As of 12/31/2019

# Q1 2020

## Spectrum Investor® Quarterly Newsletter

SPECTRUM℠ INVESTMENT ADVISORS

### IN THIS ISSUE



### UPCOMING EVENT

***Global Markets Outlook Coffee House Educational Series***
***January 28, 2020***

*Featuring Guest Speaker*
*David Morrison, CIMA®*
*Vice President, American Funds*

*Click to register for the **Brunch** or **Lunch** session*

### IN THE NEWS

Pensions&Investments BEST PLACES TO WORK IN MONEY MANAGEMENT 2019

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# Economic Update


**Jonathan Marshall** — Chief Investment Officer
**Katherine Marquez** — Investment Analyst
**James Marshall** — Chairman/Founder


The S&P 500 Index, ending 12/31/2019, has soared 31.5%, while the bond rally has pushed the yield on the benchmark 10-year Treasury down three quarters of a percentage point to 1.92%. This is the first time the broad stock and bond markets rallied with this kind of magnitude since 1998, according to Dow Jones Market Data.

**Federal Reserve "insurance rate cuts".** Perhaps it is no coincidence to have seen a similar outcome to markets in 1998. That year, the Federal Reserve cut interest rates 0.75% largely in response to economic events abroad, just as the Federal Reserve did in 2019. There are other broad similarities between 1998 and 2019: low unemployment, low recession risk, and low inflation.

There is concern that rate cuts at full employment could stoke excess in the economy, similar to the dot-com bubble of the late nineties. However, the strong returns in 2019 were partially a function of recovering from the sell off in the fourth quarter of 2018, which resulted in a 4.4% loss for the year. By contrast, 1998 was the fourth consecutive year of returns over 20% for the S&P 500. While there does appear to be an absence of fear, there doesn't seem to be unbridled optimism that characterizes market tops. The P/E Ratio (price to earnings) in the chart below shows that valuations are elevated, but still well below the the peak in 2000.

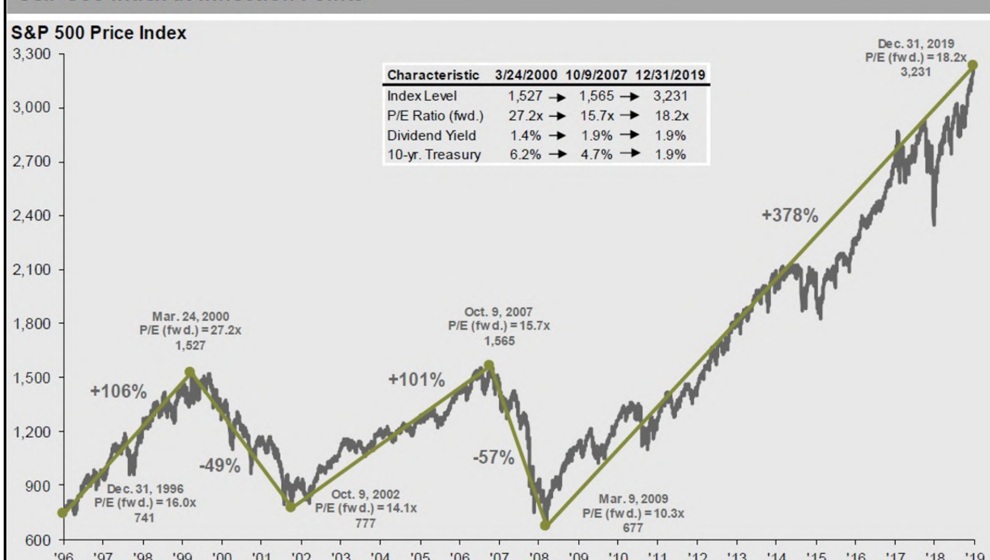
According to **Tom Saler**, business columnist at *MJS*, the global trade war may actually have helped to extend the bull market in stocks. The Fed was four years into a hiking cycle and had been forecasting two more rate hikes at the start of 2019, but slowing global growth and trade uncertainty was enough to compel the Fed to reverse course and cut interest rates three times (*Historical Perspectives*, 1/5/20).

The US economy is expected to continue growing around 2% in 2020, which might not be strong enough to nudge inflation above the Fed's 2% target. This would be a "not too hot, not too cold" **Goldilocks economy** where the Fed will leave interest rates unchanged. In the past, that type of economy has been a profitable environment for investors in stocks. Earnings for S&P 500 companies are projected to grow 9.5% in 2020. In this economy, there are reasons to be cautious, but not to be fearful.

**A look back at the decade**. In January 2010, the US economy was digging itself out of a deep hole called the **"Great Recession"**. It was the most severe recession in 70 years, with unemployment at nearly 10%. The average annualized total return for the S&P 500 was 13.56% for the decade; slightly above the long-term average, a good rebound from the prior decade (-0.95%), which was the worst since the 1930s.

The number one reason why the market did so well in the past decade was the extraordinarily easy money policy by the Federal Reserve that propelled US equity markets to new heights. The Federal Reserve held benchmark interest rates at near zero for seven years, supported by purchasing over $2 trillion of government debt during the decade with money created out of thin air. This resulted in a 6.5% decline in our nation's unemployment rate, the second largest decline during any decade since 1900. This was the first decade since the Civil War that we did not have a recession.

**S&P 500 Index at Inflection Points**




*Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, JPMorgan 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 as of 12/31/19.

## Quarterly Economic Update Continued

**US/China Trade Deal**. The phase-one trade deal in December 2019 (signed officially on 1/15/20) between the US and China has helped lift the major indexes to records. As part of the deal, the US agreed to reduce tariffs on $120 billion of Chinese good from 15%, down to 7.5%. China has agreed to purchase an additional $200 billion of goods and services over the next two years, including farm products such as soy beans. If that happens, it would mark record growth in US exports to China. The deal also contains commitments by China to respect America's intellectual property (*Bloomberg*, 1/20/20). As the "phase one" name implies, more negotiations are to follow. Since 2018, breakdowns in US-China trade negotiations have, in part, contributed to four 5% pullbacks for the S&P 500.

