SPECTRUM℠
INVESTMENT ADVISORS

1st Quarter | 2016
As of 12/31/2015

Upcoming Events:

Spectrum Investor® Coffee House Educational Series

Tues, January 26, 2016
Global Markets Outlook

Featuring Guest Speaker
Dr. Brian Jacobsen, CFA
Chief Portfolio Strategist
Wells Fargo

11th Annual Retirement Plan Investment Seminar

Wed, June 22, 2016
Co-Sponsored by Spectrum And the WICPA

More Information to Come

For weekly market updates, visit our website at www.spectruminvestor.com under Resources & Links and click on Investment Resources

For an electronic version of this newsletter, our ADV Part 2A and our Privacy Policy, please visit our website

Past performance is not an indication of future results

We appreciate your business

Quarterly Economic Update

James F. Marshall
President

Jonathan J. Marshall
Chief Investment Officer

For 2015, the Dow registered a loss of 2.2%, its first down year since 2008. The S&P 500 Index finished up 1.38%, with dividends, for the year. Investors were concerned about flat earnings growth, a deep slump in oil prices and the impact of a strong dollar on global companies and on markets outside the US. In addition, after seven years of holding interest rates near zero, Fed Chair **Janet Yellen** announced a 0.25% hike in the fed funds rate, making it the first rate hike in nearly a decade (*WSJ*, 1/4/15). As **Dr. David Kelly**, Chief Market Strategist at JPMorgan, stated, **"In 2015, the dollar was too high, energy prices were too low and China was too weak."**

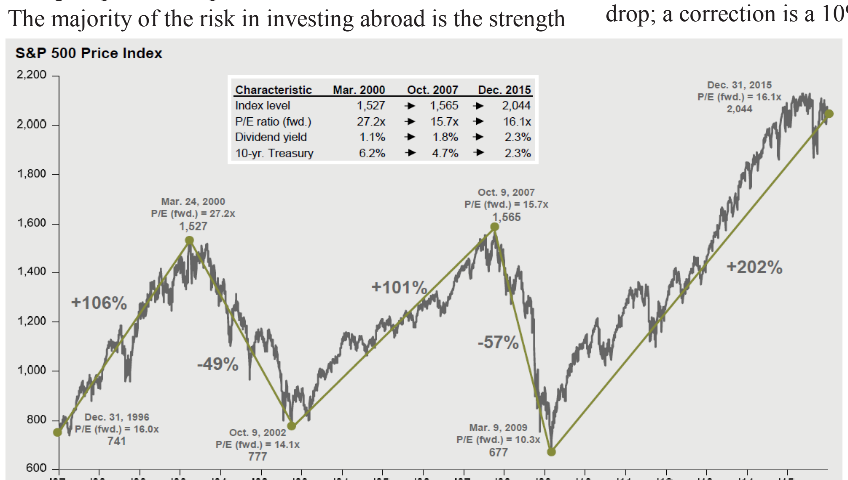
Uncertainty led to a volatile year in stocks, which hit new highs earlier in the year but swooned in August as concerns about China's slowing economy helped drag the three major US stock indexes into a 10% correction, before recovering within a few weeks. In addition to China, **Mohamed El-Erian** of Allianz believes "markets are realizing that central banks can no longer repress financial volatility and they are repricing to a new volatility paradigm" (CNBC, 1/8/16). In 2015, there were twice as many days of 1-2% swings in the broad market vs. the previous year 2014 (*InvesTech,* 12/15). Be prepared for growing volatility.

While the Fed is embarking on a tightening program, Europe and Japan are in an easing mode. Stock valuations in Europe are below their historic average and less expensive than US stocks. Oil prices plunging is a double-edged sword in the US; however, in Europe and Japan, it's a big win since most of their oil is imported. December manufacturing output in Europe rose at the fastest rate in 20 months. The majority of the risk in investing abroad is the strength of the US dollar; a rising dollar reduces returns on foreign funds. The US dollar was up 16% in 2015, lowering the return of the MSCI EAFE stock index, which measures international equity performance, by 6.14% for US investors.

