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INVESTMENT ADVISORS

Spectrum Investor® Newsletter **3rd Quarter | 2012**

Quarterly Economic Update

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Enclosed are your investment returns for the 3rd quarter 2012. Many investors may not realize this, but US stocks going into the final quarter, 2012 are very close to their all-time high. The Dow Jones Industrial Average rose 4.3% during the third quarter and is up 10% so far in 2012. As of September 30, 2012, the Dow is at 13,437. The all-time high, set in, 2007, was 14,164. The S&P 500 is even better with a 5.8% rise during the quarter (*WSJ*, 10/1/12).

Driving those gains has been a belief that the Federal Reserve's effort to pump money into the financial system will help keep asset prices higher. The good news is that according to Corelogic Research, US home prices were up 4.6% in August from a year ago, the largest year-over-year gain in six years. Home prices, even with the increase, are still down about 30% from their 2006 peak. The markets are getting plenty of help from the world's big central banks. According to the *New York Times* (9/30/12), on September 6, 2012, **Mario Draghi**, president of the European Central Bank, said that under certain conditions, it would buy unlimited amounts of governmental bonds, a move that could lower borrowing costs for Spain and other troubled countries in the eurozone. Stocks immediately rose around the world.

The next week the Federal Reserve extended its plans for maintaining near-zero short-term interest rates to the middle of 2015. The Fed announced that it would increase its bond buying to a total of $85 billion a month for the rest of the year, with a focus on mortgage-backed securities. Fed chairman **Ben Bernanke** stated that as long as the unemployment rate remains exceptionally high, the Fed plans to maintain its expansion on monetary policy. As they say in the business, **"Don't Fight the Fed"** *(NYT*, 9/30/12).

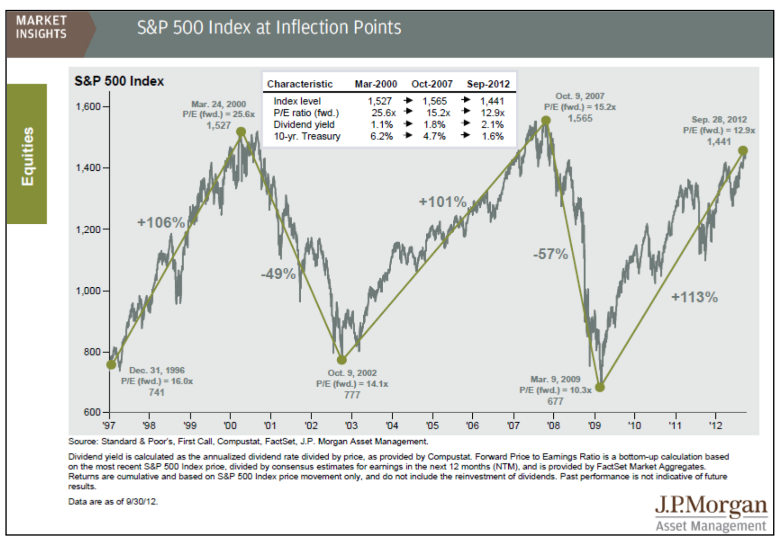
In the meantime, a partial list of dangers include: tension in the Mideast, the election and the fiscal cliff in the US. See pages two and three regarding Spectrum's comments on the election and the fiscal cliff. The Economic Cycle Research Institute (ECRI), an independent forecasting organization with an excellent record, says it believes that the United States is already in a recession and that action by the Fed won't change that. "Unfortunately, the economy is just going to have to ride out the business cycle," stated **Lakshman Achuthan**, COO of the institute. He believes that the Fed's actions QEI in '09, QEII in '11 and QEIII starting September 13, 2012, have been increasingly ineffective.

Robert Rodriguez, CEO of First Pacific Advisors, a well respected asset management firm in Los Angeles, says that another credit bubble is likely if the banks persist in trying to prop up the global economy. Rodriguez stated that the fundamental problem in the US can't be solved by the Fed, rather, we must get our fiscal houses in order.

According to **Brian Westbury,** Chief Economist from First Trust, the Federal Reserve artificially held down interest rates in the late 60s and early 70s. Artificially holding interest rates down (as the Fed is doing today) along with funding the Vietnam War (government spending) resulted in higher inflation in the late 70s. From 1978-1981, when inflation was growing at an average of 10.9% annually, hourly earnings gained 8.1% a year. In comparison, today the average weekly wages in the last 12 months, ending August 2012, were even, with no increase. As **Jon Waggoner** from *US Today* says, "If we get a sharp uptick in wages, that will signal impending inflation" (10/12/12).

