# SPECTRUM INVESTMENT ADVISORS

## 1st Quarter | 2013


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## Upcoming Events:

*Spectrum Investor® Coffee House Educational Series*

**Wednesday, May 8, 2013**

A general overview of Social Security & Medicare

*Save the Date:*

**Wednesday, June 19, 2013**

at Country Springs Hotel

Waukesha, WI

Details and invitation to follow

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We appreciate your business.

# Quarterly Economic Update


**James F. Marshall**
President

**Jonathan J. Marshall**
Sr. Investment Analyst


For the quarter ending March 31, 2013 the S&P 500 rose 10%, the best performance since the first quarter of 2012. Investors have been rewarded since the financial crisis for following the old Wall Street adage, "**Don't fight the Fed**", which means investing in more risky assets as long as the Federal Reserve keeps interest rates low (*WSJ,* 4/1/13).

The Fed has expanded its footprint in financial markets by essentially doubling the pace of its bond buying from last year. The Bank of Japan is now joining the Fed, European Central Bank and Bank of England with an aggressive, easy money policy. The market adage "**Don't fight the Fed**" is becoming an adage of "**Don't fight the world's central banks**". Investors will inevitably face the fork in the road and at some point they need to know that the Fed and other central banks will need to pull back from their money printing policies, which will cause interest rates to rise– potentially resulting in losses for most bond holdings, and in the short-term, stocks (*WSJ,* 4/1/13).

Fed Chairman **Ben Bernanke** has stated the Fed's target is to allow interest rates to increase once unemployment reaches 6.5% and/or the rate of inflation is greater than 2.5%. The unemployment rate at the end of 2007, or close to the peak of the last bull market, was 4.7%. However, it is impossible to know exactly when the Fed will change its course (*Historical Perspectives* 3/3/13).

Four years have passed since the stock market scraped its historic bottom on March 9, 2009 (See J.P. Morgan chart on page 3). Where are we today?

1) **Housing is coming back**, new home sales jumped 15.6% in January, the highest rate since the summer of 2008. New housing starts were up an annualized 82% in the fourth quarter last year. Over the past year, private equity firms such the **Blackstone Capital** and **Colony Capital** have spent billions of dollars buying up single family homes. Blackstone purchased over 20,000 homes since early 2012 that they are renting with intentions of reselling some day. Colony Capital has bought over 8,000 houses in seven states, searching for houses in neighborhoods with low crime, good schools and near freeways and shopping areas. As the chart indicates, real estate follows an approximate six to seven year cycle (*WSJ,* 3/25/13).

**Homes selling faster: Median number of days that homes were listed for sale in February**

| Year | Days on Market |
|---|---|
| **2007** | 90 |
| **2008** | 107 |
| **2009** | 121 |
| **2010** | 110 |
| **2011** | 123 |
| **2012** | 111 |
| **2013** | 98 |

**Source: Realtor.com USA Today 3/20/13**

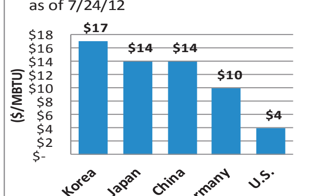
2) For the past four years, **the Fed's continued aggressive position** on buying bonds and mortgage-backed securities to keep interest rates low has allowed residential housing as well as businesses to **refinance** at lower rates to strengthen their balance sheets.

3) Over the past four years, the "**fracking boom**" has in one fell swoop, not only reduced the price of natural gas by 54% (strengthening the manufacturing sector), but also produced 1 million new jobs and created a 100 year game changer in America's energy industry. (*Leeb's Market Forecast,* 4/3/13)

At Spectrum, the fracking boom is near and dear to our hearts. After 30 years of running his own plumbing business in Wisconsin, my brother Rich (Jonathan's uncle) bought a Freightliner semi tractor and tanker and is now hauling water in the Bakken region of North Dakota. Our family calls Rich a "pioneer" and we find conversations with him about fracking fascinating. For example, Rich said it takes four 24-hour days, six semis, each with a 2,500 horse power engine totaling 8,000 pounds of pressure to frack a well at a total cost of $8 million.

He talks of a 100 year supply of natural gas and light sweet crude in the Bakken region, a triangular shaped area which is the equivalent distance from Milwaukee to Madison to Green Bay. Rich said there are currently 186 wells (drilling cost, $10 million each) under construction in the area. Each well is drilled two miles vertically and two miles horizontally. Forty percent of what's produced from the well is natural gas as well as oil. Fracking efforts in our country have driven down natural gas prices to under $4.00/BTU compared to much higher natural gas prices in other parts of the world (see chart).