Ten years ago, the US trade deficit was large and growing. The rising price of oil, along with growing imports of consumer goods from China, led to big trade deficits, which in turn, put a lot of downward pressure on the dollar. Today, it's a different story. Our trade deficit has improved from -6.2% of GDP to -2.7% of GDP. The US is the largest exporter of technology services and with less of a need to import oil, along with foreign sales of intellectual property, our trade deficit has been improving, which tends to lead to a stronger dollar (*Fidelity Monitor*, 1/16).

The price of oil will be key to watch this year, along with the Federal Reserve. While some are projecting a gradual increase in oil prices, others forecast a continued slump, especially if Iran's production hits the market. **The problem in oil is supply, not demand**; however, US oil rig counts have declined 67% from a high of 1609 on 10/10/14 to 536 on 12/31/15, which should help support oil prices (US E.I.A). That is offset by Saudi Arabia continuing aggressive production, which has driven oil prices down. The upside is, light vehicle sales have hit a record of 18.1 million, which will add to the demand for oil.

Are we entering the next bear market? Dr. Kelly stated that historically, one of four events needs to happen to create a bear market. 1. **recession**, 2. **spike in commodities**, 3. **aggressive Federal Reserve** and 4. **extreme valuations**. Dr. Kelly says that conditions that cause a bear market are still not in place today. As the chart indicates, the PE ratio of the S&P 500 Index is 16.1, which is slightly above its 25-year average of 15.8. According to **Dr. Brian Jacobsen,** CFA at Wells Fargo, a bear market is a 20% drop; a correction is a 10% drop. Through 1/15/16, the S&P 500 Index was down 10.88%. Of the last 26 corrections, the average decline is 13.72%. Dr. Jacobsen indicates that the recent market selloff seems to be more emotional than anything else. The pace of the rate hikes is more important than the timing of the first rate hike. Fed Chair Yellen uttered the word **gradual** in her December press conference a total of 15 times. See charts on page 2 and 4 comparing Fed rate hikes to market corrections. In the meantime, don't panic. If this market is keeping you up at night, keep tweaks in your portfolio small, and stay balanced.



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price to earnings ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns. *Guide to the Markets*—U.S. Data are as of December 31, 2015. Indices cannot be invested in directly.

Wealth Management

Social Security Changes

Brian E. White, CFP®

Wealth Manager

Social Security Changes

As we begin 2016, New Year's resolutions start to be part of the conversation. What are we changing for ourselves? What did we try to change last year with little success?

Back in November, Congress made some changes of its own and passed the Bipartisan Budget Act of 2015. Part of this budget was eliminating two Social Security claiming strategies for couples. File-and-suspend, and restricted applications will both be reduced in one form or another. File-and-suspend is a commonly used strategy married couples can use to maximize social security benefits. If an individual doesn't need the income, he or she can file for benefits, then immediately suspend them. When payments resume at a later date, they will be higher due to the delayed retirement credits accumulating. In the meantime, the spouse collects spousal benefits. With the recent changes, you can still suspend payments, but spouses and dependent children can no longer claim payments based on the individual's work record.

If you turn 66 before May 1, 2016, you can still file for benefits and immediately suspend those benefits as long as it is done by April 30, 2016. Those individuals who are currently using the file-and-suspend method will be grandfathered in. Restricted applications allow an individual to collect spousal benefits while their own benefits continue to grow. Anyone over the age of 62 by December 31, 2015, will still have the ability to file a restricted application for benefits at their full retirement age, as long as their spouse is currently taking or has suspended their benefits.

With all of the changes, what should I do?

It really depends on your age. If you're younger than 62, you can't do much at this time. However, you can do more planning for the future. Many couples had previously planned to use a file-and-suspend strategy, but will need to utilize different methods to maximize their benefits. In the case of a couple who is close to the same age and earnings history, that couple can maximize their benefits by waiting until age 70 before taking those benefits. The monthly benefit grows by 8% annually for each year it is not collected, so waiting until you're 70 may be beneficial. This is, of course, dependent on life expectancy. Age 83 is the breakpoint for delaying Social Security benefits. According to the Social Security Administration, a 65-year-old man can expect (on average) to live until 84.3. A 65-year-old woman can expect to live until 86.6 (www.ssa.gov).