**Political uncertainty remains elevated. 1) Brexit:** While the US and China are negotiating, so too will be the UK and European Union. The UK is expected to officially leave the EU on January 31, 2020. The two parties have until the end of the year to complete a trade agreement. **2) Impeachment:** Dampening the unknown nature of an impeachment is the fact that the Republican Party controls the Senate and are expected to vote for President Trump to remain in office. The trial is expected to conclude by early February. **3) US Election:** A stronger economy would help President Trump in the next election. No matter the presidential outcome, we will most likely not have a single party government, as it will be difficult for Democrats to win the Senate and for Republicans to take the House. In a split congress (gridlock), we generally do not have big policy changes, which is historically better for markets. **4) US-Iran tensions:** The US drone attack in Baghdad, killing Iranian General Qassem Soleimani on January 3, 2020, resulted in oil prices temporarily spiking 3% to $68 a barrel, but have since dropped to $59.

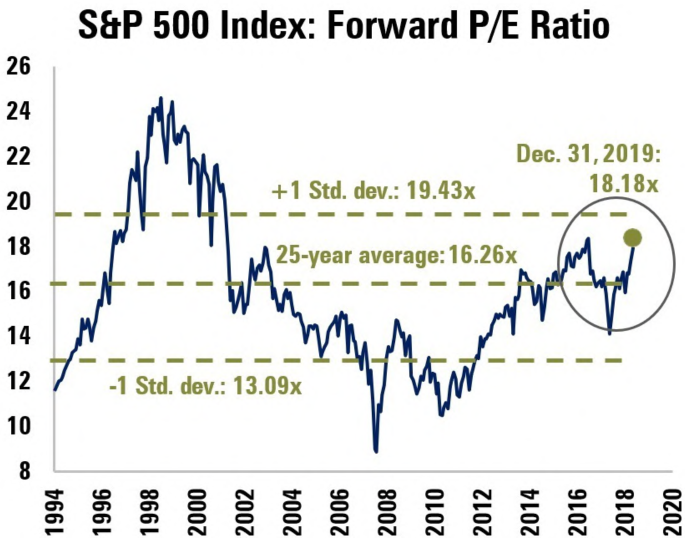
**Energy**. US oil production spiked 38.6% from 8.84 million barrels a day in 2016, to 12.25 million in 2019 due to horizontal drilling (fracking technology) according to the Energy Information Administration (EIA). **The United States produces so much oil that we exported more than we imported in September 2019, the first month that has happened in US history**, playing a large role in America's SUV boom. SUVs now represent half of all new vehicle sales, according to automotive research site Edmunds. Americans are likely to pay an average of $2.60 a gallon in 2020, according to a GasBuddy's annual forecast. Stable energy costs are a key reason inflation is expected to remain muted in 2020.

**Technology**. Rapidly changing technology has also contributed to lower inflation. For example, the development of smartphones gave millions the ability to cross check prices on their purchases. 5G technology could continue to enhance the integration of technology into our lives. The payoff: promoting faster network response on our cell phones, self-driving cars, remote surgery and smart cities and homes. According to a survey by Deloitte, 2/3 of consumers said they would be willing to buy a new 5G capable smart phone.

New 5G networks remain in their infancy, while the latest handsets are primarily emerging in China, where 5G progress is happening much faster, thanks to government subsidies. According to **Brian Nick**, Chief Investment Strategiest at Nuveen, technology tends to outperform in years when overall growth is slow, which we are currently experiencing.

**US Population.** The US Census Bureau released population estimates through July 1, 2019 revealing a continual slowdown in population growth. US population grew by just 0.5% or 1.5 million people, the slowest annual growth in the last century. The reasons: 1. a decline in the natural increase in population where people are delaying new births to levels not seen since the mid-1980s and deaths continue to rise. 2. lower net immigration. Net immigration fell to 595,348, nearly half the level it was just a few years ago, also the lowest in decades. Slower population growth has significant implications for long-term growth because it limits demand and the ability to meet demand. Slow population growth makes it harder to achieve even a 2% GDP growth in the long run. **Dr. David Kelly**, JPMorgan Chief Global Strategist, believes that unemployment could finish 2020 at 3.3%, while wage growth could move up to 4%. This dynamic has potential for inflation to be higher than expected as we saw in early 2018.

**Valuations**. Price earnings ratio in 2019 finished above historical averages at 18.2x earnings. Higher valuations can act as a headwind for stocks. The last time we saw valuations this high was 2018 and it made for a bumpy ride as inflation surprised and trade tensions increased. However, unlike 2018, which saw the Fed raise rates four times, the Federal Reserve is expected to stay at the current interest rate in 2020.