For the next several months, Wall Street's fascination with the Fed may keep the market rising; however, 2013 will be the fifth year in this bull market cycle. Keep in mind that market cycles last an average of four and a half years, as we have said in the past. See the S&P 500 Index inflection points chart by **Dr. David Kelly** and his investment team from JP Morgan. The good news in the chart below is that the current P/E ratio is at 12.9 vs. 15.2 in October 2007 or 25.6 in 2000 which means that stocks are less expensive today than in 2000 and 2007. Dr. Kelly spoke at our Spectrum/WICPA Investment Seminar in June, 2011. As Dr. Kelly suggested in his presentation, stay in a well diversified, well balanced position with occasional rebalancing.

As Warren Buffet has said, "your assets should be allocated in a way that regardless of tomorrow morning's news you are no longer scared." Bruce Johnstone from Fidelity, who spoke at our Spectrum/WICPA Seminar in 2012, stated, **if you don't own a house, buy one soon** before eventual inflation hits, which historically follows monetary expansion periods. For homeowners, with 15-year mortgage rates at an all-time low of just below 3%, **refinance again**.



Regarding the upcoming election, as **Jim Bowen**, CEO of First Trust, mentioned at a Financial Forum in Milwaukee on 10/11/12, "Regardless of who wins the election, as Americans we will all go back to work, without guns and violence and continue to be productive. What a great country."

Please see the Spectrum Investor® Book Review insert on the book, *This Time is Different*. Enjoy the ride. For an electronic copy of this newsletter and our ADV Part II, please visit our website at www.spectruminvestor.com. We appreciate your business.

Wealth Management

The Fiscal Cliff

Brian E. White, CFP®
Wealth Manager

As we say goodbye to the third quarter of 2012 (and wonder where the summer went), we approach the election season and the end of the year. Typically we have a period of uncertainty with a presidential election and are searching for direction with the financial markets. This year, however, we're faced with a different set of concerns which have been labeled the Fiscal Cliff. This section of our newsletter is going to be devoted to defining the Fiscal Cliff and how it could affect each of us, as well as some action steps for the end of the year. Since this is a topic with different viewpoints and many possible solutions, we'll try to simplify it, not get too political and let you know how it may drive your investments going forward.

What is the Fiscal Cliff? As it currently stands, the end of 2012 will bring the expiration of the Bush tax cuts, the temporary payroll tax cut and extended unemployment benefits. We will also experience higher Medicare taxes and cuts to discretionary federal government spending. Because of two recent bear markets, two wars and two attempts by the Bush and Obama administrations to stimulate the economy, the U.S. finds itself with a growing budget deficit and about $15.9 trillion in total public debt (JP Morgan).

In household terms, this is equivalent to a family having an annual income of about $20,000 and spending about $38,000, all while sitting on credit card debt of over $140,000. Obviously, that can't continue, and that household must cut costs, bring in more income and reduce their debt. Cost cutting in a household is never fun. Bringing in more income means getting another job and reducing debt means there's less in savings. However, the end result is no debt and hopefully an improved plan for retirement savings.

For the government, it's not that easy and there are huge consequences for each decision made. Raising income (taxes) is a hot topic, with a massive divide between the Republicans and Democrats, on who should see higher taxes and how much. Cutting costs is another area of discussion with no current compromise. Each of those decisions affects corporate and individual spending, savings and consequently the stock market.

With no legislation in place to extend the Bush tax cuts, the highest ordinary income tax dividend tax rates will go up to 39.6%. Long-term capital gains rates will go from 15% up to 20%. The 2% payroll tax cut is set to expire and the additional 0.9% Medicare tax for upper-income households is set to take effect. With less take-home pay, individuals will be spending less in 2013 and corporations will respond accordingly. With no potential for growth, the stock market could slow significantly.

