Investment Thoughts
from
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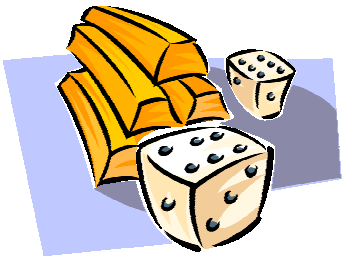
Dear Clients:

"Everyone and everything around you is your teacher." - Ken Keyes, Jr.

As the calendar rushes through the months of July and August, it traditionally means family vacation time in the Bugg household. And so it was that I found myself at the Lake Geneva Greyhound track recently, relearning one of the basic principles of my business.

The ground rules were simple: I gave each of my children $10 for the races, and offered them a loan of up to an additional $10. My son Colin, who owes me a bit of money, promptly pocketed the $10 as a means to "pay back" some of his debt, and simply enjoyed watching the races. Peter, the recent economics graduate, weighed his options before placing the entire $10 on a "Super Quinella." Rather predictably, that $10 didn't last very long. My strategy was rather basic: bet the favorite to show. My children tried convincing me to bet the win, or at least the place, but I stood my ground. The $10 lasted throughout the night, and I even walked away with a couple of dollars as profit. Finally, Ellen poured over the statistics, made her selection, and bet that dog to win. She had one or two dramatic victories, a couple of complete flops, but was able to walk away $8 ahead in the end. (Peggy, who for whatever reason didn't receive my $10 gift, was content to enjoy the entertainment provided by the races and our antics, not necessarily in that order.)



I was sharing the details of the encounter the following Monday, commenting on how the betting patterns reflected my family's different personalities, when I realized how closely they related to investing. Colin had other purposes for the money, so he didn't risk it. (*Rule: maintain sufficient liquidity for short-term needs*). Peter (the Speculator) essentially saw the $10 as "free money," and was willing to risk everything for the chance at a big return. (*Rule: volatility is a two-way street; don't let the promise of gains overshadow the probability of loss.*) I simply played the odds. (*Rule: while one-time surprises occur, the law of averages usually wins out over the long run.*) And Ellen chose a more uncertain version of my strategy. (*Rule: generally speaking, higher risks should offer higher returns.*)

However, it wasn't until I sat down to write this story that I had the true "eureka moment": regardless of the outcome, each individual had enjoyed the evening and wouldn't alter their strategy if given the opportunity. And with that the most important "rule" of my experience became clear: whether gambling at the racetrack or making investments, as long as you remain true to your goals and risk tolerance, the end result should be within an acceptable range that allows you to sleep at night.

- Chris Bugg

How Does the 2003 Tax Act Benefit You?

The third-largest tax cut in history was enacted when President Bush signed the "Jobs and Growth Tax Relief Reconciliation Act of 2003" on May 28. By reducing individual federal income tax rates and the capital gains and dividend tax rates, the Act hopes to provide incentives to stimulate consumption and increase investment. Like its 2001 predecessor, EGTRRA, many of the provisions of the Act contain sunset provisions that will return the tax law to the 2001 standard unless extended by Congress. Individual taxpayers are primarily affected by the following provisions of the Act:

- ✓ Cutting the rate paid on dividends to 15%, down from a maximum of 38.6%. This provision is retroactive to all dividends received during calendar 2003 (sunsets in 2008).
- ✓ Cutting the rates on long-term capital gains from a maximum of 20% to a maximum of 15% for sales after May 5th, 2003 (sunsets in 2008).
- ✓ Accelerating the income tax rate cuts, originally scheduled in EGTRRA to take effect in 2006, across the board.
- ✓ Expanding the 10% bracket from $12,000 to $14,000 through 2004 and after 2007.
- ✓ "Marriage penalty" relief through 2004.
- ✓ Boosting the per-child credit for children under age 17 from $600 to $1,000 through 2004. Rebate checks of $400 per child will be mailed to qualifying families in 2003 (phase-out for couples earning more than $110,000 and individuals over $75,000).

PEOPLE COME, GO, AND STAY: PERSONNEL UPDATE

The Chris/Don team is wrapping up the summer with a strong finish. As you know from our February newsletter, two of our Finance Interns, Andrew Eversfield and Justin Unertl, left us in June to go work for GE Commerical Finance in Chicago upon graduation from UW-Madison. Justin comments that "the broad business knowledge I acquired during my time at Buttonwood has prepared me well for a career with GE Commercial Finance. The one constant I have noticed at both Buttonwood Partners and General Electric is a commitment to Integrity. Some values and standards may come and go, but integrity in dealing with clients is never compromised." Andrew explains his experience as "… a whirlwind…moving into a new apartment and starting a new job at the same time has kept me busy. Another newcomer just got married along with the new apartment and new job. I might be a couple years away on the third part of the trifecta. Seriously, I feel real comfortable with my coworkers which should help ease the transition and I have been having a lot fun exploring the city."

Our Marketing Intern, Tammi Yee, has been with us for a year and a half now, and is about to begin her last year at UW-Madison. She continues to involve herself in all aspects of our business and enjoys keeping us "on the tip of our toes." Although we lost Andrew and Justin this summer, we have gained two college graduates that "hit home" while working with us at Buttonwood. They are not only the sons of Chris and Don, but they have been friends since the age of 8. Chris and Don actually met and linked up for business through the friendship of Drew and Peter at an eighth grade band concert. Don's son Drew Dean recently graduated from Carleton College in Minnesota with a degree in Psychology and Pre-Medicine. He is moving to Minneapolis in September to assist a professor with research at the University of Minnesota. Peter Bugg returns to Madison after spending four years at the University of Chicago majoring in Economics. He is also leaving us in September to go travel in South America with hopes to find work there. Drew and Peter have both valued the experience of working with their fathers, now having a much clearer understanding of what they really do while at work.

For those of you who did not know, Mary was gone on medical leave for six weeks. She is fully recovered and back to work, ready and eager to serve you in any capacity. Please call her if you need anything.

It's Back to School Time…Invest in a 529 Plan

Another August upon us means that another school year is upon us and it is time to think about investing in a 529 College Savings Plan. Regardless of age or relationship to the account owner, the beneficiary of an account can be a child, grandchild, nephew, niece, spouse, or even yourself. There are many advantages that we will generally outline for you:

- ***Flexibility:*** The money in this investment plan may be used for college expenses at any accredited college in any state, and can easily be transferred between family beneficiaries.
- ***Control:*** The giver retains control over the assets until they are distributed to pay for college, unlike UGMA accounts where parents lose control over the money when the child reaches a certain age (usually 18).
- ***Estate tax advantages:*** The law allows one-time gifts of as much as $50,000 to a 529 plan, so if one wanted to get cash out of his/her estates one could make a large gift to the beneficiary. Note that there is an allowable $10,000 annual gift-tax exclusion
- ***Financial-aid advantages:*** Assets in these plans are not considered a student asset in the formulas used to determine financial aid, unlike assets held in UGMA custodial accounts. Also, withdrawals in a 529 plan can be made tax-free so they have no effect on a student's assets.
- ***No limit on parental income:*** 529 plans have very high limits; a one-time $50,000 contribution per donor, and maximum total contribution limits that range as high as about $250,000 (varies by state). Earnings can grow beyond this limit, but no additional contributions will be allowed.

Please contact us for additional information regarding any 529 plan that may be relevant to you. We can send you reading materials as well as discuss what a 529 entails for you personally. Also, please do not hesitate to call us if you are unsure of the benefits of a 529 plan in comparison to custodial accounts and/or Education IRAs.