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INVESTMENT ADVISORS

Spectrum Investor® Newsletter **1st Quarter | 2012**

Quarterly Economic Update

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Enclosed are your investment returns for the 1st quarter, 2012. The Dow Jones Industrial Average ended the quarter up 8.1%, its best opening to a year since 1998. The S&P 500 Index was up 12%, while the Nasdaq Composite jumped 19%, its best quarter since 1991 (*WSJ*, 4/1/12). The Dow has posted gains for six months in a row and only needs to rise about 7% to top the record high that it hit in October, 2007. For the most part, the best performing stock sectors so far for this year have been some of the worst performing of last year, lead by financial stocks up 21% for the quarter. The unseasonably warm winter in many parts of the US has given an artificial bump to economic indicators, boosting construction activity and shopping.

The US economy produced over 200,000 jobs three months in a row. In addition, the European Central Bank has pumped more than a trillion euros into Europe's banks, calming the markets. "On March 9, Greece sealed the deal on a debt restructuring, which included an 80% haircut by its creditors, while the global markets took it in stride" (*Profitable Investing*, 4/12). According to Bob Doll, Chief Market Strategist for Blackrock Investments, "The world is breathing a sigh of relief that it didn't all end."

Jamie Dimon, CEO of JPMorgan Chase, was asked in January, 2012 about housing in the US. According to Mr. Dimon, "We have seen the worst. Supply and demand are rapidly coming into balance. Renting is now more expensive than buying in half of America. We are adding three million Americans a year. In the next 10 years, we will have 30 million more Americans who will need an estimated 15 million homes, and dependants can only live so long with their parents" (*USA Today*, 1/16/12).

The US housing industry overbuilt by averaging close to two million homes per year, from 2003-2006. Eventually, to balance supply and demand, new building permits, currently at 685,000 per year, will need to return to a normal level of approximately 1.5 million units per year. As Mr. Dimon explained, "Once you see employment start to grow 300,000 to 400,000 per month, you better buy that house you want really soon because it'll change in price right away" (*USA Today*, 1/16/12).

The long-term enemy of the average investor is likely not a depression or economic collapse, but the continuous debasement of the dollar through inflation. You need seven dollars today, to buy what a dollar would have purchased in 1965 (*Profitable Investing*, 4/12). If you are close to retirement or you are currently living off your investments, one of your goals for the long run should be to protect your purchasing power. That is why we keep suggesting balanced portfolios for the average investor, including multiple investment options, especially on the bond side of investing. Diversifying a bond portfolio can be critical today as interest rates have hit a 30-year low and will eventually begin to rise as the global economy improves. Balanced portfolios may keep you ahead of inflation but without the risk of being totally invested in the stock market. In the past two to three years at Spectrum we have adjusted our model portfolios to prepare for eventual inflation as the world economies continue to recover. *Past performance is not an indication of future results.*

According to the *Stock Trader's Almanac*, since 1928 the average rate of return for US stocks is 4.9% in the six-month period from November through April. In contrast, US stocks average 1.8% in the six month period beginning in May-October. Historically, May is a good time to rebalance.

Worldwide global stimulus by central banks in China, Japan, Europe, England and the U.S. have given markets a boost. As global stimulus begins to wear off, it will likely become important to rebalance by May, 2013. At that point, assuming the bull market continues, it will reach its fourth birthday on March 9, 2013. According to Kenneth Rogoff, author of, *This Time Is Different*, the average market cycle over eight centuries in 65 different economies lasts 4½ years. **If this market already makes you nervous, we suggest you rebalance your portfolio in May, 2012.**

For the average investor, consider a balanced portfolio of 55%-65% in stocks, **refinance again** while mortgage interest rates remain low, and if you are renting, this is a great time to buy an owner occupied house. Should you need assistance, please call our office or email us at sia@spectruminvestor.com.

Spectrum received some good news in February. Out of eighty-six 401(k) Advisors that were nominated, we were selected as one of five semi-finalists for the 2012 Morningstar/ASPPA 401(k) Advisor Leadership Award. To view the criteria for this award, please visit http://www.asppa.org/Main-Menu/membership/Awards-Honors.aspx. We appreciate your business.