**Natural Gas Prices For Manufacturing**
as of 7/24/12




Source: Fidelity Investments, JPM Asset Management, Bloomberg

**Ron Baron**, Manager of Baron Growth Fund, believes that the US has a durable competitive advantage due to our low costs and plentiful shale energy (fracking) which will boost our nation's growth. He also mentions that US companies can benefit from the low cost of electricity which is half that of the rest of the world. (Barron's 3/18/13) As **Warren Buffet** would say, **"the best thing to happen to me today is, I woke up in the United States of America."**

In summary, with the bull market entering its fifth year, rebalancing in May makes sense for the average investor. Keep in mind that market cycles average approximately 4.5 years and seldom last over six years. With the market up 132% over the last four years, it may be wise to rebalance and take some profits off the table.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# Wealth Management

## *Social Security*

**Brian E. White, CFP®**
Wealth Manager

Although it certainly doesn't feel like it in Wisconsin, Spring is upon us. By the time you read this newsletter, we'll be finishing up with one of our busiest seasons at Spectrum, tax season. Just as we begin to wind down from tax season, we're going to begin preparations for an upcoming Spectrum Coffee House educational seminar on May 8th. We're pleased to have Lloyd Watnik speaking about Social Security and Medicare. We would love to see you at our office, but if you're not able to make it you can get some information on Social Security Retirement Benefits right here.

As we talk about Social Security we'll be focusing on Social Security Retirement Benefits. This is the most discussed and debated benefit of Social Security. Those who are eligible for Social Security can collect reduced benefits at age 62. Full retirement age can be between 66 and 67, and benefits must be taken by age 70. Most of this is well-known and often talked about by financial advisors. There are, however, some different strategies for maximizing your Social Security Retirement Benefits. We'll cover two of those in this column.

**File and Suspend**. For married couples, this is a good way to take advantage of the spousal benefit available, especially if one spouse worked significantly more than the other. For example, let's say that Bob (age 66) has a full retirement benefit of $1,500 per month. His wife Jane (also 66) has a benefit of $600 monthly at full retirement age. Bob is able to file and immediately suspend his benefits. For each year he doesn't take his benefits, his benefits increase by 8%. This allows for some flexibility for Jane because she can begin to take spouse-only benefits at age 66 for $750 per month (the spouse-only benefit is equal to 50% of the spouse benefit). If Bob waits until he turns 70, his benefit will be increased to $1,980 per month, thanks to the 8% increase each year. Jane can then switch from the spouse-only benefit to her own, which will have increased to $792 per month.

The file and suspend method also allows for a one time lump sum payment when you reverse the suspension of payments. If we use the previous example of Bob and Jane, let's assume that there is a catastrophe two years later where they need a lump sum of money. If Bob filed for benefits and suspended payments, he can go back and take a lump sum payment as if he had been collecting at age 66. At 68, he could receive accrued benefits of $36,000 and continue to receive the $1,500 monthly payment. Now, this large lump sum brings about issues of taxation on Social Security benefits – individuals with income of more than $34,000 and couples with income of more than $44,000 have to pay income taxes on 85% of their benefits.

**Survivor Benefits**. For married couples, a widow or widower is able to collect a survivor benefit equal to 100% of their deceased spouse's benefit. This is the case as long as they wait until full retirement age. The amount is reduced if they collect before retirement age, just like the normal retirement benefits. If there are dependent children, they're also entitled to those benefits while they're still dependents. However, we'll focus on the spousal relationship for now.

Let's explore how this works with Max and Lucy, both 62. Max's full monthly benefit at age 66 is $1,200, while Lucy's is $1,000. If Max dies at 62, Lucy can either take her reduced benefit of $750, or the survivor benefit of $900. They're both reduced by 25% because of early retirement. As you can see, it's a pretty easy decision to take an additional $150 per month! If Lucy lives to age 70, she can switch from the survivor benefit to her own benefit, which has increased 32% to $1,320. That's an additional $420 per month!

We really just scratched the surface when it comes to Social Security Retirement Benefits and the different methods for maximizing those benefits. Everyone has a unique situation that should be discussed in depth with their financial advisor and Certified Public Accountant. The Social Security Administration also covers benefits for Medicare, Disability, Survivors and Supplemental Security Income. Most of the information in this article was found at the Social Security website, www.ssa.gov.



**You may be missing an important tax deduction!**
The IRS allows for the deduction of certain investment expenses (some advisory fees, investment interest expense) you incur on your taxable investments. These are generally limited to the amount over and above 2% of your Adjusted Gross Income.
Be sure to consult your tax advisor and reference IRS Publication 550: Investment Income and Expenses.