What does it mean for me? If all tax cuts expire, the average household would pay an additional $3,500 in taxes (*WSJ*, 10/1/12). It is likely that the government will come to some sort of agreement on extending a portion of the Bush tax cuts. However, it is still a time to adjust your spending accordingly. This is also a good time to review any capital gains you have. With the long-term capital gains rate likely increasing, recognizing some of those capital gains in 2012 may be a good strategy so that you minimize the taxes you might pay. We suggest that you meet with your tax advisor or accountant to determine the best course of action.

Review your estate plan with your estate planning attorney. Do you have the correct beneficiaries listed on your retirement plan or IRA? Will you be able to take advantage of the estate tax exemption?

Consider implementing a gifting strategy if you're in a position to do so. Since asset values and income taxes are still low, this may be a good time to explore a Roth IRA conversion. However, you should only convert your traditional IRA to a Roth IRA if you can afford to pay the taxes with money outside of the IRA.

Many economists believe there will be some sort of compromise to keep us from tumbling over the Fiscal Cliff. Let's keep in mind that this is a situation we can't control. We don't know what's going to happen between now and the end of the year, but we are able to control our asset allocation as it relates to our risk tolerance. In other words, make sure your portfolio is constructed with the right mix of stocks and bonds so that you sleep well at night. If you're not sure, please call us and speak with an advisor to determine if you're on the right track!

Spectrum Investor® Update 9/30/12

Category Average	3rd Qtr	1 Year	3 Year
Intermediate-Term Bond	2.55	**7.70**	7.13
Moderate Allocation	4.57	17.84	8.72
Large Cap Value	5.98	27.19	10.42
Large Cap Blend	6.08	27.07	10.89
Large Cap Growth	6.14	26.84	11.91
Mid Cap Value	5.54	27.21	11.45
Mid Cap Blend	5.33	26.16	11.28
Mid Cap Growth	4.63	24.40	12.74
Small Cap Value	4.96	29.25	11.49
Small Cap Blend	5.37	29.94	12.49
Small Cap Growth	5.15	28.57	13.47
Foreign Large Blend	6.61	16.00	**2.67**
Real Estate	**0.61**	**31.89**	**19.74**
Natural Resources	**9.33**	16.24	5.43

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

DOW: 13,437	**10 Yr T-Note: 1.637%**
NASDAQ: 3116	**Inflation Rate: 1.7%** (8/2012)
S&P 500: 1440	**Unemployment Rate: 7.8%** (9/2012)
Barrel of Oil: $92.19	Source: www.bls.gov *WSJ* 10/1/12

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

The Presidential Election and Your Investments

Angie Franzone
Newsletter Editor

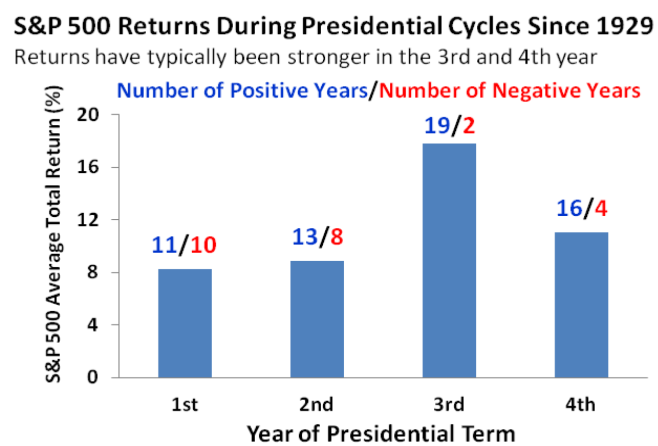
The leaves are falling, the air is crisp and the holidays are just around the corner. On top of decisions about what to be for Halloween, how big a turkey to make for Thanksgiving and what presents to buy our loved ones, we have another big decision to make; who to vote for in the presidential election. One question you may ask yourself in making this decision is, what effect will the election have on my investments? "Regardless of the market environment, many investors place heavy emphasis on presidential elections, expecting U.S. stocks to immediately rally or plummet depending on the outcome. However, historical data doesn't lend much credence to this view. For all the attention they get, presidential elections have had little discernible effect on the equity market" (Morningstar® *Investor Insight*, 9/12).