60% Stocks/40% Bonds Allocation vs Indices Ending 3/31/12

15 Yr	10 Yr	5 Yr	3 Yr	1 Yr	Index Definition
Mid Cap 11.02%	Nat. Res. 10.43%	Bonds 6.25%	Real Est. 44.48%	Real Est. 13.53%	Real Estate: DJ US Select REIT Index TR
Real Est. 9.85%	Real Est. 10.36%	60/40 5.17%	Mid Cap 28.55%	Lg. Growth 11.82%	Large Growth: S&P 500 Growth TR
Nat. Res. 8.93%	Mid Cap 7.70%	Lg. Growth 4.80%	Sm. Growth 28.36%	Lg. Blend 8.54%	Large Blend: S&P 500 TR
Sm. Value 8.79%	60/40 7.64%	Mid Cap 4.78%	Sm. Blend 26.90%	Bonds 7.71%	Int.-Term Bonds: BarCap Aggregate Bond
Sm. Blend 7.46%	Sm. Value 6.59%	Sm. Growth 4.15%	Sm. Value 25.36%	Lg. Value 5.26%	Large Value: S&P 500 Value TR
60/40 7.19%	Sm. Blend 6.45%	Nat. Res. 4.10%	Lg. Growth 23.76%	60/40 4.39%	60/40: 60% Diversified Stocks, 40% bonds
Bonds 6.39%	Sm. Growth 6.00%	Sm. Blend 2.13%	Lg. Blend 23.42%	Mid Cap 1.98%	Mid Cap Blend: S&P MidCap 400 TR
Lg. Blend 6.10%	Bonds 5.80%	Lg. Blend 2.01%	Lg. Value 23.18%	Sm. Growth 0.68%	Small Growth: Russell 2000 Growth TR
Lg. Growth 6.09%	Intl. 5.70%	Sm. Value 0.01%	Nat. Res. 20.95%	Sm. Blend -0.18%	Small Blend: Russell 2000 TR
Lg. Value 5.77%	Lg. Growth 4.12%	Real Est. -0.75%	60/40 19.10%	Sm. Value -1.07%	Small Value: Russell 2000 Value TR
Sm. Growth 5.58%	Lg. Blend 4.12%	Lg. Value -0.83%	Intl. 17.13%	Intl. -5.77%	International: MSCI EAFE NR
Intl. 4.22%	Lg. Value 4.00%	Intl. -3.51%	Bonds 6.83%	Nat. Res. -14.35%	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.

Wealth Management

Tax rate changes

Brian E. White, CFP®
Wealth Manager

It's April and you're probably reading this newsletter after you've diligently filed your taxes. If not, you have some work to do! Unless you're on an extension, the work for 2011 has been done and filed. We're already 3+ months into 2012, but there are some areas of your taxes that we can work on before the end of the year.

Upcoming changes: As it stands right now, the Bush tax cuts (and subsequent extension) are set to expire at the end of 2012. There is also the issue of the estate tax provisions set to change in 2013. This creates many challenges and as well as many opportunities for all of us. If you need assistance with your taxes, **please consult your tax advisor. Spectrum Investment Advisors, Inc. does not provide tax advice.**

Now that the compliance department is happy, let's move on to one of the most important upcoming changes: the capital gains and dividend tax rate. After 2012, long term capital gains will be taxed at 20%, up from 15%. Dividends will also be taxed as ordinary income instead of at capital gains rates. These changes bring about some challenges as well as opportunities for those savvy enough to take advantage of them. One way to take advantage of these changes is to realize capital gains in 2012 rather than deferring them to future years. This is typically a decision we'll make with our clients closer to the end of the year, but it's still advisable to begin the review process. Also, if you have a large capital gain in a non-liquid asset that you're looking to sell in 2012, you may need to start the selling process a little sooner.

Capital gains rates aren't the only scheduled increase for 2013. Income tax rates are also set to increase under President Obama's 2013 budget. For those making over $200,000, the income tax rates are set to go higher while the itemized deductions are reduced. These changes may be a good motivator for realizing income from a deferred compensation program or converting a traditional IRA to a Roth IRA to avoid future taxes.