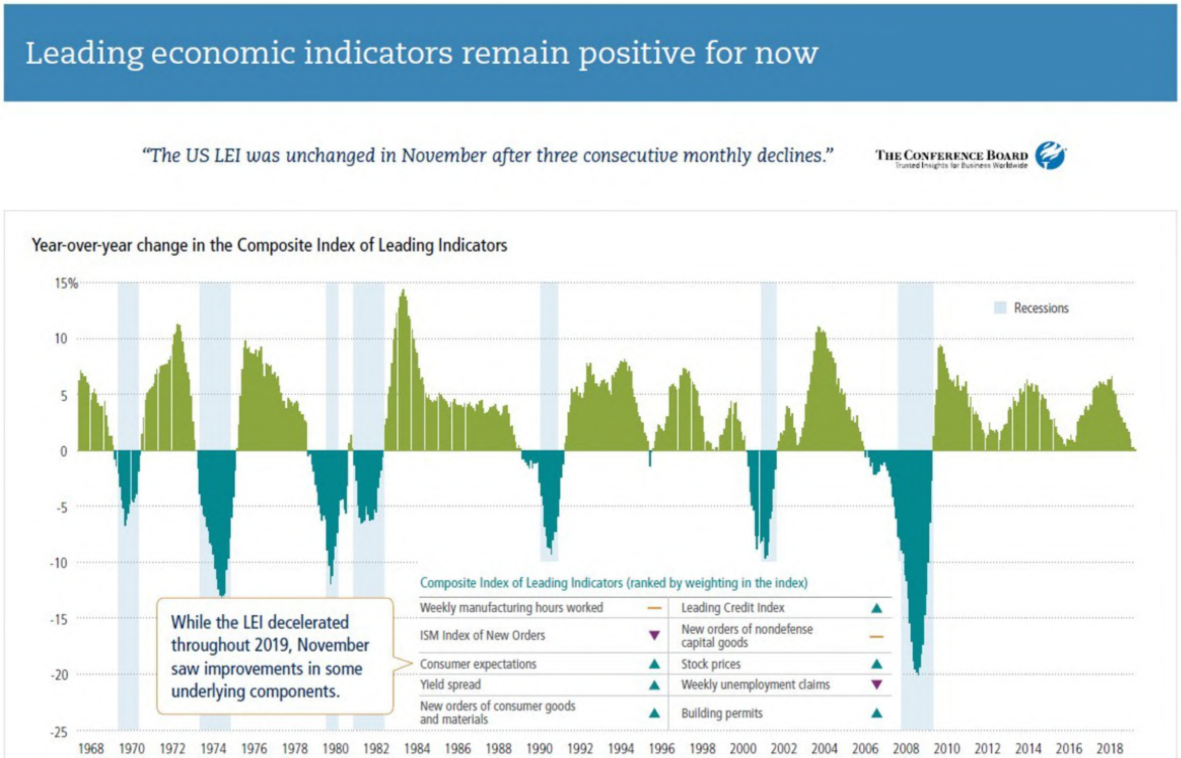

Please see Important Disclosures on page 6.

Speaking of inflation, we would be remiss if we didn't mention that former Fed Chairman **Paul Volcker** died on December 8, 2019, at the age of 92. In the early 70s, our government continued to engage in big government deficit spending. Oil prices were going through the roof, which included wage price controls and easy money by the Fed, causing runaway inflation up to 12.4% in 1980. **President Jimmy Carter** appointed Volcker as Fed Chairman in the summer of 1979 to fight inflation. For the next eight years, Volcker stuck to his guns and imposed a tight money policy by driving short-term interest rates to 21%, resulting in a major recession, which broke the back of inflation expectations. According to **Dr. Mark Skousen**, Editor of *Forecasts & Strategies*, by standing up to intense pressure, Paul Volcker is a real statesman and a true American hero. We are still living in the Volcker era with a 30-year down-trend in inflation and interest rates, resulting in a long-term bull market for stocks.

**Stay balanced.** While it looks like the Fed has engineered a "soft landing" for 2020, late cycle signals remain. **Richard Thaler**, Nobel Prize winner and professor of behavioral science and economics at the University of Chicago says, **"The biggest mistake people make in life and in investing is overconfidence."** We continue to remind investors to be sure their portfolio matches their risk tolerance and time horizon. Stay diversified and avoid reacting to short-term headlines, good or bad.

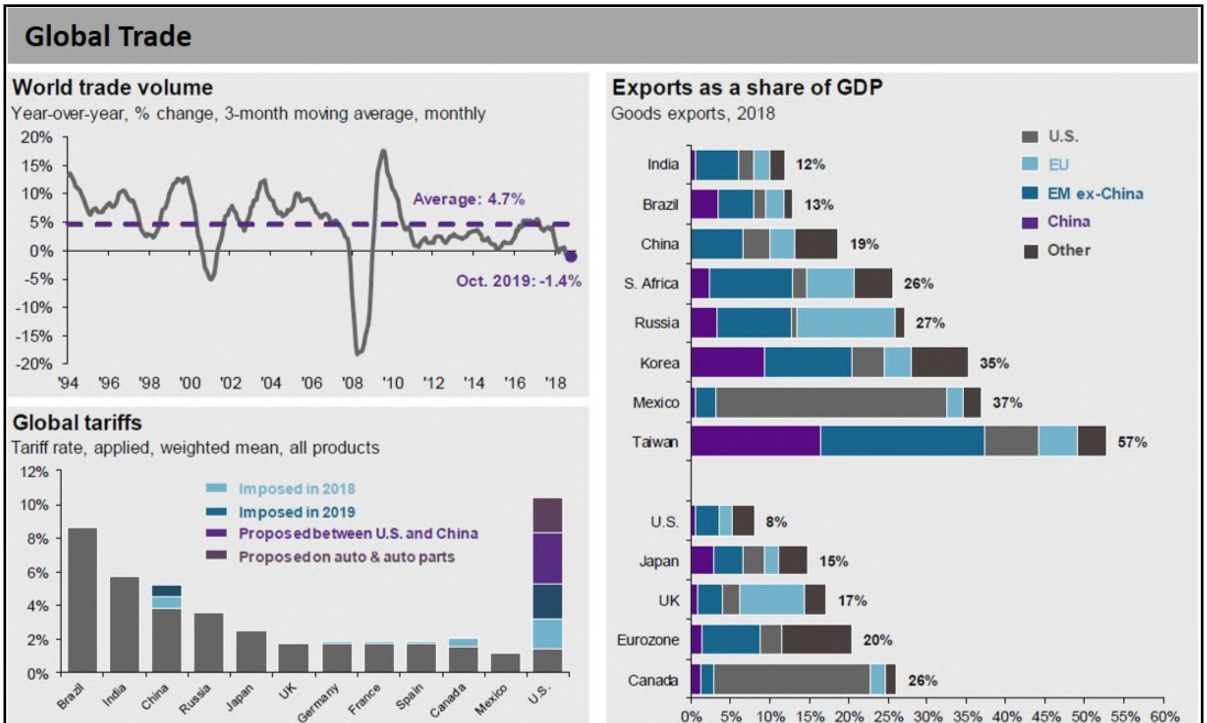
If you're looking for more information on the markets, please visit our website at www.spectruminvestor.com and click Resources and Links. In the meantime, stay the course. If you need assistance in your investment allocation, please call us at 800-242-4735.

