Investment Thoughts

This Issue:

Our Letter

"Ten 'Laws of Wealth'..."

Time for an Appointment?

Third Quarter 2016

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Dear Client,

As fall rapidly approaches and 2016 moves into its final quarter, we hope you are preparing for the seasons to change and have enjoyed your summer. Whether you took a vacation around the world, had lunch with an old friend, spent hours on the golf course, or anything in between, each of us had our own idea of the "perfect agenda" when summer began. Now that summer is over, think back and assess how well reality stuck to the script. Did you accomplish what you set out to do? Would you consider your summer a success? And how big of a role did your answer to the first question influence how you answered the second?

Just as we all had individual summer goals, we each have our own financial goals and aspirations. (And no, those don't always stick to the script, either!) But when clients describe those goals to us, it is very rare that they center around dollar signs on an account statement. Rather, success is defined by being able to live out those dreams, which numbers on a brokerage statement can only contribute to by providing the confidence to pursue (and accomplish) those aspirations. The author of our featured article, Daniel Crosby, saves his best point for last when he states, "Your life is the best benchmark."

If this is how we choose to define "success," then the flip side of the coin is defining "failure" as the inability to accomplish the goals you have set forth. Increasingly, that has been defined by the sentiment that "I can't go through another 2008." While that may be true for the money you need in the next year or two, the fact is the money set aside for goals a decade or more out could indeed survive such a scenario – and are almost certain to face another bear market before they are needed. The reality is that a market decline isn't what most often leads to failure, but the actions taken by investors during those stressful times.

Academic studies have shown that working with an advisor helps contribute to higher investment returns, but the source of that outperformance may surprise you: roughly half of the improved returns comes not from superior investment selection, but directly from behavioral coaching. As advisors, we add value not only through monitoring your asset allocation, but also by speaking with you when fear or greed is driving the market. In the twenty-first century, markets have the ability to produce knee-jerk reactions over the latest piece of data or press release. We understand these market reactions can be hard to handle, particularly from the emotional perspective. But it is in these moments that we most want to hear from you and be that source of added value that can keep you on the path to success.

While the market's movements aren't controllable, it is important to remember that **YOU** do control your investment decisions. And ultimately, time and investor behavior are the two most critical factors in determining the long term performance of a portfolio. As the markets push to new highs, it's a good time to step back and re-evaluate the progress you've already made. The first step down the road toward success may be setting that goal to accomplish, but it also never hurts to stop and double-check that you're still on the right path!

Greg Rademacher, Chris Bugg, and Jodie McLellan

BUTTONWOOD PARTNERS

"These 10 'Laws of Wealth' Can Help You Hold On To Investment Gains"

By: Daniel Crosby

Date: August 19, 2016

Acting out of fear or greed is a sure way to leave money on the table

Warren Buffett's mentor Benjamin Graham famously said, "The investor's chief problem — and even his worst enemy — is likely to be himself."

Graham sure knew his subject. Consider: The 30-year annualized return for the S&P 500 SPX, +0.14% average was 10.35% through 2015, but the average investor in the U.S. market pocketed just 3.66%, according to an analysis of investors by researcher Dalbar Inc.

How can you avoid leaving money on the table? The answer is to change your investing behavior so that you stick to a plan rather than act out of fear or greed. Most of the shortfall cited in the Dalbar study, in fact, was due to "panic selling, excessively exuberant buying and attempts at market timing."

"The Laws of Wealth" is my attempt to curb this money-losing behavior. Here is an excerpt of the book's 10 key guidelines to help you keep more of your investment gains:

1. In every market, you control what matters most

The highs and lows of the market may be out of your hands, but how you choose to behave is within your power, and is an important driver of returns.

2. Diversification means always having to say you're sorry

Diversification is not a panacea, nor does it prevent your portfolio from falling, even dramatically, at times. What it does is protect you from idiosyncratic risk and losing your shirt on a concentrated bet. Buying a car with an airbag is a good idea, even if you never get in a wreck. Diversifying your portfolio is similarly wise, even if the benefits may not always be apparent.

3. Risk is not a squiggly line

Risk is not a paper loss. Risk is not underperforming your golf buddy. Risk is not even underperforming a market benchmark. Real risk is the probability of you permanently losing your money. Accordingly, investors with a long time horizon and diversified portfolios are taking on little risk compared to someone with a more concentrated, shorter time frame.

4. Forecasting is for weathermen

Famed contrarian investor David Dreman found that from 1973 to 1993, of the 78,695 corporate earnings estimates he examined, there was a one-in-170 chance that analysts' projections would fall within plus or minus 5% of the actual number. The smartest people in the world don't bother with the crystal ball. Said financier J.P. Morgan of the market's future trajectory, "It will fluctuate."

5. You cannot do this alone

Most people understandably assume that the greatest value offered by a financial adviser is, well, financial advice. Not so. Vanguard's "Advisor's Alpha" study shows that working with an adviser provides around three percentage points of outperformance, and that fully half of that value comes from behavioral coaching. Morningstar, Aon Hewitt, and Envestnet all have similar investor studies showing that hand holding is more important than stock picking when it comes to optimizing returns.

"10 Laws of Wealth..." cont. from pg. 2

After months of complaints and ridiculously long wait times, the TSA may have figured out how to make airport security lines shorter. Middle Seat columnist Scott McCartney joins Tanya Rivero on Lunch Break.

6. Excess is never permanent

John Neff, former head of Vanguard's Windsor Fund, astutely noted that, "Every trend goes on forever, until it ends." It has been said that nature abhors a vacuum and an investment corollary is that markets abhor excess. While short-term trends and emotionally fueled investors can push a stock up or down for a time, things tend to come back to Earth eventually. Betting that something will rise or fall in perpetuity is a risky bet.

7. Trouble is opportunity

Many investors are familiar with Buffett's admonition to be "greedy when others are fearful and fearful when others are greedy," yet so few of us manage to successfully view a downturn as the opportunity it truly is. There is true joy (and riches) to be had, so commit yourself to continue investing and even increasing your allocation when times are bad.

8. If it's exciting, it's probably a bad idea

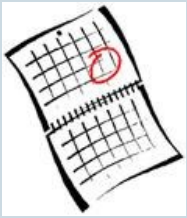
Nobel laureate Paul Samuelson said it best, "Investing should be more like watching paint dry or watching grass grow." Research shows that the average IPO in the U.S. has gone on to underperform the market benchmark by 21% per year in the first three years following its release. Emotion makes us a stranger to our rules, and straying from a discipline tends to end in disaster.

9. You are not special

Robert Shiller, a Nobel prize-winning economist, is fond of saying that "This time it's different" is the most dangerous phrase in investing. While mania can carry a market for a time, the truth about what works long-term on Wall Street is pretty boring (think paying a fair price for a profitable company) and is unlikely to fundamentally change.

10. Your life is the best benchmark

Benchmarking to your own goals instead of arbitrary external ones has myriad benefits. First off, it personalizes the whole endeavor and makes investing about doing what you love instead of outperforming others. Research also shows that goals-based investors are more likely to stay the course during tough times and even save at higher rates, since what they are chasing is so personally meaningful.



Time for an Appointment?

If you are approaching any of these ages, it might be time to come in for a chat.

- 59 1/2 IRA Withdrawals
- 62 Social Security Eligible
- 65 Medicare
- 66 SS Full Retirement Age
- 70 1/2 RMD (Required Minimum Distributions—IRA)

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"What keeps me going is goals." – Muhammad Ali

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