If you're currently contributing to a 401(k) plan, consider maximizing your contributions to that plan, thereby lowering your taxable income. If your adjusted gross income is less than the income limits for a Roth IRA contribution ($173,000 if you're filing a joint tax return; $111,000 for filing single), consider making a Roth IRA contribution. There are plenty of financial calculators available for free online including Roth IRA Conversion, 401(k) contributions and mortgage interest calculators. If you need some suggestions or help finding them, a simple Google search or a call to our office would be the easiest way to go about it.

New Cost Basis Rules: New rules are in effect for stocks purchased starting in 2011, mutual funds and exchange-traded funds in 2012, followed by bonds and options in 2013. Brokerage firms and custodians have a responsibility to report gains and losses on any stocks sold in 2011. Be sure to check with your brokerage firm or financial advisor to see that the correct cost basis is on file.

It is also equally important to make sure the correct reporting method is used for your cost basis. Brokerage firms will have a default cost basis method of FIFO, first-in, first-out. This means that they will report the first shares sold as the first shares purchased. The IRS allows for different accounting methods (Last In First Out, Average Cost, etc.), but you'll need to specify that with your advisor or brokerage firm and keep it consistent when filing your taxes.

Get some help: All of these upcoming changes may make life difficult when the beginning of April rolls around. Your best asset during this time is a good accountant and possibly a good tax attorney. A good accountant will not only prepare your taxes, but also look for additional tax savings and strategies to maximize your income. If you don't have a reliable accountant, we'd be glad to help you find one. We work with the nice folks at the Wisconsin Institute of CPAs and would be happy to make a referral. We don't get any sort of fee for the referral – we're just glad to be of assistance to you in your financial affairs.

Spectrum Investor® Update 3/31/12

Category Average	1st Qtr	1 Year	3 Year
Intermediate-Term Bond	**1.59%**	6.55%	**9.76%**
Moderate Allocation	8.09%	3.82%	16.74%
Large Cap Value	11.06%	3.93%	21.19%
Large Cap Blend	12.48%	5.09%	21.97%
Large Cap Growth	**15.80%**	6.93%	22.90%
Mid Cap Value	12.25%	0.74%	26.08%
Mid Cap Blend	12.51%	0.17%	25.87%
Mid Cap Growth	14.60%	2.00%	25.93%
Small Cap Value	11.90%	-0.04%	28.63%
Small Cap Blend	12.29%	-0.32%	27.42%
Small Cap Growth	13.96%	0.52%	27.43%
Foreign Large Blend	11.85%	-6.47%	17.09%
Real Estate	10.51%	**11.91%**	**41.75%**
Natural Resources	6.41%	**-14.35%**	19.67%

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

DOW: 13,212 **10 Yr T-Note: 2.22%**
NASDAQ: 3091 **Inflation Rate: 2.9%** (2/2012)
S&P 500: 1408 **Unemployment Rate: 8.2%** (3/2012)
Barrel of Oil: $103.02 Source: www.bls.gov *USA Today* 4/2/12

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

Young investors, listen up!

Angie Franzone
Newsletter Editor

When you hear the phrase, **"First and Ten"**, more than likely the first thing that pops into your head is football, but what if I told you it can be applied to investing in your 401(k) plan as well? **First contribute, then get to 10%.** In other words, you shouldn't put off getting into your company's 401(k) plan until you feel financially comfortable to contribute 10% of your paycheck each pay period. Start off small with whatever percentage you can afford and work your way up to 10%. Otherwise, if you wait until you can afford 10%, not only may you never start investing in your 401(k), if you do eventually begin investing, you will have missed out on all that time in the market, and in doing so, the opportunity to earn an investment return on your money.

First and Ten is a simple, yet effective phrase that a couple of our advisors heard at a Retirement Advisor Symposium in March, and it's especially important advice for younger investors to follow. The more you can contribute to your 401(k) and the sooner you can start, the better. Hard work and sacrifice when you are young is a lot more manageable than when you're entering your twilight years.