**Leading Economic Indicators (LEI):** The LEI chart below provides insight into the underlying drivers of US economic activity. The LEI reading turned negative (turquoise declining bars) prior to each of the past seven economic recessions (shown by the light blue shaded areas). While recent readings remain positive (green bars), the year-over-year trend has been heading downward in recent months, suggesting US economic growth may continue to slow further as 2020 progresses.




*Source: The Conference Board, as of 11/30/19. The Composite Index of Leading Indicators is an index published monthly by The Conference Board, used to predict the direction of the economy's movements in the months to come. The index is made up of 10 economic components whose changes tend to precede changes in the overall economy. It is not possible to invest directly in an Index. Past performance does not guarantee future results.*

**Global Trade:** Higher tariffs and uncertainty surrounding trade, especially between the US and China, are putting downward pressure on global trade volumes. Global growth may slow further if no deal is reached and the proposed tariffs are actually imposed. Countries whose economies have been hit hard by trade tensions are the four export powerhouses: Germany, Japan, Korea, and Taiwan as exports represent a large share of their countries' GDP (shown on the right chart below).




*Source: FactSet, JPMorgan Asset Management; (Top left) CPB Netherlands Bureau for Economic Policy Analysis; (bottom left) IMF, USITC, World Bank; (Right) IMF. Guide to the Markets*

**Historical Analysis:** Large cap value was the best performer for the first time since 1963. A closer look under the hood, however, shows the broader market picture was still led by growth stocks. For example, small growth outperformed small value.

## Spectrum Investor® Historical Analysis



**25 ANNUAL RETURNS** for key indices (1995-2019) ranked in order of performance (Best to Worst)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|
| BEST | Large Cap Growth 38.13% | Real Estate 37.05% | Large Cap Growth 36.53% | Large Cap Growth 42.16% | Small Cap Growth 43.09% | Real Estate 31.04% | Small Cap Value 14.02% | Int.-Term Bonds 10.25% | Small Cap Growth 48.54% |
| | Large Cap Blend 37.58% | Large Cap Growth 23.97% | Large Cap Blend 33.36% | Large Cap Blend 28.58% | Large Cap Growth 28.25% | Small Cap Value 22.83% | Real Estate 12.35% | Real Estate 3.58% | Small Cap Blend 47.25% |
| | Large Cap Value 36.99% | Large Cap Blend 22.96% | Mid Cap Blend 32.25% | International 20.00% | Natural Resources 27.23% | Mid Cap Blend 17.51% | Int.-Term Bonds 8.44% | Small Cap Value -11.43% | Small Cap Value 46.03% |
| | Small Cap Growth 31.04% | Large Cap Value 22.00% | Small Cap Value 31.78% | Mid Cap Blend 19.12% | International 26.97% | Natural Resources 15.79% | Small Cap Blend 2.49% | Natural Resources -12.99% | International 38.59% |
| | Mid Cap Blend 30.93% | Small Cap Value 21.37% | Large Cap Value 29.98% | Large Cap Value 14.67% | Small Cap Blend 21.26% | Int.-Term Bonds 11.63% | Mid Cap Blend -0.61% | Mid Cap Blend -14.53% | Real Estate 36.18% |
| | Small Cap Blend 28.45% | Mid Cap Blend 19.25% | Small Cap Blend 22.36% | Int.-Term Bonds 8.69% | Large Cap Blend 21.04% | Large Cap Value 6.08% | Small Cap Growth -9.23% | International -15.94% | Mid Cap Blend 35.62% |
| | Small Cap Value 25.75% | Small Cap Blend 16.49% | Real Estate 19.66% | Small Cap Growth 1.23% | Mid Cap Blend 14.72% | Small Cap Blend -3.02% | Large Cap Value -11.71% | Small Cap Blend -20.48% | Natural Resources 34.40% |
| | Int.-Term Bonds 18.47% | Small Cap Growth 11.26% | Natural Resources 16.94% | Small Cap Blend -2.55% | Large Cap Value 12.72% | Large Cap Blend -9.10% | Large Cap Blend -11.89% | Large Cap Value -20.85% | Large Cap Value 31.79% |
| | Real Estate 12.24% | International 6.05% | Small Cap Growth 12.95% | Small Cap Value -6.45% | Int.-Term Bonds -0.82% | International -14.17% | Large Cap Growth -12.73% | Large Cap Blend -22.10% | Large Cap Blend 28.68% |
| WORST | International 11.21% | Int.-Term Bonds 3.63% | Int.-Term Bonds 9.65% | Natural Resources -14.19% | Small Cap Value -1.49% | Large Cap Growth -22.08% | Natural Resources -15.59% | Large Cap Growth -23.59% | Large Cap Growth 25.66% |
| | | | International 1.78% | Real Estate -17.01% | Real Estate -2.58% | Small Cap Growth -22.43% | International -21.44% | Small Cap Growth -30.26% | Int.-Term Bonds 4.10% |

