Buttonwood Partners, Inc.

May 2020
Quarter 2

# Investment Thoughts

## Dear Client,

In our February newsletter, we ran a piece on finding satisfaction in your job even if it is not your life's passion. We mentioned how much we enjoy our co-workers and clients, and how we find a sense of deep satisfaction in working together as a team to provide quality service. We had no idea how true those words would ring just three months later! The world is a very different place, and we've all been doing our best learning how to navigate it. I can honestly say that I did not realize how much I truly love being in the office, surrounded by good and decent people (both co-workers and clients)! Or how much I have taken for granted the little things in life, such as the ability to move around freely in the world.

At Buttonwood, we are finding small joys and cherishing the little reminders of normalcy, from our Zoom calls to chat messages with each other. At times it has the feel of a family reunion. We see each other's children or pets, and laugh at old, inside jokes. Our conversations with you bring us more satisfaction than you can know, because you are part of this family as well. We've soaked up every little detail, from what it is like in your home, neighborhood or state, to what items are out of stock at the grocery store and whether you can find Clorox wipes. Hearing about your experiences during the last few months has been meaningful to all of us. Living in this uncertainty is stressful and hard.

First and foremost, we hope that you and your loved ones remain healthy and safe. At times like these we are reminded that there are many pressures and concerns. We hope our planning and guidance have at least helped ease one source of stress during these uncertain times. However, if recent events have left you scared, hurting or in need, we want to be there with a listening ear and helping hand. Please, call us.

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### Inside this issue



### Special points of interest

- Not able to make an appointment during the work day? The sidebar on page 2 has alternative times to see Greg and Jodie.
- Did you receive our emails in March and April? Please see page 8.
- A look at some of our quarantine hobbies on page 9.

# Dear Client Continued

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As we prepare to emerge from the "safer at home" order, Buttonwood Partners (like most every other business) is discussing what a return to the office will look like for us. We've started by asking our employees about their concerns, what thresholds need to be met to be comfortable coming in on a regular basis, and what we can do to help keep our office a safe and welcoming environment. There are very few concrete answers and, truthfully, it's hard to express our thoughts today, much less predict where they will be in a week.

We're not sure when face-to-face client meetings will resume. That timing will be based, like all of our decisions right now, on the recommended guidelines provided and scientific information available. With in-person meetings discouraged under social distancing measures that will remain in place even once Dane County lifts its order, this means it won't be immediately following Memorial Day; however, we remain hopeful it will be before Independence Day. When the time comes, we will have measures in place to make you as comfortable as possible during our visit. That may even include outdoor or "walking meetings" if preferred! In the meantime, we are available for phone appointments, Zoom or Skype calls and via email. We miss you and want to hear from you, whether it is with questions and concerns, or just to say hi and share your latest recommended book or activity to help pass the days!

Sincerely,
*Greg, Jodie and Chris*

## Need an After Hour Appointment?

Upcoming opportunities:

**Greg**
*Wednesday Evenings*

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

June 19
July 24
August 14

**Jodie**
*Saturday Mornings*

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

June 22

## Office Closures

Buttonwood Partners Inc. will be closed on the dates below to allow our employees to celebrate with their families.

Friday, July 3
Independence Day

Monday, September 7
Labor Day

# Practicing What We Preach

## A look at how we approach our personal investments

*The information below is intended to give you a window into our personal investment strategies. This is not intended as advice. Every circumstance is unique and you should contact your investment professional to receive personalized recommendations.*

Over the last few weeks, we've talked to many of you about investing in these uncertain times. We thought it might be interesting for you to get a look at how we are treating our own investments.

***Greg Rademacher—43, Married, 3 Children, 20+ years from Retirement***

First, let's state the obvious and reiterate the point expressed in our opening comments: These are extraordinary times, the likes of which we have not personally experienced before.

