainable, relevant and time-bound. So, here's how you might reword your resolutions using SMART.

**Before:** I want to save more.

**SMART:** I will save 5 percent of my after-tax income until I have at least $1,500 stashed in an emergency fund.

You've probably heard that you need to have at least three to six months of living expenses saved. But that might be too high of a hurdle to jump in just one year.

If your rent/mortgage, cable, cellphone, car payment, utilities and other household expenses come to $4,000 a month, the three-month goal would require you to save $12,000. That's daunting.

A more attainable goal is to start by saving just enough money to cover a financial emergency of, say, $1,500. If you easily get there, then try to reach for a higher goal of saving one month's worth of living expenses.

**Before:** I want to pay down debt.

**SMART:** I'm going to use the "debt dash" method to begin digging myself out of debt.

With the debt-dash strategy, you order outstanding debts starting with the one with the lowest balance. You'll have to cut your expenses or earn extra money -- or both -- to find the funds to attack the debt. Commit to a consistent amount. Make the minimum payments on all other debts on your list.

Once you've paid off the first debt, move to the next one. Be sure that your extra payments are applied to the principal and are not counted as extra monthly payments.

You could also list your debts starting with higher-interest debt first. Mathematically this makes sense. However, I've found the debt dash works better because people can see progress sooner. And a 2016 study published in the Journal of Consumer Research found that borrowers are more motivated when they concentrate first on the debt with the smallest balance.

Depending on the payoff strategy you use, calculate how long it will take to be debt-free. It might take you five years, but at least you have a timeline. You can find a debt reduction calculator at vertex42.com. Under "Browse Template Categories," click "debt payoff."

**Before:** I will spend less in 2019.

**SMART:** I'm going to use a spending journal to identify expenses I need to cut out.

Get a small notebook and, for 30 days, write down all the money you spend. Every penny. Each time you pay for something -- even that pack of gum or bag of chips -- write it down. Include any bills you pay (mortgage, credit card, car loan). And during the

## "Financial Resolutions..." Continued from page 2

process, don't you dare judge yourself.
After the 30 days, review your log. Add up the discretionary expenses such as eating out. Make a note of where and when you tend to get off track concerning budgeted expenses. Maybe you need to get up earlier for work to pack your lunch.

Use the information from your spending journal to make cuts to your budget. And not every splurge needs to go. If your Starbucks blonde roast helps you start your day in a better mood, then get that coffee. But other expenses have to be eliminated. You can't do it all.

Armed with a detailed look at your spending habits, you can make adjustments to your monthly budget and find the money to save that $1,500 or pay down your debt.
Be SMART about your financial resolutions for 2019, and failure won't be an option.



## Government Shutdown Demonstrates Necessity of Savings

By Trevor Gerszt CEO goldco.com Date: 1/24/2019

With the federal government shutdown already record-breaking at over one month in duration, more and more stories are circulating about the harm federal employees and their families are facing.

Having already missed one paycheck, federal employees are about to miss a second. And while they will receive back pay once the government reopens, that doesn't do much to help their immediate finances.

With credit card bills to pay, car payments to make, and mortgages to pay off, hundreds of thousands of federal employees are starting to have a tough time making ends meet. It's especially difficult coming right after the Christmas season, when many households have spent a lot of money planning vacations and purchasing Christmas gifts.

Thankfully many lenders are willing to work with federal employees who are furloughed or having to work without pay, ensuring that they won't be too adversely affected by a closure that no one could have expected would last this long. Shops and eateries are offering specials, including free food, to employees affected by the shutdown. People are coming together to help those in need. And while all of that is well and good, it still highlights a very dire situation facing most American households: they are unprepared for a financial emergency.

### Why Saving Money Is Important

We know that 78% of American households live paycheck to paycheck. Missing one paycheck can be a financial strain, but missing two paychecks can be a financial calamity. That's all the more reason for households to save up money to prepare for financial emergencies. While no one could have predicted that the government shutdown would last this long, many employees could have been better off had they been able to save money for a rainy day fund.

