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INVESTMENT ADVISORS

Spectrum Investor® Newsletter **1st Quarter | 2011**

Quarterly Economic Update

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Enclosed are your investment returns for the 1st quarter, 2011. The S&P 500 Index is up 5.9% year to date as of 3/31/11. It was the best first quarter return for the index since 1998. The S&P 500 closed the quarter at 1326, which is still 18% below its all time closing high of 1565 set on October 9, 2007 (*BTN Research*, 4/4/11). The sweet spot of the market is mid cap stocks, up 7.9% for the quarter. The yield on the 10-year Treasury note as of 3/31/11 is 3.46%, which is historically low compared to a yield of 8.05% twenty years ago (Treasury Dept., 4/4/11).

The market gain in the first three months was impressive given all the negative headlines, such as oil topping $100 a barrel and the rising political instability in the Middle East (Libya). Jim Paulsen, chief market strategist at Wells Capital Management recently stated, **"The biggest positive event happening right now is a significant uptick in job creation."**

If history is our teacher, despite the news in Japan, stocks should continue to recover. After the January 1995 Kobe earthquake in Japan, the Japanese Nikkei Index plunged more than 20% in six months. During that same period, the S&P 500 Index rose 16%. This divergence is reflected in the historically low correlation between Japanese and US equity markets. In the mid 90s, the two countries were racing in opposite directions. There was deflation and a floundering stock market in Japan, while at the same time, a historic bull market in the US (*Historical Perspectives*, 3/11).

If there is something to learn from the Japanese disaster, it is to handle nature's hard blows with the courage and dignity of the Japanese people. They are pulling together as a nation with one heartwarming story after another, reaching out to help each other with acts of kindness, such as sharing gasoline rations with those in need and refraining from mayhem and looting. The Japanese people are not losing hope and have earned the admiration of the entire world. It reminds us to keep things in perspective in regards to the markets and to what is truly important in life.

Historically, markets do recover. For example, after our nation's 2008 financial crisis, stock prices have roughly doubled over the past two years. With the Fed announcing the $600 billion purchase of US Treasuries in late August of 2010, the US market took off, propelling the bull market to new heights.

How long will it last? According to *Investment Research* (2/7/11), the average duration of bull markets since 1932 is 3.8 years. The bull market celebrated its second birthday on March 9, 2011. Eighty percent of bulls lived past their second birthday, but barely half saw their third birthday. Bull markets tend to be killed off by an imbalance in the economy, serious bouts of inflation usually caused by higher oil prices, or a sharp rise in interest rates. Past performance is not necessarily an indication of future results.
The market should still have some room to run, with April, over the last 60 years, being the best performing month for the Dow Jones Industrial Average, according to the *Stock Trades Almanac*, 4/3/11. However, with the bull market entering its third year, as they say in the business, **"the easy money has been made."**

April Bullish

In the past 50 years, April has been the No. 1 month for the Dow Jones Industrials. Average monthly gains:

April	**+2.02%**
December	+1.51%
November	+1.22%
January	+1.20%
March	+1.09%

Source: USA Today/Bespoke Investment Group

Bulls' run, historically

Bull Market returns, on average, for S&P 500:

Duration	1932-2011	Current Bull
Year 1	+46.0%	+68.6%
Year 2	+12.6%	+16.7%
Year 3	+3.9%	?

Source: Standard & Poor's

"Predictions are always difficult", Yankees catcher Yogi Berra once informed us, "especially about the future". The real end of the bull market won't come until economic growth falters and that likely will be when natural resource prices start to rise at an accelerating rate, creating an accelerating tax on the economy. According to Stephen Leeb from *The Complete Investor*, the likelihood of that will probably be starting in the fourth quarter of 2011 and into the first two quarters of 2012. **Rebalancing by the Spring of 2012 will be very important to the average investor**. On the bright side, long-term, what may help curtail energy prices is the new drilling technology called **shale fracturing**, which has driven down the cost of natural gas. Natural gas could play a major role in our nation's long-term energy solution (*Fidelity Monitor*, 2/2011).