I'm 66 and haven't started collecting Social Security. Should I file-and-suspend before May?

That depends on a number of different factors. The most important question you should ask yourself is this: Do I need the income to live on? If you have enough savings to live on and want to maximize the benefits, that's a good start. If you're the same age as your spouse and are the higher earner of the two, it may make sense for you to file and suspend your benefits while your spouse takes an amount equal to half of yours. This is especially beneficial if your spouse's benefit is less than half of yours because it allows your benefit to grow 8% annually until you take it at 70. With the S&P 500 nearly flat for 2015, an 8% return looks very attractive.

If you're the same age as your spouse and have similar Social Security benefit amounts, the file-and-suspend strategy may not maximize your benefits. Other considerations include: minor children, adult children with disabilities, life expectancy and your need for the income.

Up until November, there were numerous resources available for calculating and maximizing Social Security retirement benefits, now they are harder to find. There are some online resources that charge between $20 and $250 for advice, including www.socialsecuritysolutions.com and www.maximizemysocialsecurity.com . Both have been updated for the new legislation.

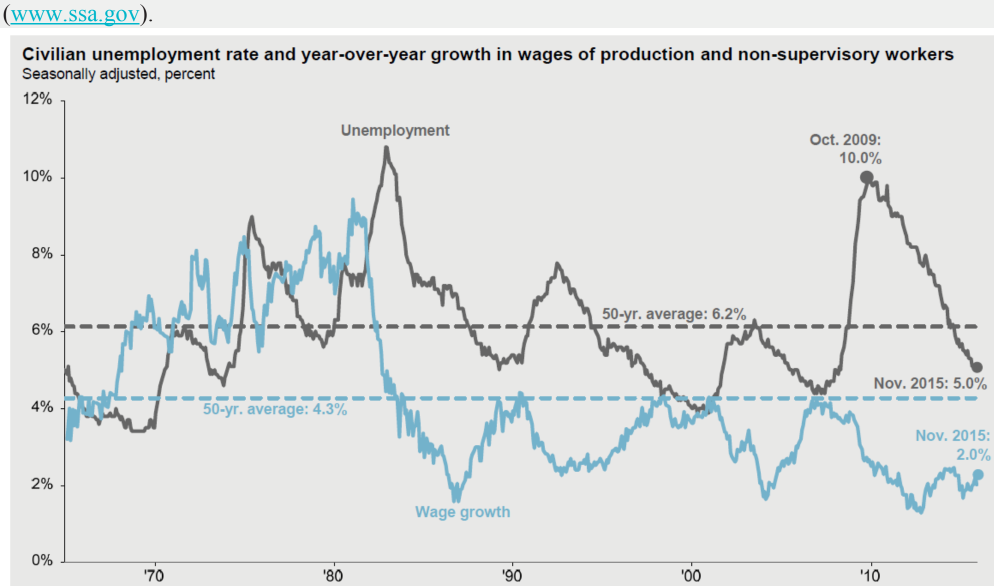
T. Rowe Price and AARP have free calculators, but as of the date this was written, aarp.org has been shut down for updates. One of the better free calculators can be found at www.bedrockcapital.com/ssanalyze/. This has been updated to reflect the Bipartisan Budget Act of 2015.

Online calculators can be useful, but they have limitations. We would be happy to help you figure out a plan for maximizing your Social Security benefits. Please give Spectrum a call with any questions you may have. Have a great 2016!

DOW: 17,425	**10 Yr T-Note: 2.27%**
NASDAQ: 5,007	**Inflation Rate: 0.4%** (11/2015)
S&P 500: 2,043	**Unemployment Rate: 5.0%** (12/2015)
Barrel of Oil: $37.04	Source: Morningstar, bls.gov, eia.gov

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. Indices cannot be invested into directly.

IRS Indexed Limits for 2016: 401(k), 403(b), 457 Plan Deferral Limit is $18,000. Catch-up Contribution limit is $6,000. Source: 401khelpcenter.com



Source: BLS, FactSet, J.P.Morgan Asset Management
Guide to the Markets—U.S. Data are as of December 31, 2015

How Fast Will the Fed Raise Rates?

