SPECTRUM INVESTMENT ADVISORS

Quarterly Economic Update

1st Quarter | 2014

Upcoming Events:

Spectrum Investor®
Coffee House
Educational Series
Wednesday, May 7, 2014
Long-Term Care
Featuring Guest Speaker
Romeo Raabe
"The Long-Term Care Guy"

Retirement Seminar
9th Annual
Wednesday, June 18, 2014
Co-Sponsored by Spectrum
and the WICPA
More Information to Follow

Good News! Spectrum has been selected as one of eight finalists for 2014 *PlanAdviser* Team of the Year

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We appreciate your business.

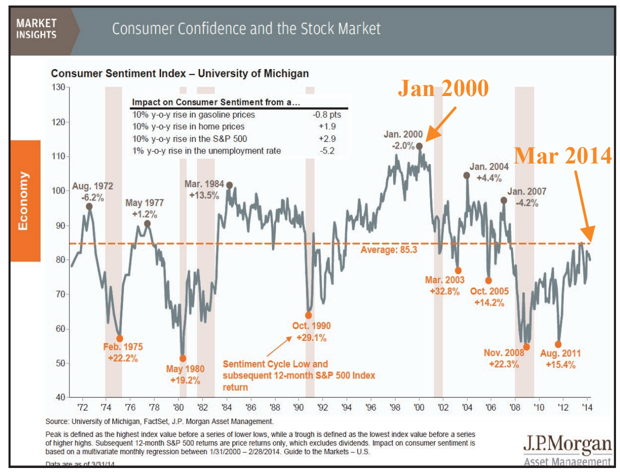
James F. Marshall
President

Jonathan J. Marshall
Sr. Investment Analyst

The bull market reached a five year anniversary milestone on March 9, 2014. From March 9, 2009, to March 31, 2014, the S&P 500 Index is up 177%. Five years ago, by the time the market hit bottom on March 9, 2009, the S&P 500 Index had fallen 57% from its 2007 peak, the biggest drop since The Great Depression (*JPMorgan* 3/31/14). The following is a review of lessons learned from the last 7 years.

Lessons Learned:
1) They don't fire a starting gun to mark the arrival of a new bull market. The mood reversal started in March 2009 with the help of Ben Bernanke & the Federal Reserve's quantitative easing program. Trying to call market bottoms or market tops is something few investors can do (*Kiplinger 3/14*).
2) Rebalancing is essential. **See the importance of rebalancing on page 3.**
3) Diversification Works. Diversification can't prevent losses, but it helps you avoid the big mistakes.
***4) "Always have a margin of safety."*-Warren Buffett** To protect your portfolio, we suggest taking the advice of Warren Buffett's professor at Columbia University, **Ben Graham,** who said to have a maximum 75% stocks but a minimum 25% stocks. If you are unsure of what to do, be 50% stocks and 50% bonds and cash, and rebalance at least once every three years. Warren Buffett's margin of safety provided the cash for Berkshire Hathaway to buy stocks/companies in late 2008-2010 at bargain prices.
5) Overleveraging by businesses or consumers can lead to trouble as in 2005-07, prior to the 2008 downturn.
6) There's no finish line to signal the end of a bull market.