Over 60% of American households are unable to afford even a $1,000 emergency expense. That means that many federal employees are likely facing severe financial difficulty right now. That's compounded by not being able to take up outside employment.

While it's too late now to try to build up an emergency fund, those employees may want to start thinking about putting aside some money in the future.

### The Steps to Take to Build Up an Emergency Fund

Building up an emergency fund requires no more skill than simple accounting, but it does require discipline. All you have to do is make sure that the amount of money you take in is more than the amount you spend.

Here's how to do that:

### 1. Figure Out How Much Money You Make

This one should be relatively easy. Most people who receive a regular paycheck get a pay stub that shows them how much money they make each pay period, how much is deducted for taxes, Social Security, retirement, etc. That makes it easy to figure out how much money you make per month.

### 2. Figure Out How Much You Spend

Many people don't keep track of their spending and would likely be shocked at how much they spend. They may know the size of their credit card bill, but most credit card billing periods begin and

## "Government Shutdown…" Continued from page 3

end mid-month, making it difficult to compare spending against income.

Here's where it can help to keep a spreadsheet of all the things you spend money on. All credit card and check payments can go into the spreadsheet, while cash transactions can either be booked as a one-time spend when you take money out of the ATM or listed individually along with your other payments. Keep a log for a few months so that you get a good idea of how much you regularly spend each month.

**3. Identify What You Can Cut**

Once you have an idea of how much you spend, identify what you really need. Can you cut out that daily coffee at Starbucks? How about making a sandwich every day and taking it to work instead of buying one at the cafeteria? And do you really need a subscription to Netflix, Hulu, and cable TV? Once you begin to identify areas to cut back it can be much easier to start saving.

**4. Force Yourself to Save**

Money that you never see will never be missed. That's the theory behind paycheck deductions for 401(k) and IRA accounts, and it can work for your emergency fund too. If you've identified that you can save 5%, 10%, or 15% of your paycheck, have your direct deposit split between two separate accounts. It can be helpful to have them at two different institutions too so that you're not tempted to draw on your emergency savings too soon.

You won't miss the money because it was never in your checking account to begin with. And before you know it you'll have a nice little emergency nest egg built up. The general rule of thumb is that you want to have at least 3-6 months worth of expenses saved up. So if you spend $3,000 a month, you'll want to have $9,000-18,000 of money in the bank. That would certainly help those furloughed federal employees, although given how long the shutdown might still last, even three months of savings might not be enough.

**5. Invest Excess Savings**

Of course cash isn't a great investment most of the time, as it loses value to inflation and doesn't offer *a*ny return. So once you find yourself with that six-month nest egg of savings, any excess funds that you accrue you'll want to invest for the future.

Hopefully you're already putting money away for your retirement, so these extra funds will be gravy on top of your existing accounts. Whether you decide to invest in stocks, government bonds, or countercyclical assets such as gold, the discipline you instill in yourself by saving and investing should stand you in good stead through the rest of your career and into retirement.



## 2019 Retirement Plan Contribution Limits

The IRS has raised the contribution limits for most retirement plans for 2019. If you make automatic contributions and you'd like to max out your contributions, please contact your plan to increase your regular deferral.

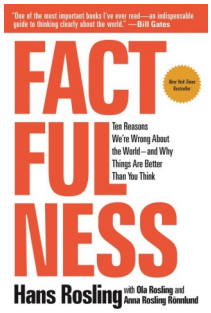
**2019 Retirement Plan Contribution Limits**

| | Traditional or Roth IRA | 401(k), 403(b), 457 | Simple | SEP |
|---|---|---|---|---|
| Deferral Limit | $6,000 | $19,000 | $13,000 | N/A |
| Catch-up if age 50+ | $1,000 | $1,000 | $3,000 | N/A |
| Employer Contributions | N/A | Match and/or profit-sharing | Up to 3% match | 25% of compensation or 25% of gross pay, whichever is less |

You may make eligible 2018 contributions until April 15, 2019

# Curling Up With a Good Book

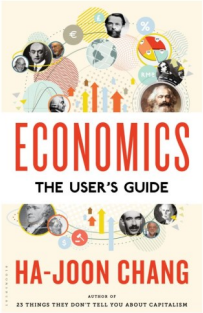
Looking for a great book to read by the fire this winter? Here are a few suggestions for everyone in the family.