Due to the recent robust jobs report in the US economy, the Fed is likely to end its QE2 purchase of US Treasuries at the end of June 2011. A QE3 bond purchase is unlikely as long as the economy keeps improving, which will tend to drive interest rates up after June 2011. For those of you that are considering refinancing your residence, we suggest you complete it by the end of June 2011. The upside of the remainder of 2011, as we mentioned in our first quarter newsletter, is that stock gains have been more favorable in the third year of the Presidential election (2011). This means that there is no need to panic after June since interest rates are likely to increase, but at a gradual rate vs. spiking.

With oil prices on an upward trend due to the Mid East turmoil, combined with the temporary slowdown in Japan, it will be harder for the bull market to keep climbing the wall of worry. **The bottom line is, if your risk tolerance has been tested in the past month or you are approaching retirement, you may want to consider rebalancing in the month of May 2011 but no later than May 2012.**

To assist you in rebalancing, please review the attached model portfolios and web instructions. Should you have any questions, please call us at 800-242-4735.

For an electronic copy of this newsletter, please visit our website at www.spectruminvestor.com. We appreciate your business.

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Wealth Management

Temporary Guidance Provided Under The Tax Relief Act of 2010

Catherine M. Priebe, Attorney
Featured Columnist

The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the "Act") was signed into law on December 17, 2010. Albeit temporary, the Act provides some clarity regarding the federal estate, gift and generation-skipping transfer tax systems for the next two years.

Estate Tax Exemption Increased to $5 Million. For 2011 and 2012, the federal estate tax exemption has been increased to $5 million per person from the previous 2009 exemption of $3.5 million. With proper planning, a married couple can now pass up to $10 million at their deaths free of federal estate tax. Also, the federal gift and estate tax exemptions have been reunified as of January 1, 2011. This means that the $5 million exemption is an aggregate limit that applies to transfers both during lifetime and at death.

The value of any assets of a decedent in excess of $5 million which are subject to estate tax will be taxed at a flat 35% rate for deaths occurring in 2011 or 2012. This rate is down from the flat 45% estate tax rate applicable for deaths occurring in 2009 and is far below the anticipated 55% (and even 60% in some circumstances) maximum estate tax rate that would have applied had the Act not been passed.

Portability. The Act introduces the new concept of "portability" into the federal estate tax system for married couples. Beginning on January 1, 2011, portability allows a surviving spouse to use any unused portion of the predeceased spouse's federal estate tax exemption at the time of the second death. The personal representative of the predeceased spouse must file a timely federal estate tax return to make an election to preserve the unused portion of the predeceased spouse's federal estate tax exemption (even for small estates not otherwise required to file a federal estate tax return). Note that portability is only beneficial if ***both*** spouses die in either 2011 or 2012, as the Act will expire on December 31, 2012 without further Congressional action.

While portability certainly increases the chance that the federal estate tax exemption of both spouses will be utilized, the use of credit shelter trusts designed to shelter some or all of the assets of the first spouse to die from estate tax at the time of the second death is still an important strategy. Credit shelter trusts still work if the new portability rules do not survive beyond December 31, 2012. Moreover, credit shelter trusts shelter any appreciation on the credit shelter trust assets between the death of the first and second spouse and may provide some asset protection for the surviving spouse.

Gift Tax Provisions. Due to reunification with the federal estate tax exemption, the federal lifetime gift tax exemption will be $5 million for 2011 and 2012. The gift tax rate for lifetime gifts in excess of the $5 million gift tax exemption will be a flat 35% in 2011 and 2012. The "portability" rules discussed above also apply to the federal lifetime gift tax exemption for married couples. In addition to the lifetime gift tax exemption, gift tax-free annual exclusion gifts ($13,000 per person for 2011), qualified educational expense gifts and qualified medical expense gifts all remain intact. With the large jump in the lifetime gift tax exemption to $5 million, 2011 and 2012 present wonderful opportunities for wealthy individuals to make gifts on a gift-tax free basis, especially those wealthy individuals who previously used their $1 million lifetime gift tax exemption. Based upon the controversy that surrounded the passage of the Act, there is no guarantee that the lifetime gift tax exemption will remain at such a high level after December 31, 2012.