Acknowledging that, many of my client conversations involve the question, "What should I be doing with my money?" While this is a normal and important discussion to have, it is frequently paired with the follow up question of "What would you do if you were me?" I understand the question, but it isn't really a fair one – we are each too unique for my answer to translate effectively and be an appropriate recommendation. But the common inquiry did help me realize you might also be interested in hearing what I've been doing with my money and investments as the 2009-2020 bull market peaked, the 2020 bear market reared its ugly head and then the first stage of a recovery emerged.

At the age of 43, I still have plenty of time until retirement becomes a realistic consideration. That being said, I recognize that the time horizon isn't as long as it used to be, and during a recent (February) portfolio conversation my friend from college posed the question: "When do I need to stop managing my investments like I'm still 26?" The answer was "Not yet," but with the recognition that the next bear market would feel like a very different experience than the last one in 2008-09.

Back then our annual savings were often greater than the investment gain or loss from the portfolio, so it always felt like we were making progress and moving forward. After a decade plus of continued savings and solid investment growth, that will not be the case this time around. A 20-30% portfolio decline absolutely feels like a number of large steps backward. I know it will take time to recover, but I do believe the economy will recover, and the stock market along with it.

I had become a little more conservative within my portfolio as the bull market continued to run, trimming profits from stock funds here and there. I've never been a 100% stock guy, but tend to target 70-75% and am comfortable with my portfolio being as high as 75-80% stock at the right moment. Reviewing my December allocation, I was around 65% stock.

As the market decline began and then accelerated, it began to feel as if the market was pricing in an awful lot of the bad and I began to add more stock exposure. I tend to pride myself in my ability to buy the dip, and set trigger points to help me stay disciplined in doing so. I was sticking to the plan up until the end, but I'll admit I blinked and failed to put anything into the market at the March 23rd low. And then I expected the market to pull back after its ferocious rally off of those lows - which simply didn't happen. Even as an investment professional, there are moments when it is challenging to keep the focus on the long-term…

At this point I find myself in a bit of a quandary. I continue to believe that the economy and stock market will recover from this, even if it does prove to be a slow process. That makes stocks an appealing investment for the long term. In the short-term, the market may be pricing in more of the good and turning a blind eye to the negative that remains. I'm no longer increasing my equity exposure, but am prepared to resume doing so should the market decline again. I may not have as much time as I used to, but given how much the world has been changing week to week, 20-30 years still feels like an eternity.

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# Practicing What We Preach Continued

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While time may be on my side when it comes to retirement savings, the clock is ticking a little louder when it comes to our college savings. Our children will be turning 15, 13 and 10 within a matter of weeks; with Jackson's freshman year of high school racing by, college costs are starting to weigh heavy on my mind. These funds will all be used within a decade, rather than not touched for a decade or more. We'd previously shifted enough to bond funds to cover the first semester or two of expenses, and it didn't feel right to jeopardize that security. However, we did increase the aggressiveness of the remaining stock exposure. Knowing that these funds now had 4-6 years until they would be needed, we felt comfortable taking that chance.

"How much do you need?" "When do you need it?" And "How well do you sleep at night?" These are the questions I pose to clients multiple times each week. But they are also questions I'm happy to answer as well, and that continue to guide me as effectively in times of crisis as they have when the market was setting all-time highs.

> ***"Risk is not my favorite word! Therefore, it probably comes as a surprise that I have the most aggressive portfolio."***

### *Jodie McLellan– 50, Single, No Dependents, 15+ Years from Retirement*

If I had only known then what I know now! Before I came to Buttonwood Partners, I worked for wonderful companies with fantastic benefits - but as I was in my 20's and 30's, I really preferred to spend my money rather than save it. And I was good at it!

However, as I proceeded through my 40's and now enter my 50's, I hope to see retirement drawing nearer. And that meant rethinking my priorities. Like many Americans, saving for retirement had never made it to the top of the list, and was something I didn't think I could (or wanted to) fit into my budget. Now that I am more willing to recognize the importance of saving, making the necessary effort to carve funds out of my budget is much easier. But because my savings plan started so late, I either needed to save an unrealistic percentage of my paycheck or count on really strong investment growth. Therefore, my investments have always been 100% in stocks – up until last year. Given the 10-year bull market we had experienced, I thought it would be a good idea to take some profits off the top. Even after that adjustment I still maintain an 80% stock allocation, as I need as much growth as possible over the coming decade.