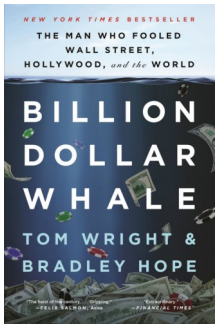

**"Factfulness: Ten Reasons We're Wrong About the World—And Why Things Are Better Than You Think"** by Hans Rosling

It turns out that the world, for all its imperfections, is in a much better state than we might think. That doesn't mean there aren't real concerns. But when we worry about everything all the time instead of embracing a worldview based on facts, we can lose our ability to focus on the things that threaten us most.

**"Economics: The User's Guide"** by Ha-Joon Chang



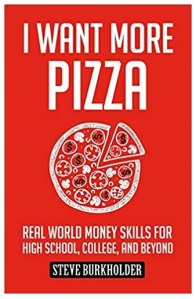

In an entertaining and accessible primer, Ha-Joon Chang explains how the global economy actually works-in real world terms. Writing with irreverent wit, a deep knowledge of history, and a disregard for conventional economic pieties, Chang offers insights that will never be found in the textbooks.



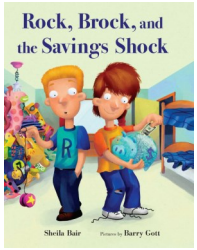

**"Billion Dollar Whale: The Man Who Fooled Wall Street, Hollywood and the World"** by Tom Wright & Bradley Hope

**BILLION DOLLAR WHALE** is "an epic tale of white-collar crime on a global scale" (*Publishers Weekly*, starred review), revealing how a young social climber from Malaysia pulled off one of the biggest heists in history.

**"I Want More Pizza: Real World Money Skills For High School, College and Beyond"** by Steve Burkholder

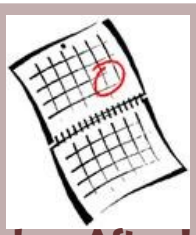



Primary topics discussed include saving, spending, prioritization, goal setting, compound growth, investing, debt, credit cards, student loans, mental blocks, and taking real world action. Perfect for the classroom, as a graduation gift, and anywhere in between.




**"Rock , Brock and the Savings Shock"** by Sheila Bair

"Rock is a spender and Brock is a saver. Brock manages to amass $512 in 10 weeks, while Rock spends his money as soon as he earns it, purchasing a fanciful array of toys, gum, and yard-sale items, all of which are comically depicted in the bright cartoon illustrations… this picture book is a good way to examine the issue of saving vs. spending." -School Library Journal



## Need an After Hours Appointment?

Upcoming opportunities:

**Greg (Wednesday Evenings)**

**Available 4 pm, 4:45 pm, 5:30 pm and 6:15 pm**

March 13

April 17

May 15

**Jodie (Saturday Mornings)**

**Available 9 am, 10 am and 11am**

March 16

April 13

May 4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Email andrea@btnwd.com

or call 608-827-6411

Please also contact us if you would like information about online account access and/or receiving your statements electronically.

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

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**2019 Q1 Newsletter**

*"It takes as much energy to wish as it does to plan."* --Eleanor Roosevelt

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

**Jodie McLellan**
Partner
(608) 827 6413
jodie@btnwd.com

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

**Ryan Hannifan**
Assistant Account Manager
(608) 827 6405
ryan@btnwd.com

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

**Andrea Widner**
Dir. of Strategic Initiatives
(608) 827 6411
andrea@btnwd.com

**Anna Vang**
Administrative Assistant
(608) 827 6409

**Whitney Cook**
Administrative Assistant
(608) 827 6408

**buttonwoodpartnersinc.com**