What to watch for - Key drivers of stock prices
1) Economic Gross Domestic Product (GDP) Growth. Stocks have performed consistently well in periods when the GDP was trending around 3%, according to LPL Financial. The S&P 500 has posted gains in 93% of the quarters in the past 35 years when GDP growth was between 2.5% and 3.5%. "It's the growth sweet spot for stocks," says **Jeffrey Kleintop**, LPL's Chief Market Strategist. The market tends to get expensive when the GDP growth exceeds 4%; the 4th qtr 2013 GDP growth was 2.6% (*DOC 4/8/14*).
2) Inflation and Interest Rates. Over the past 12 months through February, 2014 the Consumer Price Index (CPI) has risen just 1.1% (1.6% ex food and energy) well below the Fed's target of 2%. New Fed Chairman **Janet Yellen** recently offered new assurances that the Fed intends to keep interest rates low. Yellen stated, "The recovery still feels like a recession to many Americans, and it also looks that way in some economic statistics" (*WSJ 4/1/14*). Yellen is more concerned about growing employment vs. the threat of inflation.
3) Valuations **(*JPMorgan 3/31/14*).** The PE of the S&P 500 is 15.2 as of 3/31/14, below the forward average PE of 16 for the past 15 years (*JPMorgan*).
4) Earnings. According to Standard & Poor's, operating earnings per share for the fourth quarter of 2013 were 22% higher than a year ago. Growth is expected to slow to 7.6% for the first quarter of this year, but then grow to 12-14% for the remainder of the year (*Fidelity Monitor & Insight 4/14*).
5) Sentiment. Extreme levels of bullishness (late 1999) are historically associated with major market turns. Current sentiment measure is still below its historical average. (See below)



6) Oil and Natural Gas Prices. Rapidly rising oil prices (over 50% increase in 12 months) present challenges for stock markets in the following 18 months. As was the case in the 1973, 2002, and 2008 bear markets (*The Oil Factor*). Our nation's renaissance in energy (fracking) should keep oil prices (currently $101 per barrel) stable in the $80-$115 range for the next 5-10 years.
7) The yield on stocks vs. the yield on 10 year treasuries. At the market peak on 3/24/00, the PE ratio of the S&P 500 was 25.6 with an average dividend yield of 1.1% vs. the yield on 10-year treasury at 6.2%. This resulted in the market flowing toward bonds with a sell-off in stocks. **See JPMorgan chart on page 3.** A similar result occurred at the market peak of 10/9/07, when the yield on treasuries (4.7%) was higher than the yield on stocks (1.8%). Again, the market flowed from stocks to bonds.

Today the S&P 500 PE ratio is 15.2 with a yield of 2% vs the 10-year treasury yield of 2.7%. Historically, the yield on treasuries would need to approach 4% for major flows from stocks to bonds. Past performance is not necessarily an indication of future results.

8) Fewer stocks are reaching new highs. Less than 19% of NYSE stocks reached 52 week highs in March 2014 vs. 28% in May 2013. "That kind of erosion happens in an aging bull market, roughly a year before it dies" (*Fortune 4/7/14*).

Keep in mind, on average, market cycles last 3-6 years with an average of 4.5 years (*This Time is Different*). As we enter the sixth year of this bull market, with more volatility likely ahead, stay balanced and be sure to revisit your risk tolerance.

Wealth Management

Long-Term Care: The Elephant in the Room

Romeo Raabe, LUTCF, LTCP

Featured Columnist

Long-Term Care (LTC) is not a pleasant topic to talk about. Nobody wants to consider how they will cope when the time comes that they can no longer manage on their own. Unfortunately, the U.S. Department of Health and Human Services estimates that 70% of today's 60 year olds will need some type of LTC. Most of this is not done in nursing homes, but rather in your own home with help coming in, or the rapidly growing types of assisted living facilities.

Arthritis is the number one reason for receiving care in the home, while Alzheimer's is the main cause of facility placement. Strokes, bone density, diabetes, joint troubles, etc., all lead to an increasing need for care. Longevity compounds the problem as the longer we live, the more years of care may be waiting for us.

By age 50, 10% of us can no longer purchase the LTC insurance, which pays for such care in facilities or our own homes. By age 60, one fourth of us can no longer qualify for this insurance. Medicaid will pay for care once a person is "impoverished". This means all assets are spent down to $2000 and life insurance is cashed in. Married "at-home" spouses are allowed to retain use of a home (with a lien building up against it), one vehicle, and no more than $117,240 of savings. Spending out of pocket for LTC can be quite expensive as not all care is tax deductible, while the funds may come from taxable accounts. Many who thought their resources would last their entire lives have found that not to be so.