The chart illustrates the rate of unemployment versus the rate of wage growth in the US. As long as there is a substantial gap between the rate of unemployment and the rate of wage growth (illustrated by the difference between November 2015 of 5.0% unemployment versus 2% wage growth) it is less likely to put pressure on the Fed raising rates aggressively. Should the rate of unemployment and the rate of wage growth continue to approach each other and eventually connect, it will put pressure on the Federal Reserve to accelerate raising interest rates. Rapid wage growth is generally considered inflationary. Currently wage growth in our country is soft at 2% growth versus the 50-year average of 4.3%. Something to watch.

In Other Words

The Fed Awakens

Angie Franzone
Newsletter Editor

On December 16, 2015, the Federal Reserve raised interest rates by 0.25%, the first time rates had been raised since June 2006. Master Yellen (er, I mean Fed Chair Yellen) cited a strong economic recovery (strong like the force is in Luke) and major improvements in the labor market as the reason for the interest rate hike. Star Wars puns aside, you may be wondering how the Fed raising rates will affect you. You may not notice a difference right away because the move from 0% to 0.25% is a small one, but it's what the future holds that needs paying attention to. The Fed is expected to raise rates at a gradual pace over the next couple of years (*CNNMoney*, 12/16/15). For the purposes of this article we will be focusing on the following four scenarios, although there may be more depending on your personal situation. Credit cards, mortgages, savings accounts/bank CDs and retirement plans.

1. Higher Credit Card Interest Rates

Credit cards have variable interest rates, which are directly impacted by the rate set by the Federal Reserve Bank. Greg McBride, chief financial analyst at Bankrate.com explains that "As the Fed moves away from 0% interest rates, eventually credit card issuers will do the same. It's not going to happen overnight. As rates go up, the rates on the offers you see will go up," he said. "Or, the promotional time period in which the offer is good will shrink. The 0% offers for 18 months that are out there now won't be around a year from now," (*Forbes*, 12/16/15). Since the 0.25% rate increase is small, it shouldn't make that much of a difference to your wallet right away, but as the rate continues to climb over the next year or two, it could make it harder to pay your credit card bill if you're carry a balance. If you currently have an outstanding balance, you may want to make a plan for paying it off sooner than later, before rates get higher.

2. Rising Mortgage Rates

According to the Federal Reserve bank of St. Louis, 10 years ago mortgage rates were near 6.3% and 20 years ago 7.3%. Today, the average interest rate on a 30-year fixed rate mortgage is 3.9%, so we're still much lower than we have been in the past, but rates are expected to start going up (*CNNMoney*, 12/16/15). Doug Duncan, chief economist at Fannie Mae, expects 30-year mortgage rates to rise from 3.9% to 4.1%, assuming the Fed raises rates by a percentage point over the next year (*USA Today*, 12/16/15). If you already have a fixed-rate mortgage, you will not be affected, if you're planning on taking one out in the future, you will receive a slightly higher rate than you would have in 2015, but as I stated earlier, still much lower than it has been historically. Adjustable rate mortgages (ARM) will be the ones most affected, increasing about twice as rapidly, by about half a percentage point (*USA Today*, 12/16/15). If you have an ARM that has annual readjustments, you may want to consider refinancing it to a fixed-rate mortgage.

3. Eventual Savings Account Earnings

If you have money in a savings account or bank CD you're all too familiar with your bank statements showing no earnings quarter after quarter. In fact, individuals invested in savings accounts have earned little to no interest since 2008 (*CNNMoney*, 12/16/15). The bad news is, you likely won't be seeing any earnings right away, but there's a light at the end of the tunnel. When the Fed announced they would be raising rates, America's largest banks quickly followed suit by announcing that they would start charging more interest for loans, but would not immediately be offering higher interest rates on deposits (*CNNMoney*, 12/16/15). The reason for this is that banks have plenty of deposits from investors who aren't comfortable taking a lot of risk, so they have no need to attract more deposits by raising interest rates (*USA Today*, 12/16/15). The Fed raising interest rates is a step in the right direction though, and with increases in the near future likely, you may eventually see higher interest income on your deposits. In the immortal words of Yoda, patience you must have.