**Spectrum Investor® Update 3/31/13**

| Category Average | 1st Qtr | 1 Year | 3 Year |
|---|---|---|---|
| Intermediate-Term Bond | **0.30%** | 5.64% | 6.18% |
| Moderate Allocation | 5.68% | 9.22% | 8.39% |
| Large Cap Value | 11.22% | 14.91% | 10.97% |
| Large Cap Blend | 10.40% | 12.98% | 10.84% |
| Large Cap Growth | 8.79% | 8.43% | 10.82% |
| Mid Cap Value | **12.88%** | **17.18%** | 12.22% |
| Mid Cap Blend | 12.33% | 15.77% | 12.24% |
| Mid Cap Growth | 10.74% | 10.39% | 12.54% |
| Small Cap Value | 12.28% | 16.32% | 11.93% |
| Small Cap Blend | 12.43% | 15.68% | 13.30% |
| Small Cap Growth | 12.07% | 11.57% | 13.43% |
| Foreign Large Blend | 3.66% | 9.61% | 4.65% |
| Real Estate | 6.77% | 13.60% | **16.28%** |
| Natural Resources | 2.57% | **0.38%** | **3.70%** |

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

| | |
|---|---|
| **DOW: 14,578** | **10 Yr T-Note: 1.85%** |
| **NASDAQ: 3267** | **Inflation Rate: 2.0%** (2/2013) |
| **S&P 500: 1569** | **Unemployment Rate: 7.6%** (3/2013) |
| **Barrel of Oil: $97.23** | Source: Morningstar |

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors. The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

# In Other Words

### *What's The Best Mix For You?*

**Angie Franzone**
Newsletter Editor

The stock market (S&P 500) has been full steam ahead lately hitting record highs and closing up 38 days year-to-date (as of 3/31/13). However, during that same time period there have also been 22 down days. How does that make you feel? Do you find yourself feeling happy on the up days and anxious on the down days? If so, maybe you need to take a closer look at how your money is invested. Just because the market is down one day, it doesn't mean you should have to walk around feeling worried and depressed.

You can ease some of your fears by determining what the best investment mix is for you so you're not anxiously awaiting the next stock market drop. This is something the advisors at Spectrum can help you figure out by utilizing a risk tolerance quiz. The results of that quiz can help you to decide which asset allocation is right for you. As the below chart indicates, the more risk you take, the more likely you are to see higher returns, but at the same time you will see more negative years and deeper losses when stock market's are down. How comfortable are you taking the bad with the good? This is an important question to ask yourself because you've got some serious saving to do if you want to live comfortably in your retirement. New guidelines issued by Fidelity Investments suggest that people need to have saved enough during their working years to generate 85% of their income in retirement!

According to Fidelity's model, that means having one year's salary put aside by age 35, two times your annual salary by 40, four times by 50, five times by 55, six times by 60 and eight times by 67. This model assumes that you're putting money into a retirement account like a 401(k) or IRA from the age of 25 through 67, will live to be 92 and that your portfolio will earn 5.5% annually. Fidelity also assumes that you will start contributing at 6%, with a 3% employer match and raise your contribution 1% each year until you reach 12% (*Leeb Income Performance,* April 2013).

Whew! That's a lot to take in and it may seem overwhelming, which is why finding the best mix for you is so important. Keep in mind where you are in your work phase. If you still have 20 or 30 years left to work and invest, determining the best mix for you can help you to not panic when the market goes down and get too conservative too early. If you are closer to retirement it will help you to refrain from becoming too aggressive when the market continues reaching all-time highs.

**What is the best mix for you?**
**Diversified allocation returns (1997-2012)**

| | | *Based on Calendar Years* | | |
|---|---|---|---|---|
| **Allocation (Stock/Bonds)** | **Average Return*** | **Best Year** | **Worst Year** | **# of Years with a Loss** |
| **25/75** | 7.02% | 13.66% | -5.36% | 1 |
| **40/60** | 7.41% | 16.86% | -11.71% | 1 |
| **50/50** | 7.63% | 20.04% | -15.95% | 2 |
| **60/40** | 7.80% | 23.23% | -20.19% | 2 |
| **70/30** | 7.94% | 26.42% | -24.43% | 3 |
| **80/20** | 8.04% | 29.61% | -28.67% | 3 |
| **95/5** | 8.10% | 34.39% | -35.03% | 4 |

**Source: Morningstar. *Annualized return from 1997-2012.**
Past performance is not an indication of future results. Diversification cannot protect from market risk. *60/40 Allocation: 40% Bonds, 6% Lg. Value, Blend, & Growth, 12% Mid Cap, 6% Sm. Value & Blend, 6% Intl., Nat. Res., and Real Est. Allocation, excludes Small Growth (Yellow). Rebalanced annually on Apr 1.