New Sunset Provisions. The prior law that temporarily repealed the federal estate and gift tax systems was scheduled to "sunset" or expire on December 31, 2010. The original "sunset" would have reinstated the $1 million federal estate tax exemption and 55% maximum estate tax rate. The Act now extends the new "sunset" until December 31, 2012. Stay tuned, as all of the new provisions described in this article will expire on December 31, 2012 without further Congressional action. Reinstatement of the $1 million federal estate tax exemption and 55% maximum estate tax rate still looms, as the Act only provides temporary relief. Further extension of the relief provided under the Act will likely be a hot topic as the 2012 presidential election approaches.

This information is not intended to be a substitute for specific individualized tax or legal advice. We suggest you discuss your specific situation with a qualified tax or legal advisor.

Catherine M. Priebe chairs the Estates, Trusts & Succession Planning Practice Group of Davis & Kuelthau, s.c. in Milwaukee. She has extensive experience advising clients in all aspects of estate and business succession planning and is a frequent lecturer on estate planning, including continuing legal education courses for the State Bar of Wisconsin. Ms. Priebe is the President of the Milwaukee Estate Planning Forum, Ltd. and the former Vice Chair of the Milwaukee Bar Association's Estates and Trusts Section. Feel free to contact Catherine at (414) 225-1425 or cpriebe@dkattorneys.com, with any questions. Catherine Priebe is not affiliated with LPL Financial or Spectrum Investment Advisors.

Spectrum Investor® Update 3/31/11

Category Average	1st Qtr	1 Year	3 Year
Intermediate-Term Bond	**0.98**	**6.16**	5.63
Moderate Allocation	3.85	11.97	3.53
Large Cap Value	6.04	14.16	1.29
Large Cap Blend	5.61	14.52	1.98
Large Cap Growth	5.55	16.77	3.57
Mid Cap Value	7.05	20.45	6.39
Mid Cap Blend	7.94	22.72	6.42
Mid Cap Growth	7.80	25.86	6.68
Small Cap Value	6.90	22.59	8.70
Small Cap Blend	7.92	25.29	8.02
Small Cap Growth	**9.22**	**29.11**	**8.77**
Foreign Large Blend	2.99	12.12	**-2.74**
Real Estate	6.07	23.22	1.49
Natural Resources	7.64	25.82	1.48

Source: Morningstar, 3 yr return is annualized by Morningstar. Past performance is not an indication of future results.

In Other Words

Markets Are Resilient After Disasters

Angie Franzone
Newsletter Editor

The devastating earthquake and subsequent tsunami in Japan has forever changed the lives of its citizens. It seems almost heartless and inappropriate to write a column about how the markets react to such incomprehensibly destructive events. However, it is important to have an understanding of how world events affect our markets so we can know what to expect if and when tragedy hits again. With that being said, this column is in no way meant to downplay what has happened to the people of Japan. They have my sympathy and my hope that their lives will one day be made whole again.