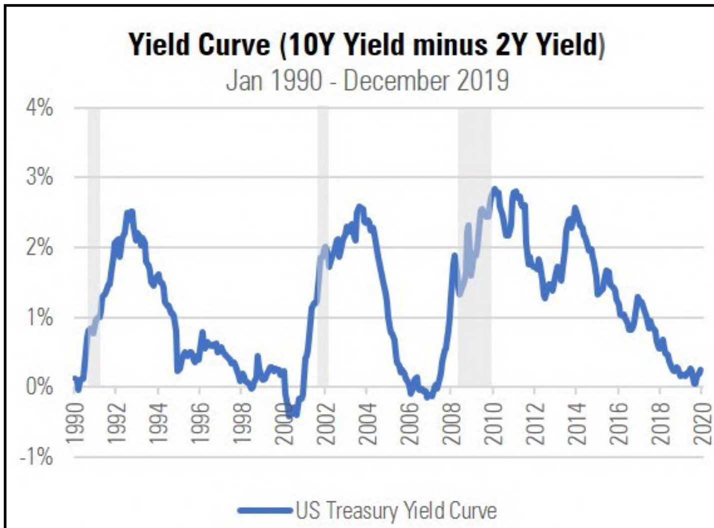
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| BEST | Real Estate 33.16% | Natural Resources 36.61% | Real Estate 35.97% | Natural Resources 34.44% | Int.-Term Bonds 5.24% | Natural Resources 37.54% | Small Cap Growth 29.03% | Real Estate 9.37% | Small Cap Value 18.05% |
| | Natural Resources 24.59% | Real Estate 13.82% | International 26.34% | International 11.17% | Small Cap Value -28.92% | Mid Cap Blend 37.38% | Real Estate 28.07% | Int.-Term Bonds 7.84% | Mid Cap Blend 17.88% |
| | Small Cap Value 22.25% | International 13.54% | Small Cap Value 23.48% | Large Cap Growth 9.13% | Small Cap Blend -33.79% | Small Cap Growth 34.47% | Small Cap Blend 26.85% | Large Cap Growth 4.65% | Large Cap Value 17.68% |
| | International 20.25% | Mid Cap Blend 12.56% | Large Cap Value 20.80% | Mid Cap Blend 7.98% | Large Cap Growth -34.92% | International 31.78% | Mid Cap Blend 26.64% | Large Cap Blend 2.11% | International 17.32% |
| | Small Cap Blend 18.33% | Large Cap Value 6.33% | Small Cap Blend 18.37% | Small Cap Growth 7.05% | Mid Cap Blend -36.23% | Large Cap Growth 31.57% | Small Cap Value 24.50% | Large Cap Value -0.48% | Real Estate 17.12% |
| | Mid Cap Blend 16.48% | Large Cap Blend 4.91% | Natural Resources 16.85% | Int.-Term Bonds 6.97% | Large Cap Blend -37.00% | Real Estate 28.46% | Natural Resources 23.88% | Mid Cap Blend -1.73% | Small Cap Blend 16.35% |
| | Large Cap Value 15.71% | Small Cap Value 4.71% | Large Cap Blend 15.79% | Large Cap Blend 5.49% | Small Cap Growth -38.54% | Small Cap Blend 27.17% | Large Cap Value 15.10% | Small Cap Growth -2.91% | Large Cap Blend 16.00% |
| | Small Cap Growth 14.31% | Small Cap Blend 4.55% | Small Cap Growth 13.35% | Large Cap Value 1.99% | Real Estate -39.20% | Large Cap Blend 26.46% | Large Cap Blend 15.06% | Small Cap Blend -4.18% | Large Cap Growth 14.61% |
| | Large Cap Blend 10.88% | Small Cap Growth 4.15% | Large Cap Growth 11.01% | Small Cap Blend -1.57% | Large Cap Value -39.22% | Large Cap Value 21.18% | Large Cap Growth 15.05% | Small Cap Value -5.50% | Small Cap Growth 14.59% |
| WORST | Large Cap Growth 6.13% | Large Cap Growth 3.46% | Mid Cap Blend 10.32% | Small Cap Value -9.78% | Natural Resources -42.55% | Small Cap Value 20.58% | International 7.75% | Natural Resources -7.35% | Int.-Term Bonds 4.21% |
| | Int.-Term Bonds 4.34% | Int.-Term Bonds 2.43% | Int.-Term Bonds 4.33% | Real Estate -17.56% | International -43.38% | Int.-Term Bonds 5.93% | Int.-Term Bonds 6.54% | International -12.14% | Natural Resources 2.20% |

