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Economic Update

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Quarterly Economic Update

James F. Marshall
President

Jonathan J. Marshall
Sr. Investment Analyst

The S&P 500 posted a gain of 4.7% for the three months ending September 30, 2013. The positive return was driven in a large part by a few unexpected surprises in September. The Federal Reserve, for example, delayed its plans to start tapering its monthly bond-buying program which has kept interest rates historically low, and President Obama opted not to strike Syria for their use of chemical weapons (*WSJ* 10/7/13).

Worldwide, the other positive news on September 22, 2013 was that **Angela Merkel** was re-elected as Chancellor of Germany. Ms. Merkel was originally elected in 2005. Ms. Merkel's steady voice and demeanor along with ECB president, **Mario Draghi,** were able to calm the European markets. Ms. Merkel's re-election was good news for the European markets (*CNN* 9/23/13).

Also in September **Larry Summers** bowed out of his consideration for the replacement of Federal Reserve Chairman **Ben Bernanke** on January 31, 2014. This gives way for Ben Bernanke's likely successor, **Janet Yellen**, 67, currently the Vice Chairman of the Fed Board and one of Bernanke's chief lieutenants and architects of quantitative easing. Ms. Yellen has been known for promoting policies of full employment over policies that control inflation. Ms. Yellen believes some inflation is good for employment (*USA Today* 10/9/13).

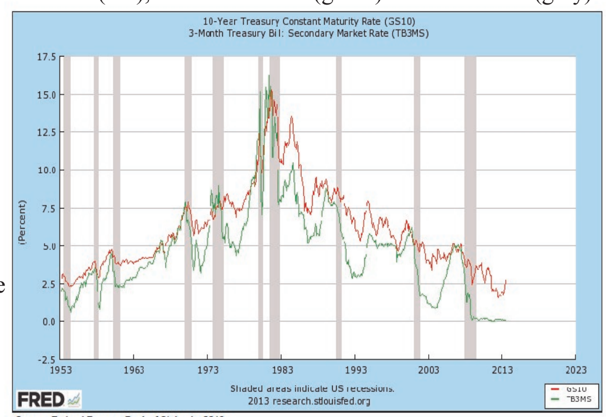
October 1, 2013, marked day one of a government shutdown regarding an agreement to extend our country's debt ceiling (*USA Today* 10/1/13). This was the 18th government shutdown since 1976. The longest was 21 days ending in January 1996. The average shutdown lasted 6.4 days. In general, the longer the shutdown, the more volatile the markets become (*WashPost* 9/25/13).

October 17, 2013 was a soft deadline for law makers to raise the debt ceiling, currently at $16.699 trillion. With pressure mounting from US business and overseas creditors such as China, congress compromised, averted a default and reopened our government until January 15, 2014 which allows the treasury to borrow until February 7, 2014. The market cheered the news with a positive bounce of 205 points on the DOW. With the DOW now at 15,374 as of 10/16/13 (*Financial Times 10/17/13*).

Since September 15, 2008, marking the five year anniversary of the Lehman Brother's bankruptcy, the DOW has gone up from a low of 6547 on 3/9/09 to 15,129 as of 9/30/13. Unemployment has dropped from 10% in October 2009 to 7.3% in August 2013. The downside is that the Fed's balance sheet has expanded from less than $700 billion in 2007 to $4 trillion by the end of this year (*Leeb Income Performance* 10/2013).

So where are we today? The JPMorgan Inflection Points Chart (page 3) illustrates that the S&P has increased 148% since March 9, 2009 with a current PE ratio of 14.3 as of September 30, 2013. As **Jeff Kleintop**, Chief Market Strategist at LPL says, other than in 2000, the market historically corrects when PE ratios are in the 17-18 range, which means we are likely in the 7th inning of this bull market. Past performance is not necessarily an indication of future results.