Medicaid is also facing budget troubles of its own. Ten thousand Americans turn 65 every day and will for the next 19 years as the baby boomers age into Social Security and Medicare. Many people have not planned for the expense of LTC and assume the government can take care of everything. With many people living into their 80s and 90s, and needing years of care, the government simply does not have the money to pay for LTC.

Nursing homes in most of Wisconsin, outside of the larger cities, average $8500/month. Assisted living type facilities run $3500-$5500 per month, and care in your home can be anywhere from one $85 visit a week to 3 visits a day. There are also adult day care facilities in some locales that LTC insurance pays for as well.

While these bills are large today, inflation in the cost of care has been averaging 5% to 6% annually over the past 20 years. Thus, a nursing home costing $8500 per month today will be $17,000 per month in 15 years and $34,000 per month in 30 years, about the time today's 60 year olds turn 90. Assisted living will cost between $14,000 and $22,000 per month in the same 30 years.

People who plan to use assets for income in retirement might find such numbers throwing a wrench in the works. LTC insurance is not for everyone, but for those healthy enough to qualify, it is the least expensive way to prepare for such an event and cost.

Most people find they do not need nearly as much of this insurance as they might first anticipate. Lifestyle changes considerably when one can no longer golf, travel, fish, etc. Therefore there may be fewer vehicles, trips, or toys to feed and maintain. If the motorcycle and the motorhome are not being used, they may be disposed of.

There are also other strategies that can help people who did not prepare. Some of them can stretch available resources to make the money last longer, while others can protect some assets from the Medicaid spend-down.

I will be discussing all of these strategies and more at the Spectrum Investor® Coffee House Educational Series on May 7, 2014. To register for the event visit www.spectruminvestor.com.

Romeo Raabe is known as "The Long-Term Care Guy" and is an accomplished national speaker, writer and teacher who has been helping people come up with strategies to finance their long-term care since 1988. Romeo writes, as well as teaches, the LTC Partnership Certificate classes, a course which all Wisconsin agents must take to sell LTC Insurance.

For more information on long-term care, including a link to Romeo's blog, visit **www.thelongtermcareguy.com**.

Spectrum Investor® Update 3/31/14

Category Average	1st Qtr	1 Year	3 Year
Intermediate-Term Bond	1.95%	**0.22%**	3.99%
Moderate Allocation	1.64%	11.83%	8.40%
Large Cap Value	2.27%	20.74%	13.09%
Large Cap Blend	1.69%	21.17%	13.09%
Large Cap Growth	0.48%	23.59%	12.96%
Mid Cap Value	3.05%	23.23%	**13.37%**
Mid Cap Blend	2.54%	22.66%	12.27%
Mid Cap Growth	1.19%	23.40%	11.74%
Small Cap Value	1.70%	23.38%	12.38%
Small Cap Blend	1.45%	24.09%	12.73%
Small Cap Growth	0.32%	**26.05%**	12.59%
Foreign Large Blend	**0.12%**	15.39%	5.80%
Real Estate	**9.05%**	3.72%	9.67%
Natural Resources	2.68%	8.66%	**-1.74%**

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

DOW: 16,458	**10 Yr T-Note: 2.72%**
NASDAQ: 4199	**Inflation Rate: 1.1%** (2/2014)
S&P 500: 1872	**Unemployment Rate: 6.7%** (3/2014)
Barrel of Oil: $101.58	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.

IRS Indexed Limits for 2014: 401(k), 403(b), 457(b) Plan Deferral Limit is $17,500. Catch-up Contribution limit is $5,500. Source: The Standard