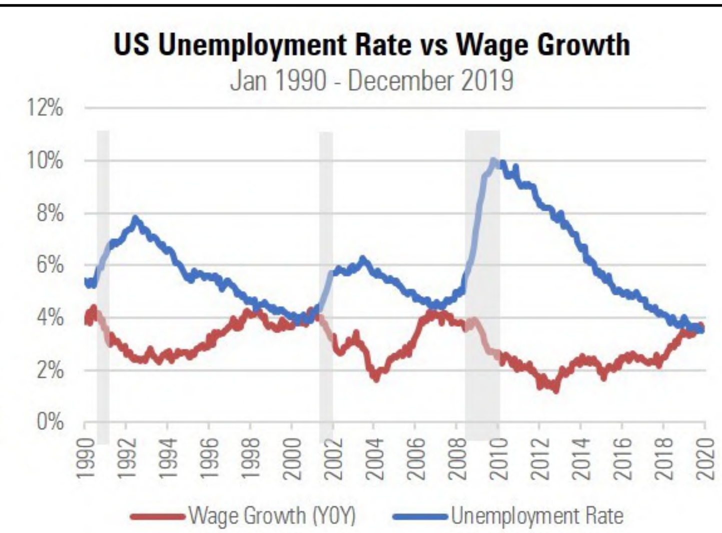
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|
| BEST | Small Cap Growth 43.30% | Real Estate 32.00% | Large Cap Growth 5.52% | Small Cap Value 31.74% | Large Cap Growth 27.44% | Int.-Term Bonds 0.01% | Large Cap Value 31.93% |
| | Small Cap Blend 38.82% | Large Cap Growth 14.89% | Real Estate 4.48% | Natural Resources 30.87% | International 25.03% | Large Cap Growth -0.01% | Large Cap Blend 31.49% |
| | Small Cap Value 34.52% | Large Cap Blend 13.69% | Large Cap Blend 1.38% | Small Cap Blend 21.31% | Small Cap Growth 22.47% | Real Estate -4.22% | Large Cap Growth 31.13% |
| | Mid Cap Blend 33.50% | Large Cap Value 12.36% | Int.-Term Bonds 0.55% | Mid Cap Blend 20.74% | Large Cap Blend 21.83% | Large Cap Blend -4.38% | Small Cap Growth 28.48% |
| | Large Cap Growth 32.75% | Mid Cap Blend 9.77% | International -0.81% | Large Cap Value 17.40% | Mid Cap Blend 16.24% | Large Cap Value -8.95% | Mid Cap Blend 26.20% |
| | Large Cap Blend 32.39% | Int.-Term Bonds 5.97% | Small Cap Growth -1.38% | Large Cap Blend 11.96% | Large Cap Value 15.36% | Small Cap Growth -9.31% | Small Cap Blend 25.52% |
| | Large Cap Value 31.99% | Small Cap Growth 5.60% | Mid Cap Blend -2.18% | Small Cap Growth 11.32% | Small Cap Blend 14.65% | Small Cap Blend -11.01% | Real Estate 23.10% |
| | International 22.78% | Small Cap Blend 4.89% | Large Cap Value -3.13% | Large Cap Growth 6.89% | Small Cap Value 7.84% | Mid Cap Blend -11.08% | Small Cap Value 22.39% |
| | Natural Resources 16.49% | Small Cap Value 4.22% | Small Cap Blend -4.41% | Real Estate 6.68% | Real Estate 3.76% | Small Cap Value -12.86% | International 22.01% |
| WORST | Real Estate 1.22% | International -4.90% | Small Cap Value -7.47% | Int.-Term Bonds 2.65% | Int.-Term Bonds 3.54% | International -13.79% | Natural Resources 17.63% |
| | Int.-Term Bonds -2.02% | Natural Resources -9.77% | Natural Resources -24.28% | International 1.00% | Natural Resources 1.23% | Natural Resources -21.07% | Int.-Term Bonds 8.72% |

| Investment Style | Intermediate-Term Bonds | Large Cap Value | Large Cap Blend | Large Cap Growth | Mid Cap Blend | Small Cap Value | Small Cap Blend | Small Cap Growth | International | Real Estate | Natural Resources |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Representative Index | Barclays US Agg Bond Index | S&P 500 Value Index | S&P 500 Index | S&P 500 Growth Index | S&P MidCap 400 Index | Russell 2000 Value Index | Russell 2000 Index | Russell 2000 Growth Index | MSCI EAFE NR Index | DJ US Select REIT Index | S&P North American Natural Resources |
| Correlation to S&P* | -0.22 | 0.97 | - | 0.98 | 0.94 | 0.87 | 0.89 | 0.89 | 0.85 | 0.62 | 0.76 |

*Past performance is not necessarily an indication of future results. You cannot invest directly in an index. Source: Fidelity Investments/Morningstar. Correlation is based on the past 120 monthly returns from 1-1-10 to 12-31-19 and provides a measurement of diversification by indicating whether or not two different investments have moved in the same direction in the past. A correlation of 1.0 means the returns move in the same direction. A correlation of -1.0 indicates the returns move in opposite directions. A correlation of 0.0 suggests that the investment returns of two different investments are completely independent of one another. The returns shown represent the returns of indices and do not represent the results of any model or actual performance results derived from SIA, Inc. services. SIA, Inc. does not manage models or actual accounts, except for those clients who have elected to use SIA, Inc.'s management by entering into a separate service agreement with the firm. Please see Important Disclosures on page 6.*

**Yield Curve:** Since 1960, 2-year treasury yields have exceeded 10-year yields prior to every recession (light gray shaded areas). The gap is down to 0.25%. **US Unemployment Rate vs Wage Growth:** Low unemployment and higher wages continue to support consumption & the US economy.




Source: Federal Reserve Bank of St. Louis (FRED)

# In Other Words

## Protect Your Account from Cyberattacks

**Angie Franzone** | Newsletter Editor

With every new year we are brought new technological advances intended to make life easier in some form or another. I mean, all I have to do is yell from the comfort of my couch, "Alexa, order me the newest Instant Pot and one of those Robo Vacuums" and Amazon will deliver it to my door the same day, which is good because I have a lot of Disney+ to get through and not a lot of time. However, with all of these technological breakthroughs comes greater opportunity for us to become victims of a cybercrime. Unfortunately, cyberattacks on retirement funds are on the rise, and without running the risk of fear-mongering, it's an issue everyone with a retirement account should be aware of.

According to Ed Mierzwinski, senior director of the federal consumer program for the US Public Research Interest Group, "Hackers are finding it's getting harder to hack bank accounts, so they're saying, where else is there more money? Where can we go? And they've started discovering 401(k) accounts, they've started to discover retirement funds" (*Milwaukee Journal Sentinel*, 1/7/20). Retirement account fraud increased from just 3% of non-card fraud in 2017, to 9% in 2018 (2019 Identity Fraud Study, Javelin Strategy & Research).