Another way to gauge the risk of the next recession/market correction is to study the relationship between short-term vs. long-term interest rates. According to **Clare Zempel**, principal at Zempel Strategic in Fox Point and former Chief Economist and Chief Investment Strategist at Robert W. Baird & Co., since 1955 every time the yield curve has inverted or when short-term rates rise above long-term rates, a recession follows within a year. Mr. Zempel states that if yields change at the pace they did leading up to the last recession, the yield curve would invert in approximately January 2015, likely followed by a recession within one year thereafter. Below: long-term rates (red), short-term rates (green) and recessions (gray).



Source: Federal Reserve Bank of St. Louis, 2013

With little risk of the yield curve inverting in the next year and a fairly valued stock market, we would continue to overweight stocks over bonds (but don't get carried away). Business expansions appear to be strong. The US is on a record pace for IPOs (Initial Public Offerings), the highest since 2008, up 51% from 2012 (*USA Today* 10/6/13).

The potential of the Fed beginning to taper in late 2013 or early 2014 should continue to cause interest rates to rise. With the potential for rising interest rates, we suggest you consider underweighting US treasures-TIPS (Inflation Protected Securities) and REITS (Real Estate Investment Trusts).

As with any of the markets, the above is subject to a lack of global natural disasters, surprises in the Middle East, and that Congress and the current administration can agree on a long-term debt ceiling plan and not push the global bond markets to the edge by not compromising.

For those of you with residential mortgages who have yet to refinance, the Fed just gave you a mulligan. If you haven't already, you may want to look into **refinancing**. In the mean time, consider staying balanced, stay shorter on the bond side, keep investing, and stay the course.

Wealth Management

Year-End Planning

Brian E. White, CFP®
Wealth Manager

Believe it or not, this is the last newsletter you'll be receiving from Spectrum before the end of the year. 2013 has been an exciting year and there are a few items you'll want to have on your to-do-list before we hit January. Here's what you need to consider:

Gifting

Before we know it, the holiday season will be here. The season of giving has a few changes from the financial planning perspective. First, the annual gift tax exclusion amount per recipient has gone from $13,000 to $14,000 for 2013. Keep this in mind if you're in a position to maximize your annual gifting to family or charities.

Consider gifting highly appreciated stock to a charitable organization. Let's use the fictional character Forrest Gump as an example. He bought Apple stock back in the 1980s and now has a large position of the stock with virtually no cost. If he wants to give his favorite charity $10,000 at the end of the year, he should consider gifting $10,000 in Apple stock. If he were to sell the Apple stock and give the proceeds to the charity rather than gifting the stock directly, he would likely have a $1,500 capital gains tax bill in April (if he pays a 15% capital gains rate). No one wants that kind of surprise at tax time!

This is the last year (as of this newsletter being published) that individuals are able to gift directly from their IRA account to a charitable organization. This is called a qualified charitable distribution. You're currently able to transfer up to $100,000 from an IRA to a charitable organization. The benefit to this transaction is that you're able to give directly to a charity without having to count it as income on your federal tax return. It also can be used to satisfy a required minimum distribution from your IRA. This only applies to IRAs and not 401(k) accounts. Also, the amount of the transfer to the charity is not federally tax deductible as a charitable donation.

If we go back to Mr. Gump and his charitable contribution to his favorite charity, this is another option for him to think about if he is over 59 ½ years old. If he transfers $10,000 directly from his IRA to the charity, he gets the benefit of a contribution to the charity. He also doesn't need to count that $10,000 as income, which is a HUGE savings if he's in a high tax bracket. It also lowers his IRA value, which means his required minimum distribution (if he's over 70 ½) for 2014 will probably be less. This is a very effective strategy for individuals who need to minimize their taxable income and want to give to their favorite charities.

Health Care

As we all know, the Patient Protection and Affordable Care Act is upon us. Also known as Obamacare, this polarizing piece of legislature has been the center of many discussions and battles. Not all of the regulations are completely clear, but we do know that it will be mandatory for all US Citizens to have health insurance by 2014. There is a fine of $95 that will be levied on your federal taxes in 2015 if you do not have health insurance. If you're NOT currently covered by an employer-sponsored plan, Medicare or Medicaid, you will have an opportunity to sign up for health insurance through an exchange. Be sure to visit **www.healthcare.gov** for all of your questions.