Some may look to presidential election cycle theory to get an idea of how to invest in the stock market. The chart to the right illustrates the presidential election cycle theory, which is the premise that the stock market reacts in a particular pattern based on the year of the president's term. In theory, year one shows the weakest stock market performance, year two, although better than the first, also shows below average performance. The third year is historically the strongest and the fourth shows above average performance. While this theory provides an understandable way to identify market patterns, it can also lead to oversimplification and market timing, which tends to hurt individual investors. "Rather than attempt to predict investment performances for a market that is unpredictable, it is better to focus on elements of investment planning within your control, like diversification" (forbes.com - *Financial Finesse*, 3/21/12). Diversification can help spread your risk and keep your anxiety down to a manageable level during times of market volatility.

When you feel yourself starting to react emotionally to short-term market fluctuations, take a deep breath and ask yourself these questions: What are my long-term goals? Have my goals changed? Is there any good reason to abandon my plan? Hopefully, by taking a moment to assess the situation, your investment decisions will be driven more by logic than by emotion. With social media outlets such as Facebook and Twitter and 24-hour news cycles, it can be next to impossible to take your attention away from daily (who am I kidding, hourly) news headlines, whose main purpose these days seems to be to instill fear into those who read them.

This constant bombardment of news headlines only feeds into the notion that you have to act and you have to act now or you'll lose everything. **Be proactive, not reactive**. Talk with an advisor and diversify your investments in a balanced portfolio of stocks and bonds so that when that next doom and gloom news story appears in your newsfeed you don't start to panic. One of Jim Marshall's favorite lines from Warren Buffett, which he even quotes in this quarter's economic update is, "Your assets should be allocated in a way that regardless of tomorrow morning's news you are no longer scared."

The truth is, whether our next president is a democrat or a republican should not drive your investment decisions. **According to a study by Leuthold Weeden Institutional Research, from 1928 to now, the median S&P 500 price return for democrats during a presidential term is 27.5% and the median for republicans is 27.3%, with the median for all terms being 27.4%.** The main lesson to take away from this is that what drives your investment decisions should be personal considerations like your time horizon, investment objectives and risk tolerance, regardless of who the next president will be. Set goals, make a long-term plan and diversify. That way, you can enjoy the holiday season rather than spending time worrying about things that are out of your control.



Source: Morningstar, S&P 500 TR (IA Extended). Cannot invest directly in an index. Past performance is not an indication of future results.

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

60% Stocks/40% Bonds Allocation vs. Indices Ending 9/30/12

15 Yr	10 Yr	5 Yr	3 Yr	1 Yr	Index Definition
Mid Cap 8.94%	Nat. Res. 13.95%	Bonds 6.53%	Real Est. 20.52%	Sm. Value 32.63%	Small Value: Russell 2000 Value TR
Real Est. 8.94%	Real Est. 11.28%	Mid Cap 3.83%	Lg. Growth 14.93%	Real Est. 32.06%	Real Estate: DJ US Select REIT Index TR
60/40 7.47%	Mid Cap 10.77%	60/40 3.66%	Mid Cap 14.33%	Sm. Blend 31.91%	Small Blend: Russell 2000 TR
Nat. Res. 7.40%	Sm. Growth 10.55%	Lg. Growth 3.55%	Sm. Growth 14.19%	Sm. Growth 31.18%	Small Growth: Russell 2000 Growth TR
Sm. Value 7.08%	60/40 8.47%	Sm. Growth 2.96%	Lg. Blend 13.20%	Lg. Value 30.81%	Large Value: S&P 500 Value TR
Bonds 6.15%	Sm. Blend 10.17%	Sm. Blend 2.21%	Sm. Blend 12.99%	Lg. Blend 30.20%	Large Blend: S&P 500 TR
Sm. Blend 5.52%	Sm. Value 9.68%	Real Est. 1.60%	Sm. Value 11.72%	Lg. Growth 29.65%	Large Growth: S&P 500 Growth TR
Lg. Blend 4.70%	Intl. 8.20%	Sm. Value 1.35%	Lg. Value 11.39%	Mid Cap 28.54%	Mid Cap Blend: S&P MidCap 400 TR
Lg. Growth 4.69%	Lg. Growth 8.06%	Lg. Blend 1.05%	60/40 10.11%	Nat. Res. 20.48%	Natural Res: S&P North Am. Nat. Resources TR
Lg. Value 4.38%	Lg. Blend 8.01%	Nat. Res. 0.02%	Nat. Res. 8.87%	60/40 18.78%	60/40: 60% Diversified Stocks/40% Bonds
Sm. Growth 3.42%	Lg. Value 7.87%	Lg. Value -1.56%	Bonds 6.19%	Intl. 13.75%	International: MSCI EAFE NR
Intl. 3.37%	Bonds 5.32%	Intl. -5.24%	Intl. 2.12%	Bonds 5.16%	Int.-Term Bonds: BarCap Aggregate Bond

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

IRS Indexed Limits for 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

Humor for the Health of It!