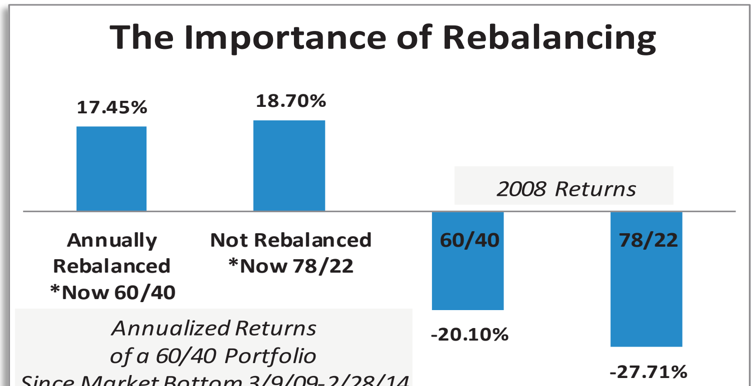
In Other Words

Spring Cleaning For Your Investments

Angie Franzone
Newsletter Editor

Springtime! It's staying light out longer, the birds are chirping and the temperature is (finally) warming up. After such a long, cold winter, when it comes to tidying up, whether it be your house, your yard or your car, you probably have a lot of work ahead of you. While your mind is in cleaning mode, it's the perfect time to dust off that nest egg and de-clutter your investments. Not sure why or how you would go about doing that? Well you've come to the right place.

Let's begin with the why. Over time, market fluctuations can change your asset allocation in such a way that it becomes out of sync with your risk tolerance. In order to keep the amounts of stocks, bonds and cash consistent with your original percentages you should consider rebalancing annually, which restores your portfolio to the mix you intended it to be. By doing so your investments are more likely to line up with your goals. Rebalancing can also help you to be proactive instead of reactive and help stop you from making decisions based on emotion. According to Chief Investment Officer at Merrill Lynch, Anil Suri, "Systematic rebalancing can help investors focus on the value of their entire portfolio, not just individual performance." This is important because when you act on emotion you open yourself up to the possibility of buying high and selling low, which is the very thing you're trying to avoid.



Past performance is not an indication of future results. Stocks represented by the S&P 500 TR Index. Bonds represented by Barclays Capital US Aggregate Bond TR Index. Cannot invest directly in an index. Source: Morningstar

Although rebalancing does not ensure you get a better return, it does help to reduce the volatility of your investments. According to Morningstar, "A portfolio that was 50% total stock market/50% total bond market three years ago would now be 57% equity/43% bond if it had never been touched, and 70% equity/30% bond if it hadn't been rebalanced during the past five years" (Benz, 3/2/14). That is way more risk than someone who is only comfortable being 50% stocks/50% bonds, should take. As the above chart illustrates, the possibility of a higher return by not rebalancing when the market is on the way up, is not worth the risk taken when the market is down. Historically, late April and early May are generally good times to rebalance your portfolio, so now's the time!

At Spectrum, we recommend an annual review of your investments to make sure they are still in line with your long-term goals or to make any necessary adjustments due to changing life events. This includes taking a risk tolerance quiz again and setting up a one-on-one meeting with an advisor. Many provider websites offer an automatic rebalance feature that can be set to rebalance your investments for you on an annual basis. If you are unsure of how to set up the rebalancer, call our office and an investment adviser will be happy to help you.

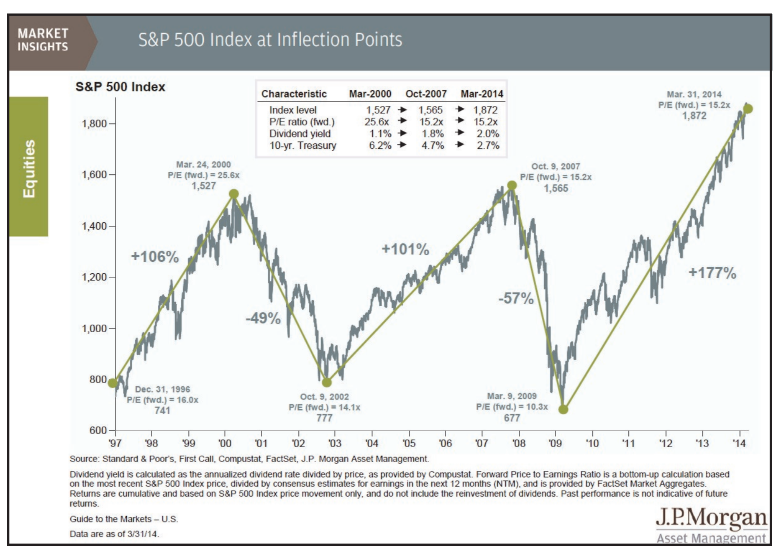
Just as de-cluttering your home is important to reduce stress and maintain a level of organization, so is de-cluttering your investments in order to make sure you do not have too much of one investment category, which minimizes diversification and may cause your investments to be out of proportion with your objectives.