Many of you know that I am the most conservative one of the bunch. Chris has always worn rose colored glasses, Greg is very practical, and I just prefer to be more conservative in my approach. "Risk" is not my favorite word! Therefore, it probably comes as a surprise that I have the most aggressive portfolio. For me, it's a reality borne out of necessity. If I could go back and talk to my 22-year old self, I could find myself in a place where my portfolio matched my personal risk tolerance. But it's a luxury I no longer have. To make up for lost time, stocks will have to help me reach my goals

### *Chris Bugg—72, Married, No Dependents, Lots of Grandkids, Semi-Retired*

Since I began my career in the 1980's - except for a few flirtations with junk bonds early on, and a couple of "don't do that again" individual stocks - my approach has always been to buy stock funds, with a healthy dose overseas. In 1987 I didn't have any money, so it felt like a non-event within my portfolio. In 2000-2002, I was lucky to have a chunk of First Eagle, and my foreign funds kept on rewarding me until 2007. In 2008-09, I kept buying in my retirement plan each month, with almost everything being invested with American Funds. Essentially, I have never sold. I've been worried at times, but those tend to occur after the big decline, which at least I recognized as being beyond the point of being able to do anything about it. Unfortunately, that means I have never raised cash, getting ready for the big crash, UNTIL 2016.
After the election in November, and later in 2017, and again when I hit 70 in 2018, I finally sold some stocks.

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# Practicing What We Preach Continued

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Not to have dry powder for the next crash, but to make sure my required distributions for 2018, 2019 and now 2020 could be funded without requiring any forced stock selling. At this point I have enough cash to fund required distributions through 2023, and I'm comfortable with that. I am absolutely positive that the market will recover, and will go on to new highs at some point. But I don't claim to have any better idea then the next guy (or gal) of when that will be. Especially as an old guy, I'm afraid of the Coronavirus. A "return to normal" feels a long way off. But I'm not afraid of owning stocks. That's held true whether I was 30, 50 or 70 – and I expect it to still be true at 80, 90 or even 100.
Thankfully, I still believe they will – even if it means a few sleepless nights along the way!

### *Katie Kalkofen—22, Single, No Dependents, 40+ years from Retirement*

"You can be young without money, but you can't be old without it".

As a recent college graduate, I can attest that yes, you can be young without money. Even as a financial planning major, I didn't think twice about saving while in school. Between the costs of tuition, books and rent, as well as many late nights studying (and the "required" pizza breaks that go along with them), time and opportunity were both limited resources! Now that I've started my career here at Buttonwood, I've put much more thought into how I am saving and making sure I won't have to put the second part of that saying to the test.

Currently, I've started saving for retirement in two ways - my employer plan and through a Roth IRA. Contributions to both accounts occur automatically through direct deposit. This has been the easiest way for me to save as I don't have to decide whether I want to, or actively make sure it gets done. I also don't "miss" what is being taken out of my paycheck. I've earmarked that specific amount for retirement and, as Jodie likes to say, am making sure pay myself first.

As far as how I'm investing, I'm using target date funds. Having just begun saving, I don't yet have a large enough balance in each account to effectively diversify among multiple funds. Target date funds accomplish that diversification for me, as well as rebalance automatically. Due to my time horizon, my target date fund has a stock allocation upwards of 85%. While there is wiggle room for individual risk tolerance, it's unknown if the market will ever be lower in my lifetime than it is right now. So, I'm willing to take on a higher equity allocation. Overall, my perspective on this downturn is that it's an opportunity, and I plan to utilize it. The odds of "buying low" are strongly in my favor when the need to sell remains decades away.