4. Market Volatility

While rate hikes may make for a bumpier ride in the markets, there will always be something to create market volatility, which is why it's so important to focus on the things you can control. How much you're saving for example and whether your allocation lines up with your time horizon (how long you will be investing for) and risk tolerance. Reacting to headlines can disrupt your long-term goals and make it difficult to get back on track. By having a diversified portfolio and rebalancing on an annual basis you can help keep your emotions from driving your investment decisions. After all, fear is the path to the dark side.

Below is the 12/31/15 Spectrum Investor® Update.

Spectrum Investor® Update 12/31/15

Morningstar Category Averages	4th Qtr	1 Year	3 Year
Intermediate-Term Bond	-0.66%	-0.32%	1.15%
Moderate Allocation	2.54%	-1.96%	6.97%
Large Cap Value	4.74%	-4.02%	11.65%
Large Cap Blend	5.55%	-1.09%	13.23%
Large Cap Growth	**6.72%**	**3.59%**	**15.27%**
Mid Cap Value	2.68%	-5.38%	11.54%
Mid Cap Blend	2.36%	-4.87%	11.48%
Mid Cap Growth	3.30%	-0.93%	12.84%
Small Cap Value	2.02%	-6.71%	9.43%
Small Cap Blend	2.67%	-5.35%	10.36%
Small Cap Growth	2.83%	-2.40%	12.20%
Foreign Large Blend	3.58%	-1.57%	3.67%
Real Estate	6.55%	2.36%	10.12%
Natural Resources	**-1.12%**	**-22.11%**	**-8.58%**

Source: Morningstar, 3 yr returns are annualized. Morningstar classifies categories by underlying holdings and then calculates the average performance of the category. Past performance is not an indication of future results. Returns in **Blue** = Best, Returns in **Red** = Worst

60% Stocks/40% Bonds Allocation vs. Indices Ending 12/31/15

15 Yr	10 Yr	5 Yr	3 Yr	1 Yr	Index Definition
Real Est. 11.05%	Lg. Growth 8.70%	Lg. Growth 14.06%	Lg. Growth 17.19%	Lg. Growth 5.52%	Large Growth: S&P 500 Growth TR
Mid Cap 8.32%	Mid Cap 8.18%	Lg. Blend 12.57%	Lg. Blend 15.13%	Real Est. 4.48%	Real Estate: DJ US Select REIT Index TR
Sm. Value 8.17%	Sm. Growth 7.95%	Real Est. 12.32%	Sm. Growth 14.28%	Lg. Blend 1.38%	Large Blend: S&P 500 TR
Sm. Blend 7.28%	Lg. Blend 7.31%	Lg. Value 10.96%	Lg. Value 12.83%	Bonds 0.55%	Int.-Term Bonds: Bar-Cap Aggregate Bond
60/40 6.98%	Real Est. 7.20%	Mid Cap 10.68%	Mid Cap 12.76%	Intl. -0.81%	International: MSCI EAFE NR
Sm. Growth 6.03%	Sm. Blend 6.80%	Sm. Growth 10.67%	Real Est. 11.76%	Sm. Growth -1.38%	Small Growth: Russell 2000 Growth TR
Lg. Growth 5.17%	60/40 6.57%	Sm. Blend 9.19%	Sm. Blend 11.65%	60/40 -1.76%	60/40: 60% Diversified Stocks/40% Bonds
Lg. Blend 5.00%	Lg. Value 5.80%	Sm. Value 7.67%	Sm. Value 9.06%	Mid Cap -2.18%	Mid Cap Blend: S&P MidCap 400 TR
Bonds 4.97%	Sm. Value 5.57%	60/40 6.69%	60/40 6.81%	Lg. Value -3.13%	Large Value: S&P 500 Value TR
Lg. Value 4.66%	Bonds 4.51%	Intl. 3.60%	Intl. 5.01%	Sm. Blend -4.41%	Small Blend: Russell 2000 TR
Nat. Res. 4.54%	Intl. 3.03%	Bonds 3.25%	Bonds 1.44%	Sm. Value -7.47%	Small Value: Russell 2000 Value TR
Intl. 3.54%	Nat. Res. 1.49%	Nat. Res. -5.50%	Nat. Res. -7.32%	Nat. Res. -24.28%	Natural Res: S&P North Am. Nat. Resources TR

Annualized returns. The above indices are unmanaged and 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. Rebalanced annually on Apr 1.