Keeping up on world news is an important part of investing as well. Between 24-hour news cycles, ever-changing Internet news headlines, social media posts and phone alerts, it's hard to determine what information to pay attention to and what to ignore. The Spectrum website (www.spectruminvestor.com) is a great source for timely, insightful information about the economy. **Located under Resources & Links, then Investment Resources,** is a list of websites to help you conduct your own investment research and to keep up on the economic issues that could affect your investments. Our favorites are: **Brian Westbury's *Monday Morning Outlook*** (ftportfolios.com), **LPL Financial Weekly Research by Jeff Kleintop** (lplfinancial.lpl.com) and **David Kelly's JPMorgan Guide to the Markets** (jpmorganfunds.com). These articles, along with other market research links on our website, are great tools to assist you in making educated and informed decisions about your investments.

60% Stocks/40% Bonds Allocation vs. Indices Ending 3/31/14

15 Yr	10 Yr	5 Yr	3 Yr	1 Yr	Index Definition
Real Est. 11.52%	Nat. Res. 11.10%	Real Est. 28.92%	Lg. Growth 15.39%	Sm. Growth 27.19%	Small Growth: Russell 2000 Growth TR
Sm. Value 10.70%	Mid Cap 10.14%	Sm. Growth 25.24%	Lg. Blend 14.66%	Sm. Blend 24.90%	Small Blend: Russell 2000 TR
Mid Cap 10.68%	Sm. Growth 8.87%	Mid Cap 24.86%	Lg. Value 13.96%	Lg. Growth 23.12%	Small Value: Russell 2000 Value TR
Nat. Res. 9.63%	Sm. Blend 8.53%	Sm. Blend 24.31%	Sm. Growth 13.61%	Sm. Value 22.65%	Mid Cap Blend: S&P MidCap 400 TR
Sm. Blend 8.91%	Sm. Value 8.07%	Sm. Value 23.33%	Mid Cap 13.37%	Lg. Blend 21.86%	Large Growth: S&P 500 Growth TR
60/40 8.07%	Real Est. 8.05%	Lg. Value 21.32%	Sm. Blend 13.18%	Mid Cap 21.24%	Large Blend: S&P 500 TR
Sm. Growth 6.63%	60/40 7.91%	Lg. Blend 21.16%	Sm. Value 12.74%	Lg. Value 20.54%	Large Value: S&P 500 Value TR
Bonds 5.40%	Lg. Growth 7.84%	Lg. Growth 21.10%	Real Est. 10.27%	Intl. 17.56%	International: MSCI EAFE NR
Lg. Value 5.28%	Lg. Blend 7.42%	Intl. 16.02%	60/40 8.55%	Nat. Res. 11.63%	Natural Res: S&P North Am. Nat. Resources TR
Intl. 4.49%	Lg. Value 6.94%	Nat. Res. 15.73%	Intl. 7.21%	60/40 11.33%	60/40: 60% Diversified Stocks/40% Bonds
Lg. Blend 4.46%	Intl. 6.53%	60/40 15.64%	Bonds 3.75%	Real Est. 4.35%	Real Estate: DJ US Select REIT Index TR
Lg. Growth 3.46%	Bonds 4.46%	Bonds 4.80%	Nat. Res. 0.15%	Bonds -0.10%	Int.-Term Bonds: Bar-Cap Aggregate Bond

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.©2014 Spectrum Investment Advisors, Inc.