# What Is Up With the Stock Market?

## Our thoughts on market behavior

As I write this morning (May 26th), the market is roaring out of the Memorial Day weekend, with the major indices hitting recovery highs and the Dow and S&P have peaked above psychologically important levels (25,000 and 3,000, respectively). From the all-time highs, the Dow is off about 15%, the S&P 500 just over 10%, and the Nasdaq Composite less than 5%. We've experienced moves of this size multiple times over the past decade, and they've typically been associated with growth scares / heightened recession risks. Yet today we find ourselves in the midst of an actual severe recession (perhaps even a depression) following the shutdown of the global economy and facing record levels of unemployment. Can the pieces of this puzzle really fit together?

While it is a response that may prompt consternation, frustration or even anger, we have to answer with a qualified "yes." Here are a number of the reasons why:

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# *Stock Markets Continued*

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- At the market lows, all of the major indices were down more than 30% from their 2020 (and all-time) highs. We had very little knowledge regarding Covid-19, what a complete shutdown of the economy would look like or how long it might last. We also had no formal announcement of a governmental response, which was already two weeks "late" compared to market expectations. In short, the stock market had little reason to price in anything other than the worst-case scenario. But assuming the market did so, the emergence of anything other than the worst case should have been expected to prompt at least some sort of recovery.

- Since those March 23rd lows, the Federal Reserve, other central banks and administrations across the globe have announced unprecedented stimulus measures (both monetary and fiscal) to help businesses and individuals get through the shutdown period. Back in 2012, Mario Draghi of the European Central Bank helped the Eurozone emerge from its debt crisis by pledging to do "whatever it takes." The governmental response of 2020 echoed that sentiment – and the market has responded.

> *"Are we able to increase our economy's capacity in a way that doesn't cause a spike in infections?"*

- The U.S. economy has started to re-open, and high-frequency economic data indicate continued upticks from what appears to have been an April bottom. Other countries around the globe are further along in this process than we are, providing a potential template for how to do so and the likely pace of any recovery. Time will tell whether we are able to re-open safely, or how strong any domestic rebound ultimately is. But the stock market has an established history of moving forward ahead of the actual economy, so the current recovery does reflect these early "green shoots" in the data.

- "The stock market" is not a thing, nor is it a direct reflection of the economy. Rather, it is a collection of companies, and the price of each stock moves up or down based on investor assessment of that company's prospects. For better or worse, many of the largest companies (Amazon, Netflix, Apple, Google) are better positioned for the Covid-19 world than the general economy is. That means it is quite likely the stock market could continue to fare better than the broad economic data would suggest.

- Economically, downturns are defined by a combination of magnitude and duration, with the dividing line between a recession and depression commonly drawn at a 10% decline in GDP. The market appears to have accepted the severity of the magnitude, but is hoping for a downturn of a shorter duration. As economic capacity comes back online, the recovery will ultimately depend on how many businesses can re-open their doors, and how many of the unemployed still have jobs waiting for them. The shorter the shutdown / more quickly restrictions are lifted, the higher these percentages are likely to be. But again, are we able to increase our economy's capacity in a way that doesn't cause a spike in infections?

- Which leads to medical treatment. Any return to "normal" is dependent on development of an effective treatment, either by pharmaceutical means or through a vaccine. While the world is a long way away from either of these becoming a reality, the scientific studies are producing enough promising results to at least suggest the runway may be shorter than initially feared.

Adding all of these factors together, it is easier to understand why the stock market is holding up better than one might expect. Has the market gotten a few steps ahead of itself? Perhaps. Is it currently pricing in too much of the "best case" and no longer enough of the "worst case?" Quite likely. But is the stock market "divorced from reality" at current levels? To that we would say it is not.

While we don't know for certain the specifics of what the road to recovery will look like, or what path the stock market will take on a daily basis in recognizing that recovery, the thing we have the highest degree of confidence in is that there will be a recovery at some point. What is required is the patience and planning to get there. With that in mind, we're including American Funds' "Guide to Market

*The information in this article is the opinion of Greg Rademacher obtained and derived from sources believed by the author to be reliable and is provided for information purposes only. It does not constitute an offer or recommendation to purchase or sell any financial instruments. Past performance is not a guarantee of future results.*

# CARES Act of 2020

## More Than a Stimulus Check

In March, Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act. One key aspect of this law was the issuance of stimulus checks, however, there were more features to this bill that you may not be aware of. Below are details on some of the additional provisions of this law and how it may affect you.