Think about it in terms of the angel and devil on your shoulder metaphor but instead of an angel and devil, it's a bear and a bull. The bull is telling you not to worry about a thing, put the pedal to the metal, while on the other shoulder, the bear is telling you to slow down and put the brakes on. It's a classic dichotomy of greed vs. fear. Neither of those have any place in your retirement savings plan so do yourself a favor and follow Warren Buffett's advice; allocate your assets in a way that "regardless of tomorrow morning's news you are no longer scared."

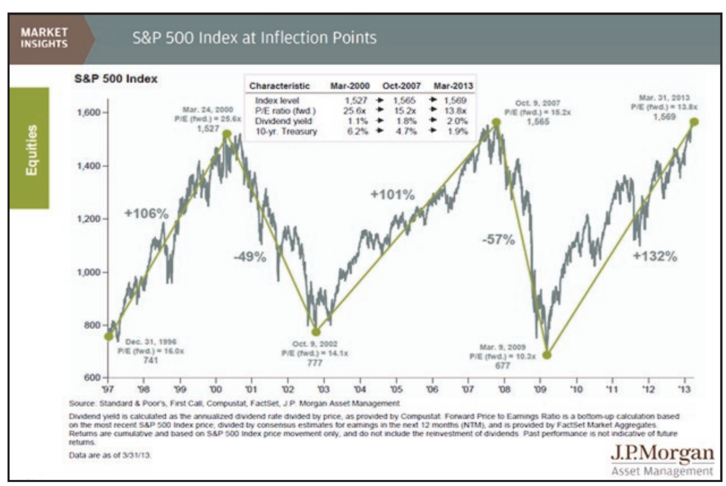
Once you have chosen the investment allocation you're comfortable with, make sure to rebalance in order to keep your investments in line with the allocation you originally chose. Historically speaking, May is a good time to rebalance and it's just around the corner so call and speak to one of our advisors if you need help rebalancing.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

**60% Stocks/40% Bonds Allocation vs. Indices Ending 3/31/13**

| 15 Yr | 10 Yr | 5 Yr | 3 Yr | 1 Yr | | Index Definition |
|---|---|---|---|---|---|---|
| Mid Cap 9.30% | Nat. Res. 13.77% | Bonds 5.47% | Real Est. 16.94% | Sm. Value 18.09% | | Small Value: Russell 2000 Value TR |
| Real Est. 9.59% | Real Est. 12.10% | 60/40 7.28% | Mid Cap 15.12% | Mid Cap 17.83% | | Mid Cap Blend: S&P MidCap 400 TR |
| Nat. Res. 8.11% | Mid Cap 12.45% | Mid Cap 9.85% | Sm. Growth 14.75% | Lg. Value 16.64% | | Large Value: S&P 500 Value TR |
| 60/40 7.38% | Sm. Growth 11.61% | Real Est. 6.07% | Sm. Blend 13.45% | Intl. 11.25% | | International: MSCI EAFE NR |
| Sm. Value 7.40% | Sm. Blend 11.52% | Sm. Blend 8.24% | Sm. Value 12.12% | Real Est. 13.19% | | Real Estate: DJ US Select REIT Index TR |
| Bonds 5.85% | Sm. Value 11.29% | Sm. Value 7.29% | Lg. Growth 13.31% | Sm. Blend 16.30% | | Small Blend: Russell 2000 TR |
| Sm. Blend 6.04% | 60/40 9.64% | Sm. Growth 9.04% | Lg. Blend 12.67% | Lg. Blend 13.96% | | Large Blend: S&P 500 TR |
| Lg. Blend 4.27% | Intl. 9.69% | Lg. Growth 7.48% | Lg. Value 12.12% | Lg. Growth 11.61% | | Large Growth: S&P 500 Growth TR |
| Intl. 3.77% | Lg. Blend 8.53% | Lg. Blend 5.81% | 60/40 9.81% | Sm. Growth 14.52% | | Small Growth: Russell 2000 Growth TR |
| Lg. Value 4.37% | Lg. Value 8.87% | Lg. Value 4.07% | Bonds 5.52% | 60/40 10.02% | | 60/40: 60% Diversified Stocks/40% Bonds |
| Lg. Growth 3.87% | Lg. Growth 8.15% | Nat. Res. 0.87% | Nat. Res. 7.75% | Bonds 3.77% | | Int.-Term Bonds: Bar-Cap Aggregate Bond |
| Sm. Growth 4.12% | Bonds 5.02% | Intl. -0.89% | Intl. 5.00% | Nat. Res. 5.08% | | Natural Res: S&P North Am. Nat. Resources TR |