I know what you're thinking. You just got your first real job out of college, your starting salary is just enough to pay the bills, not to mention that pesky student loan debt that has shown up on your doorstep now that you've entered the real world, and the last thing on your mind is how much money you'll have saved when you're old enough to retire. That's where the "First" portion of the phrase comes in. **First contribute**. Start off with something; anything, just as long as you get in the habit of saving. The amount of your life spent in retirement is too significant to ignore and depending on how early you start investing, time can either be your ally or your greatest enemy.

According to the 2012 Retirement Confidence Survey (RCS) conducted in January, "The percentage of workers who expect to retire after age 65 has increased from 11 percent in 1991 to 37 percent in the 2012 survey" (*Forbes*, 3/14/12). Think about that for a minute…is that the kind of future you envisioned for yourself? Working into your 70s to make up for the time you missed out on by not investing when you were young? And what about the job market when you're in your late 60s? Will there be jobs available, and if so, will they be available for someone in your age bracket? Are you confident that you will even be able to work past the age of 65?

The 2012 RCS also found that "a large percentage of retirees leave the work force earlier than planned, a whopping 50 percent, for instance, in 2012." The reasons? "Health problems or disability, changes at their company, such as downsizing or closure, and having to care for a spouse or another family member." The study, published by *Forbes* magazine went on to explain:

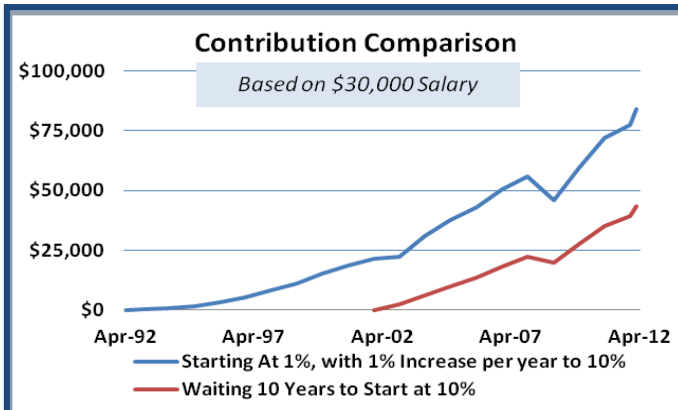
The percentage of workers *planning* to work for pay in retirement is a sizeable 70 percent, compared with just 27 percent of retirees who report they *did work* for pay in retirement.

Scary stuff right? Contrary to what it may seem like after those last set of statistics, my goal is not to frighten you into locking yourself in your room, crawling under your covers and never seeing the light of day again. It's to get you to understand that it is important to invest in your future as early as possible, even if that means starting with an amount that you think won't make a difference. Even small savings can add up if you allow time to be on your side. **A 401(k) plan is a great way to start saving because it allows you to invest using pretax dollars, in addition to allowing you to use the dollar cost averaging strategy;** a technique in which you invest a specific amount of money over regular periodic intervals, such as monthly or quarterly.

The great thing about dollar cost averaging is that you can buy more shares when prices are low and less shares when prices are high, reducing the risk that you will have invested all of your money when the market is at its top, or most expensive, which is even more important when you're just starting out and you don't have much to invest to begin with.

As for the "Ten" portion of First and Ten; 10% may sound like an impossible goal to reach, but you know the saying, anything worth doing, is worth doing right. It may take you anywhere from five to 10 years, or even more, to reach 10%, don't stress about it. The important thing is that you're consistently contributing and, when you're able to, increase your contribution a percent here and a percent there. The below chart provides a great example of what could have happened had you started contributing 1% in April of '92 and worked your way up to 10% by increasing your contributions 1% a year, instead of waiting until April 2002 and starting at 10%. As the chart indicates, starting right away instead of waiting until you had enough to contribute 10% resulted in a difference of approximately $40,000! For many people, that's a year's worth of work; all the more reason to get serious about investing.

If you need investment guidance, including how much to contribute to your 401(k), call our office and talk to one of our advisors. He or she can help you get started on the right foot towards a more secure future. And remember, saving a little is better than saving nothing at all. You don't always score a touchdown without getting some first downs along the way.



Source: Morningstar. Based on DJ Moderate Index TR, monthly contributions. 1% increased deferal on the 1 year anniversary of the April 1 start date. **No guarantee: may lose value**. Cannot invest directly in an index.