**For Individuals:**

### Special tax rules for coronavirus-related distributions

The CARES Act creates a provision called "coronavirus-related distribution" (CRD) and allows for distributions from a tax deferred account (IRA, 401k, SEP, etc.) of up to $100,000. Below are some key points to this distribution

- The 10% early withdrawal penalty is waived.
- Although this payment will be taxed as income, you can spread out the payments over the next three years.
- The withdrawal may be repaid back to the retirement account over the next three years and any taxes paid on the withdrawal can be refunded with an amended tax return.
- The mandatory 20% federal withholding is waived.

CRD eligible tax payers are anyone who has been diagnosed or whose spouse or dependent has been diagnosed with COVID-19, or who is experiencing adverse financial consequences as a result of being quarantined, furloughed, laid off, reduced work hours or a lack of child care because of the coronavirus. Business owners who have to close or reduce business hours would also qualify.

### RMDs are suspended for retirement accounts

You do not have to take a required mandatory distribution this year from your IRA, SEP, SIMPLE, 401k, 403b or 457 plan. This also applies to individuals who turned 70 ½ in 2019 and were waiting until April 15 to take their distributions. If you have taken an RMD in the past 60 days, you may have the option to undo it. If it's returned to a retirement account, the distribution will be treated as a 60- day rollover.

This also applies to an inherited or beneficiary IRA. If you are taking payments from a beneficiary IRA, you will not have to take a distribution in 2020.

If you are a small business owner, independent contractor or self-employed, you are probably aware of the Paycheck Protection Program Loans. There are a few other provisions that you may not be aware of.

**For Businesses:**

### Expansion of the SBA Disaster Loan

This allows sole proprietors to access disaster loans and enables them to receive a loan for working capital to overcome the temporary loss of revenue. Entities that apply for the disaster loan can get an immediate advance of up to $10,000 to maintain payroll and the advanced $10,000 does not have to be repaid even if the full loan application is later denied.

### Social Security payroll tax deferral

The employer's portion of Social Security payroll tax payable in 2020 may be deferred until January 1, 2021 with the first half of the deferred 2020 payment due at the end of 2021 and the second half due at the end of 2022.

Additionally, employers may be eligible for up to one year of credit against the employer's 6.2% share of Social Security tax for a business that is fully or partially suspended due to government orders or where revenue in a quarter in 2020 is less than 50% of the revenue in the same quarter last year.

We urge you to contact your tax professional to discuss how these changes may affect your specific situation.

*Sources IRS.gov and Capital Group "Cares Act:What Investors and Small Businesses Need to Know"*

# 529 Day

## A Reason to Celebrate

The "Other" Late May Holiday – 529 Day!  Did you know that May 29th is officially "529 Day?"  529 Day started off as a way to increase awareness of Section 529 plans as a valuable tool for education savings, but has broadened into a tool to highlight college savings in all of its forms.

While parents (or perhaps grandparents) are typically the ones responsible for the advance planning and funding of these accounts, the key role the student plays is often overlooked.  After all, college is often one's first true test of independent decision-making (what school to attend, what classes to take, where and with who to live) and a financial misstep or two can have even greater ramifications than blowing off a test.

*"And in the end, they might even get a kick out of telling their friends they had to "go see their money manager…!"*

We know that even the most responsible among us made a few financial mistakes early on.  Learning how to manage money when you have none (like most college kids) and what to do with it after you land your first "real" job can be the difference between enjoying your late 20s or struggling to pay down debt.  We love walking young adults through the ins and outs of finance including credit card debt, student loans, car payments, rent and rental insurance and their first 401k plan.