Annualized returns. The above indices are unmanaged, which cannot be invested into directly. Past performance is not an indication of future results. Diversification cannot protect from market risk. Source: Morningstar. *60/40 Allocation: 40% Bonds, 6% Lg. Value, Blend, & Growth, 12% Mid Cap, 6% Sm. Value & Blend, 6% Intl., Nat. Res., and Real Est. Allocation, excludes Small Growth (Yellow). Rebalanced annually on Apr 1.


*IRS Indexed Limits for 2013 are as follows:*
*401(k), 403(b), 457(b) Plan Deferral Limit is $17,500*
*Catch-up Contribution limit is $5,500.*
*Source: Principal Financial Group*

# Invest In Your Health

## *The Truth About Coffee—Part 1*

**David Meinz, MS, RD, FADA, CSP**

America's Personal Health Humorist

Americans drink a whopping 500 million cups of coffee every day. That comes to over six billion gallons a year; more than any other country in the world. Coffee accounts for about 75% of the caffeine we take in and about nine out of ten Americans take caffeine in everyday in one form or another. The average American coffee drinker says they consume about 3½ cups per day. **The surprising good news about coffee is that there is very little bad news.**

The coffee bean, like all plants, contains many different naturally occurring compounds and chemicals. Some of those are the good antioxidants that help our body protect itself from damage. As a matter of fact, a recent study found that coffee is the number one source of antioxidants in the US; not necessarily because it's such a great source, but simply because Americans just drink so much of it. If you really want lots of antioxidants, instead of drinking more coffee, start eating more fruit. Blueberries, dates, and red grapes are especially high in antioxidants.

Of course the real issue in most people's minds is the caffeine content of coffee. There's no denying that caffeine can improve your mood and help fight fatigue. Consuming caffeine can result in feelings of increased happiness, well-being, and sociability. It can also act as a mild stimulant to improve physical and mental performance especially on monotonous tasks that you do over and over every day. By the way, it appears that frequent small doses of caffeine throughout the day help maintain alertness better than the big cup of coffee that most people consume first
thing in the morning.


**"I had to quit drinking coffee. It keeps me awake during presentations."**

There's now some preliminary research that caffeine may also *decrease* your risk of developing gallstones, Parkinson's disease, and Alzheimer's. In spite of earlier studies that suggested a possible connection, the best long-term research we have now says that coffee does *not* seem to increase your risk of heart disease, cancer, or PMS.

The average American coffee drinker is not raising their blood cholesterol levels because they drink coffee, either. If you suffer from heart palpitations or an irregular heartbeat, however, you may also want to try avoiding caffeine to see if that improves the situation.

While caffeine does tend to leach calcium from the bones, the effect is so small that the average person could overcome the effect simply by adding two tablespoons of milk for every cup of coffee they drink. And contrary to popular opinion, caffeine does not cause dehydration. Your body retains the same amount of water from caffeinated beverages as it does from water itself.

It may become dehydrating, however, at consumption levels around 600 mg per day, about what you would get in four 12 oz. cups of coffee. Hopefully you're not taking in that much.

Interestingly, coffee drinkers seem to actually have *less* diabetes risk. That's probably due to something yet to be understood in the coffee besides the caffeine. That protection, by the way, is only seen in those who are drinking somewhere between three and six cups a day. As we'll discuss next time, at those levels you may be contributing to other health problems from the coffee. So, as of now, **don't count on coffee to cut your diabetes risk. Exercise and losing weight, on the other hand, will *definitely* cut your risk of diabetes.**

The average caffeine consumption in this country is between 200-400 mg a day. Fortunately, most researchers agree that caffeine is safe at moderate levels of about 300 mg per day; the equivalent of two 12 oz. cups of coffee. But, in spite of all this good news, there still are some potential health problems with coffee. We'll look at those, and what you need to know about decaf, next time.

**David Meinz** presents keynotes and workshops to businesses and associations around the US and Canada based on his new book, *Wealthy, Healthy & Wise: How to Make Sure Your Money and Your Health Last As Long As You Do*. For more information on his speaking services, or to order an autographed copy of his book, visit **www.davidmeinz.com**.

David Meinz is not affiliated with LPL Financial or Spectrum Investment Advisors