401(k) plans have become prime targets for two specific types of attacks: 1. **Theft of participant data**, which could lead to identity theft and 2. **Theft of participant money** through fraudulent online transactions. While financial institutions are continually developing their cyberdefenses, it is also important for all of us to play an active role in protecting our accounts by making it very hard for hackers to access them.

One way to help keep your retirement funds secure is to **regularly monitor your account and update your password**. There may be some rough patches in the market where you are afraid to even login to your account or open your account statement, but in the age of cybercrime, monitoring your account for any unauthorized activity is imperative. It is also recommended that you use strong passwords with at least 10 characters containing upper and lowercase letters, numbers and symbols. In order to increase security, do not use your password for any other online accounts and change your password frequently.

Another cybersecurity best practice is to **make sure you have anti-virus and anti-spyware software installed on any device you use to access your retirement account**. Be sure to conduct any updates needed to ensure that the software is current and working the way it is supposed to be. Keep in mind, the software is only as good as its last update, and new viruses are constantly being created.

So now that you've got a strong password set up, as well as anti-virus software, and are monitoring your account regularly, don't let all of your preparation go to waste by inviting cybercriminals in through your email. **Be wary of responding to, opening attachments in, or clicking on links in emails that ask for your financial information or appear suspicious in any way.** In an act known as "spear phishing", a hacker will send an email to a specific person, making it appear as though it is coming from a known or trusted sender, in order to persuade the potential victim to provide personal information such as account credentials or financial information.

**Equally important is to be aware of the Wi-Fi connection you're using when checking your retirement account**. While you are encouraged to monitor your account regularly, hold off on checking up on it until you are on the Wi-Fi at a trusted location, such as your home or work. You may think you're using your time wisely by checking your account while getting your oil changed, but if you're using the shop's public Wi-Fi then you are not on a secure connection. I'll go one step further and say, not only are you on public Wi-Fi, but you're actually *in public*, where anyone can potentially see the personal information on your screen. Err on the side of caution and wait until you're somewhere secure to view your account.

According to Mierzwinski, if you do happen to become a victim of a cybercrime you can't automatically assume that whomever holds your retirement money will reimburse you after a hack, although the biggest companies typically do. Research your account provider's security policy. There could be some factors that disqualify you from being reimbursed after unauthorized transactions such as the strength of your username and password, the amount of time that has passed since you logged into your account, or lack of anti-spyware and antivirus software.

Have I thoroughly scared you yet? I hope not. My intention is not to instill fear in you, but rather to educate and empower you. Take the time to be proactive when it comes to cybersecurity and do the things that are within your control so that you can protect what you've worked so hard for and enjoy whatever amazing technologies this brand new decade has to offer. Just think, at the start of the last decade people were still LEAVING THEIR HOMES to rent movies. Crazy! If you have any questions or concerns involving cybersecurity, please give our office a call. Or better yet, have Alexa do it.

# Spectrum Investor® Update

| Morningstar Category Averages | | 4th Qtr | 1 Year | 3 Year |
|---|---|---|---|---|
| | Intermediate-Core Bond | 0.12% | 8.06% | 3.59% |
| | Allocation 50%-70% Equity | 5.03% | 19.23% | 8.55% |
| | Large Cap Value | 7.38% | 25.04% | 9.97% |
| | Large Cap Blend | 8.15% | 28.78% | 13.26% |
| | Large Cap Growth | 9.36% | 31.90% | 18.09% |
| | Mid Cap Value | 7.23% | 25.18% | 7.33% |
| | Mid Cap Blend | 7.07% | 26.21% | 9.15% |
| | Mid Cap Growth | 8.05% | 32.52% | 15.57% |
| | Small Cap Value | 8.02% | 21.43% | 3.66% |
| | Small Cap Blend | 8.02% | 23.75% | 6.84% |
| | Small Cap Growth | 9.46% | 27.68% | 13.66% |
| | Foreign Large Cap Blend | 8.39% | 21.59% | 9.09% |
| | Real Estate | 0.63% | 27.28% | 8.38% |
| | Natural Resources | 8.51% | 14.95% | 2.79% |

Source: Morningstar, 3 yr return is 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. Please see Benchmark Disclosures below and Important Disclosures on page 6.

**DOW: 28,538**
**NASDAQ: 8,973**
**S&P 500: 3,231**
**10 Yr T-Note: 1.92%**
**Inflation Rate: 2.3%**
**Unemployment Rate: 3.5%**

Data as of 12/31/19 unless otherwise noted. 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 S&P 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. Barrel of Oil: West Texas Intermediate. Inflation Rate: CPI. 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.

*To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.*

## Spectrum Wealth Management

### SECURE Act

**Brian White, CFP®** | Wealth Manager

On December 20, 2019, President Trump signed the SECURE Act into law and it became effective January 1, 2020. The SECURE Act stands for Setting Every Community Up for Retirement Enhancement and includes some big changes for retirement savings, investments in retirement plans and distributions from those retirement plans. We'll explore three of those changes and the focus on the impact they will have for individuals and their finances.

**Traditional IRA Contribution Age** – The SECURE Act has eliminated the maximum for individuals when it comes to making contributions to their Traditional IRAs. The previous age limit was 70 ½ . With many individuals living and working longer, this gives everyone the opportunity to take advantage of the IRA contributions. You still need to have earned income to contribute to the Traditional IRA. Contributions cannot be made from passive income sources such as real estate rental income or investment income (dividends/capital gains/interest).

***Minimal Impact***: This is good news for anyone who is still working past age 70 and looking for ways to lower their taxable income. Any contributions will reduce the Qualified Charitable Distribution maximums for the future. However, Roth IRA contributions may be a better option, since they don't have a required minimum distribution in the future and may be a more effective estate transition path.