Historically, when disasters strike, markets have the tendency to bounce back, which is why it is important not to let fear control your investment decisions during such uncertain times. Keep your emotions out of it. In the March 28, 2011 issue of *TIME* magazine, *The Curious Capitalist* columnist, Bill Saporito, writes:

> **Destruction on such a massive scale, while locally chaotic and disruptive, generally doesn't have a lasting effect on global order.**

This is no more evident than in the tragedy in Japan itself. **On 3/11/11, the day of the earthquake, the DOW closed at 12,044. It hit a low on 3/16/11 of 11,548 and as of 4/2/11 the DOW had already recovered and closed the day at 12,409 (*Morningstar*).**

The following examples of actual disasters through the years show the resilience of the markets:

- The market plunged 3% on the Friday that **President Kennedy** was assassinated, but stocks rose two trading days later, and a five-year bull market began (*USA Today*, 3/14/11).
- It took U.S. Stocks just six trading days to get back to even following the U.S. nuclear mishap at **Three Mile Island** in 1979 (*USA Today – Money*, 3/16/11).
- After the1986 **Chernobyl power plant** meltdown in Russia, the world's worst nuclear accident, it took the S&P 500 Index just 20 days to recoup its 4.3% loss (*USA Today – Money*, 3/16/11).
- The Dow Jones Industrial average plummeted 27% on **Oct. 19, 1987**, after several days of smaller dips, but it closed the year at a 2.2% gain (*USA Today*, 3/14/11).
- U.S. Stocks were up 15.1% a year after **Hurricane Andrew** in 1992 and also rose 1.3% in the three sessions following **Hurricane Katrina** (*USA Today – Money*, 3/16/11).
- In the first week after the **9/11 attacks** the S&P 500 index tumbled more than 5%, but within six months the index gained it all back and more (*TIME*, 3/28/11).

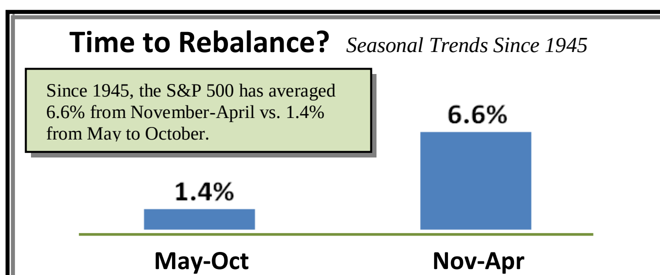
As can be seen through these historic examples, there tends to be a plunge, stabilize, recover pattern after disaster strikes. This is important to take note of because it may help you to stay strong and resist pulling all of your money out of the market when the world goes into panic mode. As Dr. David Kelly, Chief Market Strategist for JP Morgan stated, **"Markets tend to overreact to natural disasters"** (3/17/11).

Douglas Sease and James Altucher, authors of *The Wall Street Journal Guide to Investing in the Apocalypse*, advise that you should put cash into the market when others are taking it out in order to take advantage of low prices on solid companies. **"No portfolio should be based solely on reacting to the day's news," say the authors. "Diversification gives investors the best odds in good times or bad, but thoughtful opportunistic investing can boost your bottom line"** (*USA Today*, 3/14/11).

As Warren Buffet said at the 2010 Berkshire Hathaway meeting, "If you are fearful over time, you won't make a lot of money. If a stock goes down, it's a great time to buy more, but if you can't get into that mental attitude, you'll be scared when everyone else is scared." **In other words, select an asset allocation in which you are no longer scared, regardless of the news you read.**

Since the bull market began in March 2009, stocks have almost doubled. This means that if you stayed the course, did not let your emotions get the best of you and continued to contribute to your 401(k) plan during the market's worst months, your 401(k) balance would be more than it was prior to the correction. Another reason why it's so important not to completely cash out of the market when things get rough.

The historical disasters listed along with the recent devastation in Japan reinforce the need for a diverse portfolio made up of an appropriate combination of stocks, bonds and cash for your age and investment goals, as well as the need to rebalance when your investments get too far out of line. **Historically, late April and Early May are generally good times to rebalance your portfolio,** with November 1 through April 30 being a stronger period than May 1 through October 31 (*The New York Times* 4/07). Past performance is not necessarily an indication of future results.



Source: Sam Stovall, Chief Investment Strategist, Standard & Poor's Adam Shell, *USA Today*, 11/10/09. Past performance is no guarantee.

If you are concerned about your own investments or need help rebalancing, please contact our office and speak with an advisor.