IRS Indexed Limits for 2012 are as follows:
401(k), 403(b) & 457 Employee Deferral limit is $17,000.
Catch-up Contribution limit is $5,500.
Source: Standard Retirement Services, Inc.

Invest In Your Health

Successful Losers – Part 1

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

Remember those New Year's Resolutions you made a while back? How are they coming along? Oh, sorry to hear that.
You've probably heard the statistic that 95% of people who try to lose weight gain it back within 12 months. Well, that may be true of people who try the latest fad diet, but your odds of losing weight successfully can be much better than that. There are plenty of people out there who have taken fat off their body and kept it off. It's not easy; you really do have to change your lifestyle. But if you're willing to do that, you can be a successful loser, too.

Regardless of what you're trying to accomplish in life, one of the best ways to find out how to do something successfully is to **talk to people who've done it**. Several universities have recently created the National Weight Control Registry. This registry is a database of more than 4,000 people across the country who have experienced an average weight loss of 67 lbs. They've maintained a weight loss of at least 30 lbs. for five years or more. That's very impressive. Researchers have interviewed these successful losers to see exactly what it is they did that makes them so different from the majority of people that try to lose weight but fail. Researchers found they all share six characteristics. This month, let's look at the first three:

1: They exercise
They burn about 400 calories a day through exercise activity and they exercise practically every day. That comes to 2,800 calories burned every week; approximately 1,000 of those calories come from walking. The remaining 1,800 calories come from such activities as aerobics, bicycle riding, and strength-training exercises. **Research continues to show that people who lose weight and keep it off are people who also exercise.** It appears you need to do it *at least* four times a week. Three isn't enough. Neither is zero. Remember, a lot of their activity is from walking. You can take a walk, can't you?

"I have a confession. I bought the treadmill to cover a stain on the carpet."

Exercise is also a great way to deal with stress, and since many people who are overweight deal with stress by going to the refrigerator, you can deal with two issues at the same time.
Weight loss often increases when exercise is added to a weight loss program that involves calorie restriction. **Dieters who exercise lose more body fat than those who rely on dieting alone**. What's more, weight loss through dieting alone almost always leads to loss of muscle as well. Adding exercise leads to less muscle loss as the weight comes off. Yet it appears that where exercise is really necessary is in *maintaining* weight loss. Exercise is one of the few factors that helps guarantee long-term success.

2: They consume a relatively low-calorie, low-fat, low-sugar diet
On average, approximately 24% of their calories come from fat. That's going to be somewhere around 50 grams of fat a day or less. Not easy, but you can do it. They don't completely avoid their favorite foods either; they know that deprivation doesn't work in the long run. They do *not* follow reduced carbohydrate fad diet programs like Atkins or Sugar Busters; they've tried the gimmicks already.

Instead, they get educated about the right way to do it and they do it by themselves. That's not to say you can't get support from family and friends; just keep in mind that some bad advice can come with that support. Most of the successful dieters report that they finally got tired of all the fads and their desire to lose weight and keep it off became stronger than their desire to overeat and stay inactive.

3: They weigh themselves regularly; usually about once a week
It's generally not recommended that you weigh yourself daily, simply because water changes and hormonal fluctuations can make your scale do funny things, like go up when it should go down. That's why I'm not a big fan of the bathroom scale. I don't own one. But truth be known, it appears that most long-term successful losers do monitor their weight on a somewhat regular basis. They also decide that if they go above a certain scale weight, or if their clothes start getting too tight, they will increase their efforts. They pick a certain weight or clothes size and if they start regaining and getting close to it, they simply rededicate themselves to their effort.

By the way, get rid of your fat clothes; those nice outfits you still have in the larger sizes—the ones you're keeping, just in case you gain weight again. Just in case?!? You're basically guaranteeing that you'll gain weight again. You're getting ready for it; you've got clothes just waiting for you when you fail. Get rid of them. I know you spent a lot of money on them. Give them to Goodwill or the Salvation Army. **You've got to make it very inconvenient to regain weight**. Just like these successful losers do. Having bigger sizes in your closet is not helping you to keep fat off your body.

Now you probably could have guessed these first three characteristics of successful losers, but the rest of the list is going to be a surprise. We'll reveal those next time.

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

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