**Required Minimum Distribution (RMD) Age** – Speaking of age limits, the required minimum distribution (RMD) age has now been increased to 72 from 70 ½ . (Who came up with 70 ½, anyway??). That's great news for anyone who does not need the funds from their IRA or other qualified retirement plan as it allows for more growth in the account. Everything else stays the same as far as the RMD is concerned. It must be taken out by 12/31 in the year the account holder turns 72. The calculation method is also the same and is based on the age of the account holder. An important note is that this only applies to individuals born on or after July 1, 1949. If your date of birth is prior to that, you're still under the old rules.

***Moderate Impact***: This is good news for individuals who do not need the extra income from the distribution of their IRA or qualified retirement account. With last year's terrific stock market performance, those RMD numbers are even higher. One item to note: as the minimum age of the distribution increases, so does the amount of the distribution. Individuals who use the Uniform Lifetime Tables will see their first RMD amount at about 3.9% of the portfolio (the distribution period for age 72 is 25.6). At age 70, the RMD was around 3.6%.

**Beneficiary IRA** - The change here is for any inherited IRA accounts with non-spouse beneficiaries. The new regulation states that the beneficiaries must withdraw all funds on an inherited IRA within 10 years of the death of the account holder. This is for anyone who dies after December 31, 2019 and is NOT retroactive to those who inherited an IRA in prior years. There are exceptions to the 10 year rule (in addition to surviving spouses): minor children, chronically ill and disabled individuals.

Let's look at an example: Johnny Rose and his wife Moira both have Traditional IRA accounts with $100,000. If Johnny dies this year, Moira is able to take over his IRA as the spouse. Now she has a $200,000 IRA. If Moira dies, her two children now have inherited IRA accounts. If they are split 50/50, David and Alexis Rose each have $100,000. By 2030, they need to withdraw the full value of their accounts, all of which may be subject to taxes.

***Major Impact:*** According to the Investment Company Institute, Individual retirement accounts in the U.S. held more than $9.8 TRILLION in assets at the beginning of 4th quarter, 2019. Cerulli Associates, a research firm that specializes in global asset management and distribution analytics, produced a report that states 45 million U.S. households will pass over $68 trillion to the next generation over a period of 25 years. More and more individuals have IRA accounts that will be passed on to their heirs. Those heirs will need to withdraw and pay taxes on the entire amount within 10 years, rather than taking it out over their lifetime. In the above example, David and Alexis will have to withdraw at least $10,000 per year over a 10-year period. That $10,000 is subject to income taxes, and those income tax rates could be higher if David and Alexis are in the prime of their working careers.

These changes may affect your retirement account beneficiaries and how they work into your estate plan. As you can imagine, there are disclosures: We strongly encourage you all to review your estate plan with an attorney. We also encourage you to speak with your tax adviser if you have any questions on how this affects your taxes.

***IRS Indexed Limits for 2020:***
*401(k), 403(b), 457 Plan Deferral Limit is $19,500.*
*Catch-up Contribution limit is $6,500. Source: www.irs.gov*

*__Important Disclosures:__ Spectrum was ranked fifth out of 25 managers with 20 to 49 employees in the 2019 Best Places to Work in Money Management awards announced by Pensions & Investments. The two-part survey process of employers and their employees consisted of evaluating each nominated company's workplace policies, practices, philosophy, systems and demographics. as well as an employee survey to measure the employee experience. The combined scores determined the top companies. __Benchmark Disclosures: Morningstar Category Averages:__ Morningstar classifies mutual funds into peer groups based on their holdings. The Category Average calculates the average return of mutual funds that fall within the category during the given time period. The following indexes and their definitions provide an approximate description of the type of investments held by mutual funds in each respective Morningstar Category. One cannot invest directly in an index or category average. __Intermediate-Term Bonds: Barclays US Agg Bond Index__–Measures the performance of investment grade, US dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS, ABS and CMBS. __Allocation 50%-70% Equity__–These funds invest in both stocks and bonds and maintain a relatively higher position in stocks. These funds typically have 50%-70% of assets in equities and the remainder in fixed income and cash. __Large Cap Value: S&P 500 Value Index__–Measures the performance of value stocks of the S&P 500 index by dividing into growth and value segments by using three factors: sales growth, the ratio of earnings change to price and momentum. __Large Cap Blend: S&P 500 Index__–A market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenue are based in the US. __Large Cap Growth: S&P 500 Growth Index__–Measures the performance of growth stocks drawn from the S&P 500 index by dividing it into growth and value segments by using three factors: sales growth, the ratio of earnings change to price and momentum. __Mid Cap Value/Mid Cap Growth: S&P MidCap 400 Index__–A market cap weighted index that covers the complete market cap for the S&P 400 Index. All S&P 400 index stocks are represented in both and/or each Growth and Value index. __Mid Cap Blend: S&P MidCap 400 Index__–Measures the performance of mid-sized US companies, reflecting the distinctive risk and return characteristics of this market segment. __Small Cap Value: Russell 2000 Value Index__–Measures the performance of small-cap value segment of Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. __Small Cap Blend: Russell 2000 Index__–Measures the performance of the small-cap segment of the US equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. __Foreign Large Cap Blend: MSCI EAFE NR Index__–This Europe, Australasia, and Far East index is a market-capitalization-weighted index of 21 non-US, developed country indexes. __Small Cap Growth: Russell 2000 Growth Index__–Measures the performance of small-cap growth segment of Russell 2000 companies with higher price-to-value ratios and higher forecasted growth values. __Real Estate: DJ US Select REIT Index__–Measures the performance of publicly traded real estate trusts (REITs) and REIT-like securities to serve as proxy for direct real estate investment. __Natural Resources: S&P North American Natural Resources Index__– Measures the performance of US traded securities classified by the Global Industry Classification Standard (GICS) as energy and materials excluding the chemicals industry and steel but including energy companies, forestry services, producers of pulp and paper and plantations. Past performance is no guarantee of future results.*