

# THE BUTTONWOOD



First Quarter 2006



On May 17, 1792, twenty-four merchants gathered under a buttonwood tree at 68 Wall Street.

There they signed the *Buttonwood Agreement*, creating the first investment community, which later evolved into the New York Stock Exchange.

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## SPRING CLEANING

By Gail Gardner, CFP, ChFC

Ahhh, spring. As I sit and look out my window on this fine April day, I can see the daffodils blooming in the park. Public works crews have already been out to rake leaves, prep the fountain, and turn on the water. The trees are blooming and all I can think about is . . . spring cleaning! Along with the housecleaning and yard work, this is a good time of year to do some financial housecleaning. Maybe, like me, you've been putting off getting those wills done or updating your healthcare proxy. Have you looked at your overall portfolio allocation lately? Do you know if you're over invested in small growth and foreign investments after the recent run up? Don't know what to do with that chunk of cash you've got lying around? Not sure how your investments performed last year? Well, there's no time like the present!

To help you with your spring cleaning, here's a checklist of items that we routinely review with our financial planning clients as part of a comprehensive plan. These should apply to just about everyone, whether you're retired, thinking of retiring soon, or still have a number of years left to go before you can take the "ultimate vacation."

- Invest "idle" cash that has accumulated and/or develop a plan to pay off or refinance high interest consumer debt. We recommend keeping between 3 and 6 months worth of living expenses in a liquid account.
- Prepare a net worth statement, and update it annually.
- Prepare a budget, and monitor your spending for 6-12 months to see if it's accurate.
- Identify your financial goals and develop a game plan for achieving them. Monitor your progress.
- Make sure you are receiving the maximum matching

contribution from your employer-sponsored retirement savings plan, if you have one.

- If your tax situation has changed, estimate your income taxes for the current year and adjust your withholdings, if necessary.
- Organize and file your important papers and get rid of anything you don't need to keep.
- Replace investments that have consistently underperformed others in the same class.
- Review your overall asset allocation and make adjustments, if necessary.
- Review your insurance policies (life, disability, health, property/casualty) to make sure you have the right amount and type, and that it's cost effective.
- Make sure the beneficiary designations on life insurance policies, annuities, IRAs, and employer-sponsored retirement plans are up to date and in line with your overall plan.
- Have your estate planning documents prepared or updated. We recommend, at minimum, having a will, health care proxy, living will and power of attorney.
- Prepare an itemized list of important documents, and their location, so that someone could step in for you and take over managing your financial affairs in your absence.

If you've done several of these already, congratulations. If you still have a lot to do, don't panic. Prioritize your personal list and do the high priority items first. Set a time frame for yourself if you work better on a deadline. Better yet, share your deadline with someone that you know will hold you accountable, like your spouse! If you have any questions or need assistance, we're happy to help. Just give us a call. You will eventually get through your list and feel better about it next time spring rolls around!

# Up, up and away...but be patient

By Henry Wildback

With the first quarter in the books, everything is going up on Wall Street. And, as is sometimes the case, this might be a bit confusing. The daily economic news is filled with higher inflation figures, higher interest rates, record oil prices & the highest 10 year Treasury yield since 2002.

Recent reports show that March 2006 core CPI, a measure of inflation minus the food & energy components, rose by 0.3% vs. 0.1% in February. While this increase may seem benign, it could be a harbinger that higher energy prices are having a trickle down impact on overall prices.

The Federal Reserve raised the Fed Funds rate at the March meeting for the 15<sup>th</sup> time. This benchmark rate has risen from 1% in June of 2004 to 4.75% as of the meeting on March 27<sup>th</sup> & 28<sup>th</sup>. While the Fed Funds rate is still well below the 45 year average of 6.4%, an increase from 1% to 4.75% is nonetheless meaningful.

Treasury yields, until recently, have remained stubbornly low in the face of rate increases. Longer rates, as measured by the benchmark 10 year note, didn't trade at the 5% level until April 13<sup>th</sup>. This is the first time the 10 year Treasury has traded at these levels since mid-2002.

Finally, oil prices have hit new highs recently with the breaching of the \$70 per barrel threshold. This, despite domestic inventories being at their highest levels in eight years. The Federal Reserve has acknowledged that higher energy prices could have an impact on economic growth, but seem to be taking the increases in stride. In addition, it should be mentioned that \$70 per barrel oil is still well below the inflation adjusted price of \$97.21 reached in April of 1980.

In the world of academia, this should suggest lower stock prices. Logic suggests that higher inflation, continued Federal Reserve tightening, rising Treasury Note rates & record oil prices would represent difficult headwinds for stock prices.

Yet, the confusing part of the equation is that stock prices, as measured by the Dow Jones Industrial Average, are at a 5 year high. It seems as though quality earnings, dividend growth & world-wide high productivity, trump the previously mentioned concerns. In addition, the old Wall Street adage rings true - "the market is climbing a wall of worry."

To many investors, the market is not climbing the "wall of worry" fast enough. Fresh in their memories are the heady days from 1982 through 1999 when the average annual rate of return was 15.14%, 14.80% & 18.34% on the Dow, S&P & NASDAQ respectively. Each of the above mentioned indices is in negative territory since December of 1999. While it is human nature to want more, a lack of patience could be costly.

I recently read an article by Addison Wiggin in the *Agora Financial Forum* that talked about patience. Mr. Wiggin mentions that we live in a world of instant gratification, referencing the internet, overnight delivery, fast food & the recent real estate market. He mentions that "corporate CEOs no longer care about growing their companies...the only thing that matters to them is keeping the shareholders happy".

Mr. Wiggin suggests we would be far better in the long run if we were investors rather than speculators, & had the patience to "sow the seeds of tomorrow's wealth today." He goes on to mention that one of the most patient & successful investors of our time is Martin J. Whitman. Mr. Whitman is chairman of Third Avenue Funds which manages over \$21 billion world-wide. In addition, he is manager of the Third Avenue Value Fund. Mr. Whitman attributes his outstanding long-term track record to allowing "profits to come to him." He further suggests that "patience has a lot more to do with my success than luck does."

To some, Marty Whitman might be a recognizable, household name. You may recall that Marty is a 1949 graduate of the Syracuse University School of Management. How well did Marty's conservative, patient investment philosophy serve him you ask? The Syracuse University Management School bears his name. Stay conservative, be patient-it will pay off in the end.

**Have you been in recently to review your portfolio? If not, please contact us to schedule a meeting.**