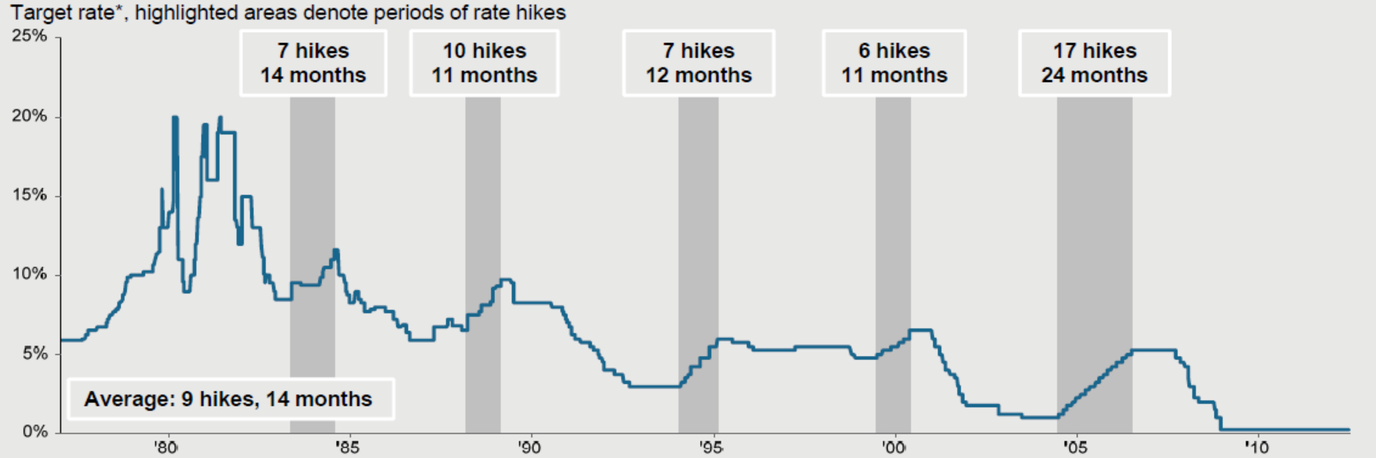
The charts below illustrate the long-term impact on Fed rate hikes, affecting interest rates, corresponding to the intra-year and calendar year returns for the S&P 500 Index. Both charts date back from just prior to 1980 to today. Beginning in 2004, the Fed hiked interest rates 17 times, as you can see. The Fed hiked interest rates on 12/16/15 for the first time in seven years. Interest rates are not the entire reason for market corrections, but are a major factor, along with oil prices, unemployment, extreme valuations, global unrest, etc.