We would even argue that starting as early as possible on one's financial literacy can help every young adult out there – whether they are creating art in your garage or majoring in business economics.  A solid understanding of how money works in the real world and all of the ways it can help or hurt you can be truly life changing.

With that in mind, we've decided to broaden the meaning of 529 Day even further and put our own spin on the celebration.  From here on out, Buttonwood Partners will honor 529 Day by placing the focus on improving financial literacy among the young.  We invite all students to take the first steps on their financial journey, whether that be coming in to meet with us, making a quick introduction on the phone or simply e-mailing us with an "I've always wondered…" question.  And we'll ask for your help encouraging the students in your life to do so!

Now, we know you appreciate how meaningful a meeting with us can be, but chances are your 20-year old may have their doubts.  Our pledge is that it will be less painful than a trip to the dentist and that all conversations are strictly confidential.  And in the end, they might even get a kick out of telling their friends they had to "go see their money manager…!"

529 Day happens just once a year, but we hope you make financial literacy a year-round mission.  Give us a call to talk about your next step!

# MARKET UPDATE MESSAGES

With the world changing at a breakneck pace, we are sending out more frequent communications.  If you didn't receive our market updates from Feb. 26, March 12 or April 13 or if you would prefer that we use a different email address, please contact Andrea at 608-827-6411 or andrea@btnwd.com so that we can update our system.   Thank you!

# Staying Busy

## How We Are Spending Our Summer

In "normal" times, we like to use the second quarter newsletter to make some reading or viewing recommendations. But, as we are all aware, life isn't normal right now. So, this newsletter we'd like to give you a picture of the kinds of activities that have been keeping us busy. We invite you to contact us if you have any suggestions or if you share our interests. We're always looking for new puzzles to solve, new places to hike and new plants to add to our gardens.

**Greg—** Lots of puzzles and board games. The kids even made their own version of "Amazing Race". Now that the weather is turning, we've been out hiking. Some of our favorite places are the Pheasant Branch Conservancy and Blue Mounds Park. Jenelle has been perfecting her macaroons and risotto. We've even had egg drop and paper airplane contests.

**Jodie** — Outside chores! I put in a 30x50 garden and have been cutting down trees and limbs, digging up buried boulders (ok, just big rocks, but it feels like boulders!), mowing, mowing and more mowing, and playing with the dogs...and cat, and bird. I'm really enjoying watching all of the birds at my feeders. Orioles, indigo buntings, red-breasted grosbeaks, woodpeckers, cardinals, blue jays, gold finches, hummingbirds. They are really beautiful!

**Chris** — I've been reading and taking long walks alone or with Peggy. I've even had several socially distanced walks with friends. We watch Rick Steves @ 5:00 on WHA Create (Charter #197) and plan our next adventures. Lots of Skype time with kids and grandkids. We're also experimenting with new recipes.

**Linda** — I've been spending my days reading and catching up on TV -Schitt's Creek and Battlestar Galactica. I'm enjoying spring walks in my neighborhood more than ever before.

**Katie** — Lots of Netflix shows – Outerbanks and The Wrong Missy are the two I'm watching right now. I've been hiking like crazy now that the weather is getting warmer. Some of my favorites are Prairie Moraine in Verona and Pope Farms in Middleton. I've also been baking a lot - cakes, desserts and anything sweet.

**Andrea** — Lots of games! Board games, video games (Animal Crossing!) and puzzles—jigsaw puzzles, puzzle books, crossword puzzles. I'm really not happy if I'm not problem solving! We're also teaching my 7 year old how to ride a bicycle. By the end of the summer, she'll be a pro!

**Whitney** —I've been listening to a lot of audiobooks from the library and sewing. We recently got a subscription to the Wisconsin State Journal. The Sunday editions has a giant puzzle book. It's filled with lots of new puzzle varieties I've never heard of. So much fun!

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"But in the end, it's only a passing thing, this shadow; even darkness must pass."
- Samwise Gamgee, JRR Tolkien, *Lord of the Rings*