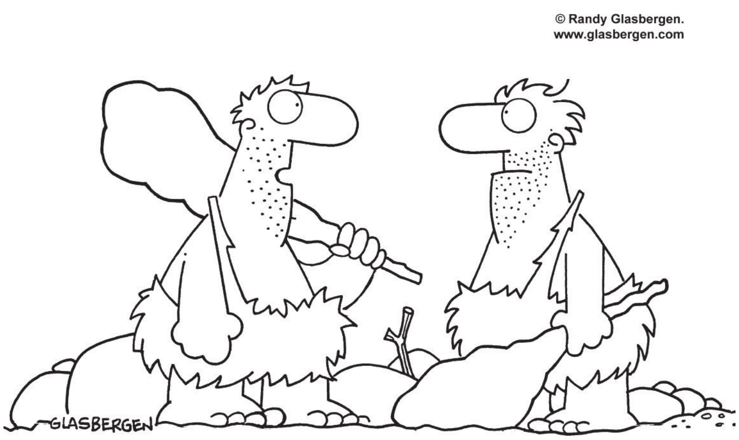
Invest In Your Health

Should You Eat Like A Caveman?

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

One of the latest in the ongoing series of diet fads tells us that Americans are so sick and fat because our modern-day diets just don't agree with our genetic makeup. They say we were never programmed to eat a lot of the foods commonly found on the American dinner table. Instead, they recommend that we eat in a manner similar to our Paleolithic ancestors of 10,000 years ago. That means eating foods that you could fish for, hunt for, or gather. Things like meat, fish, eggs, vegetables, fruits, roots, tree nuts, and shellfish. What you're not supposed to eat is dairy, legumes, potatoes, processed oils, grains, breads, cereals, and sugar.

I'll agree, it's a good idea to eat less sugar. You'll also do better to take in less whole dairy products as well. If you choose to use dairy products however, there's nothing wrong with skim or 1%. Some versions of the caveman diet suggest that if you do use milk it should be in the unpasteurized raw form. That's a big potential problem right there. Pasteurization kills bacteria that can be present in raw milk. Frankly, you may be fine drinking raw milk for years; especially if you know its source. But all it takes is one time and you'll never want to drink raw milk again.



"I have 40% of my portfolio invested in fire. I think it's the technology of the future."

What's interesting is that the recommendations for the caveman diet are in many ways opposite of what nutritional science has been observing over the last 50 years. **More and more, it seems that the ultimate diet for optimal health is found primarily in a plant-based diet. That means less animal products, not more. That means less meat, not more meat.**

When we look at healthy diets, such as the Mediterranean and Asian way of eating, we see that people simply have healthier, longer lives when they eat less animal-based products. And those healthy diets do include whole grains close to the way they grow; foods like brown rice and whole wheat flour. What's more, beans and legumes are a great source of protein that make up the foundation of many healthy diets around the world. People that eat this way tend to have less heart disease, less diabetes, less obesity, and less risk of cancer as well.

Will you lose weight on the caveman diet? Well if you cut out your dairy, grains, sugar, and all the other foods that are restricted you probably will lose weight. Not because those foods are particularly bad for you, but because you've cut out so many calories. As always, the question becomes can you live on a diet like that? For the rest of your life? What's more, should you? The answer is no.

What's the best diet? One that includes about 4 total cups of fruits and vegetables a day; several servings of whole grain breads, cereals, and rice; lean protein including beans and nuts; healthy fat like olive oil and the good omega 3s from fish like salmon; and a source of calcium like fat-free or 1% dairy or soy milk fortified with calcium. Eating like that provides you with the fundamentals of great nutrition and the best chance for maximizing your health and longevity.

One thing we all agree on is that cavemen got a lot more physical activity than we do today. Some reports suggest that they even had to get up to change the channels on their television! How barbaric. **As important as your nutrition is, don't forget you need about 150 minutes of moderate exercise a week or 75 minutes of more intense exercise per week.** That's a minimum period per week, not per day. You have 75 minutes per week, don't you?

By the way, scientists believe that the average lifespan in the good old prehistoric days was probably around 30 years. While there were a lot of factors involved in that short lifespan, maybe their diet wasn't so good after all.

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