Historical impact of Fed tightening

Fixed income

Federal funds rate

Target rate*, highlighted areas denote periods of rate hikes



Market reaction during previous rate hiking cycles

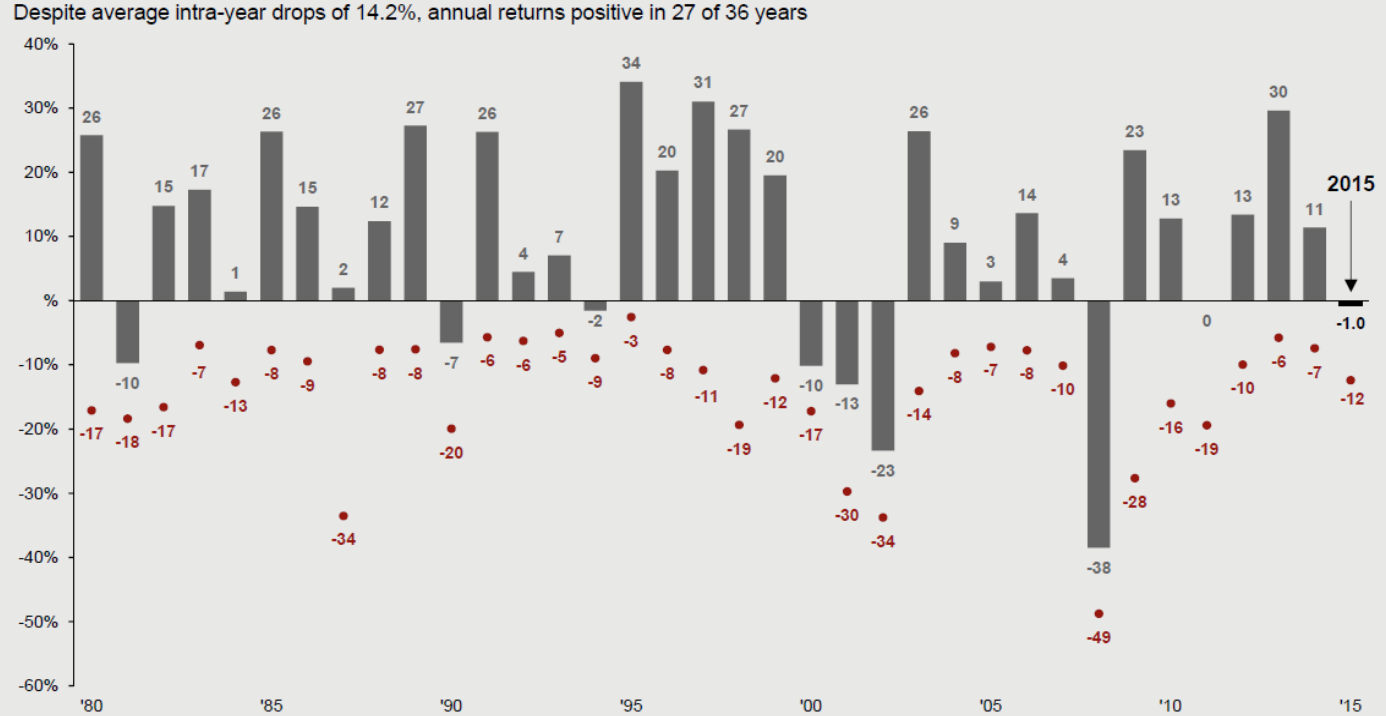
	May 1983 – July 1984	March 1988 – February 1989	February 1994 – February 1995	June 1999 – May 2000	June 2004 – June 2006	Average
Change in interest rates						
Federal Fund Rate	3.13%	3.25%	3.00%	1.75%	4.25%	3.08%
2-year Treasury	3.11%	2.27%	3.05%	1.21%	2.38%	2.40%
10-year Treasury	2.74%	0.85%	1.89%	0.49%	0.51%	1.30%
S&P 500 return	-9.6%	6.8%	-2.1%	8.5%	12.0%	3.1%
U.S. dollar	10.4%	1.7%	-4.8%	3.4%	-5.8%	1.0%

Source: FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management. S&P 500 returns are price returns and do not include reinvestment dividends. Between 1979 and 1982, the FOMC, the monetary policymaking body of the Fed, changed its approach to monetary policy, focusing on the money supply, rather than the federal funds rate. In the fall of 1982, however, the Federal Reserve shifted back to its approach of targeting the "price" rather than the "quantity" of money. Thus, because the federal funds rate was not the FOMC's key policy tool, we exclude increases in the federal funds rate between 1979 to 1982 in our analysis of rate hike cycles. *Guide to the Markets*—U.S. Data are as of December 31, 2015. Indices cannot be invested in directly. Past performance is not indicative of future results.

Equities

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns positive in 27 of 36 years



Source: FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to trough during the year. For illustrative purposes only.
Returns shown are calendar year returns from 1980 to 2015. *Guide to the Markets*—U.S. Data are as of December 31, 2015.