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

With the rollercoaster stock market these last several years, sometimes all you can do is laugh. That's good, since laughter turns out to be great medicine for the body and soul. A good giggle is like jogging for your insides. Consider some of these benefits:

1. Laughter helps relieve stress and muscle tension. If you have the ability to laugh at yourself, it helps you put events in your life into their proper perspective. Remember, stress isn't about the events that happen to you, it's about your perception of, and your reaction to, what happens to you. A particular event might be incredibly stressful to one person, and part of everyday routine to another. Same event, different perceptions and reactions. Humor helps takes some of the pressure off and helps you see the big picture.

2. You learn more. People that are laughing engage both sides of the brain. This enhances learning and helps to retain more information. When my audiences are laughing they're paying attention. When they pay attention, they learn more. I think that when you're asking people to make changes in their lives, like I do, it's essential that you take some of the pressure off by helping them laugh. A spoonful of sugar does, indeed, help the medicine go down.

3. Laughter helps lower your blood pressure. Those people that laugh on a regular basis tend to have a lower resting blood pressure.

"Step 1: apply Miracle Cellulite Cream to problem areas. Step 2: run ten miles."

4. It helps you stay well. Laughter boosts your immune system and increases the production of antibodies that helps you fight infection. People who develop their sense of humor should get fewer colds.

5. It connects you with other people. Think about it, even in a diverse group of strangers, when you're laughing with others you share a sense of unity with them. Positive humor among co-workers contributes to workforce cohesiveness.

6. It helps in pain reduction. Norman Cousins was one of the first to identify the pain-reducing power of laughter. Living with a painful disease, he found that 10 minutes of belly laughter gave him two hours of pain-free sleep. Many studies have now confirmed that laughter helps patients by possibly increasing levels of endorphin production or simply by distracting attention away from the discomfort.

7. It helps protect your heart. A study done at the University of Maryland medical center found that people with heart disease were 40% less likely to laugh in various situations compared to those without the disease at the same age. *Maybe that's because they were concerned about having heart disease!* (See what I did there?) Humor is looking at things just a little differently than most. Be on the lookout for the obvious contradiction or irony in a situation. That's how most professional comedians make their living. They simply point out a different viewpoint to everyday things of life. Haven't you ever asked yourself, 'why didn't I think of that?' So look for those opportunities. That's a big part of what people call having a sense of humor.

Convinced you need to smile more? Good. Here are some ideas to get more laughter in your life. First of all, lighten up a little. Yes, there are very serious issues in life. Deal with them, but don't let them influence your everyday journey. Yes, bad things happen to good people. **Yes, life isn't fair; but also, count your blessings. If you're reading this article, you probably live in a society that most of the rest of the world can only dream about.** A bad day for you is far better than the best day for a lot of other people around the world. Think about it. It's true.

You also need to expose yourself to humor. There are funny people out there. Spend time with them, take them to lunch, (or invite them to speak at your next meeting! hint, hint). Humor is contagious; you might catch some of it if you expose yourself to a 'carrier.' Go to a comedy club. Stop watching all those murder and crime shows on television. What are you thinking? No wonder you feel depressed. Do you actually pay good money to watch horror movies? No wonder you feel anxious. Stop it.

When you're in the car do you really need to listen to all the angry talk-show hosts on the radio? What does that really accomplish besides making you more frustrated and angry yourself? Why not listen to some classic comedy CD from Bill Cosby or your own favorite comedian? You'll arrive feeling much better and more energetic. I purpose to watch comedies on television. I tape them so I have a constant supply whenever I'm ready to watch. I find shows like "The King of Queens" and "Frasier" lift my mood and make me actually laugh out loud. You need more laughter in your life, not more stress.

When my audiences hear that a nutritionist like me is coming they expect the worse. They're pleasantly surprised to find that health and wellness can be promoted in a practical way that's actually fun. People like to laugh, especially when they're learning at the same time.

Now go do something funny.

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.

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