DOW: 12,320	**10 Yr T-Note: 3.46%**
NASDAQ: 2781	**Inflation Rate: 1.1%** (11/2010)
S&P 500: 1366	**Unemployment Rate: 9.4%**
Barrel of Oil: $106.72	Source: www.bls.gov
	Source: *USA Today* 1/3/11

IRS Indexed Limits for 2010 and 2011 are as follows:
401(k), 403(b) & 457 Employee Deferral limit is $16,500.
Catch-up Contribution limit is $5,500.
Source: Standard Retirement Services, Inc.

Invest In Your Health

Did You See 60 Minutes?

David Meinz, MS, RD, FADA, CSP
America's Personal Health Humorist

If you saw *60 Minutes* recently you saw the program about a powerful substance found in the skin of red grapes that can potentially decrease heart disease, Alzheimer's, diabetes, and even cancer risk. **It holds the promise of an extra decade or two not only of old age, but of *healthy* old age.** It's an antioxidant called ***resveratrol*** and it's partly responsible for red wine's healthy reputation.

Resveratrol is naturally manufactured by the grape to help it resist the growth of bacteria and fungus. By the way, red wine contains more resveratrol than white wine does simply because red wine contains all parts of the grape; the skin, plus the substances found in the grape flesh. During production of white wine only the flesh of the grapes are used; the skin is discarded. Red wine is made with the purple skins still on it.

Several years ago, a study published in the journal *Nature* found that mice given resveratrol lived healthier lives in spite of a high-fat, high-calorie diet. Unfortunately, to get the same amount as was used in the mouse study, you would have to drink about 300 glasses of wine every day.

"With this new drug, cholesterol forms outside of the body, where it can't clog the arteries!"

Is red wine good for you? Yes, in moderation. But the small amount of resveratrol you naturally get in wine probably isn't going to make much of a difference to your health.

If anything, it's the alcohol content of wine that will raise your good HDL cholesterol and decrease the ability of your blood platelets from sticking together, thus decreasing the likelihood of blood clots. And that alcohol can be in red wine, or white wine, or any other form of alcohol for that matter.

So, is there some way for you to get enough of this resveratrol to actually do you some good? Fortunately Dr.'s Christoph Westphal and David Sinclair of Sirtris Pharmaceuticals in Cambridge, Massachusetts are working on a pill of concentrated resveratrol that gives you what you'd get by drinking a thousand bottles of red wine a day---and with no hangover!

The scientist's original hope was that resveratrol could give humans a healthier life span, not necessarily a longer one. A 90-year old would have the health of a 60-year old. Even if we didn't live a day longer, I think most of us would be happy with that. Human trials are actually going on now and they've seen that people with untreated diabetes, for example, actually decrease blood sugar and insulin levels, without any other diet changes or drugs other than the resveratrol pill.

What this means is that resveratrol seems to not only have the potential to help us live healthier lives, but also to actually help people with diseases become healthier too. That's exciting!

But be careful. We are not sure if the resveratrol products available now at health food stores are concentrated enough to do you much good. We just don't know.

According to Dr. Sinclair, the drug-strength resveratrol should be available to you in the next five years or so. So, continue to eat well and exercise and, if you smoke, stop. You don't want to die the day before the pill comes out.

Be sure to join David on his cruise to Alaska July 19-26, 2011. Get all the details at www.AlaskaHealthCruise.com.

Nutritionist **David Meinz** of www.SpeakingOnHealth.com, speaks to groups around the US and Canada on the relationship between personal health and professional productivity. He is also the author of the book *Survival of the Fittest*. David was the featured speaker at the 2009 Retirement Plan Seminar co-sponsored by Spectrum Investment Advisors and the Wisconsin Institute of CPAs. David was also a speaker at the 2010 Community Banker's of Wisconsin Convention in September. David Meinz is not affiliated With LPL Financial or Spectrum Investment Advisors.