Capital Gains and Losses

This is a good time to start planning for the end of the year capital gains and losses. Do you know where you stand with your realized capital gains for 2013? If not, you may want to find out from your advisor or broker. Keep in mind that the federal capital gains rate is still at 15% for most individuals. However, there is a 3.8% Net Investment Income tax for "certain unearned investment income" starting in 2013. The threshold for this tax is $200,000 for individuals and $250,000 for married filing jointly. We're not accountants or tax advisors at Spectrum and we strongly urge you to contact someone in that capacity with any questions. If you're not sure who to contact, let us know and we'll be sure to find a competent individual who can best assist you.

Your personal situation is unique and you may encounter all of the issues listed above. If none of them apply to you, this is a good chance to take a look at your overall financial picture. Do you have an updated estate plan? Do you have an income tax strategy in place? Do you have all of your investments consolidated? Before all the leaves fall and the cold weather arrives, be sure to review your entire financial picture. If you need any assistance with the issues mentioned here, please contact us.

Spectrum Investor® Update 9/30/13

Category Average	3rd Qtr	1 Year	3 Year
Intermediate-Term Bond	0.60%	**-0.96%**	**3.39%**
Moderate Allocation	4.26%	11.87%	9.61%
Large Cap Value	4.43%	21.23%	14.66%
Large Cap Blend	5.73%	20.41%	14.74%
Large Cap Growth	9.35%	20.70%	15.27%
Mid Cap Value	6.80%	28.32%	16.01%
Mid Cap Blend	7.51%	27.40%	15.58%
Mid Cap Growth	10.13%	26.11%	15.98%
Small Cap Value	8.08%	29.47%	16.18%
Small Cap Blend	9.19%	28.89%	17.26%
Small Cap Growth	**12.26%**	**30.35%**	**18.75%**
Foreign Large Blend	9.95%	19.97%	7.19%
Real Estate	**-2.55%**	4.21%	11.27%
Natural Resources	9.49%	4.08%	4.58%

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

DOW: 15,129	**10 Yr T-Note: 2.62%**
NASDAQ: 3771	**Inflation Rate: 1.5%** (8/2013)
S&P 500: 1681	**Unemployment Rate: 7.3%** (8/2013)
Barrel of Oil: $102.33	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 2013: 401(k), 403(b), 457(b) Plan Deferral Limit is $17,500. Catch-up Contribution limit is $5,500. Source: Principal Financial Group

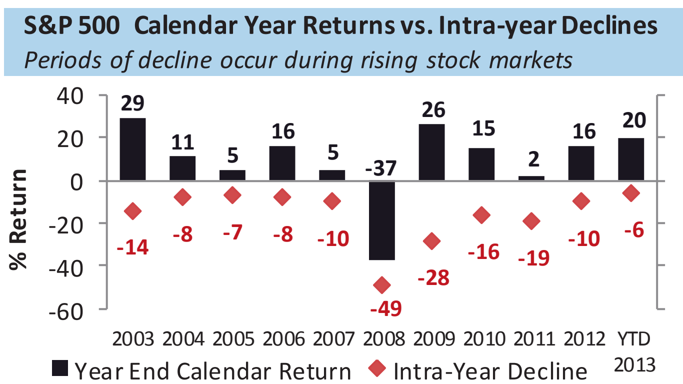
In Other Words

Investing Through the Noise

Angie Franzone
Newsletter Editor

Investment noise. It's loud and it's everywhere. It comes to us in the form of sensational headlines on magazine covers and websites, and through the TV with its 24-hour news cycles and abundance of financial news programs featuring talking heads decrying the end of the world every chance they get. The latest scare tactic appears to be using count-down clocks leading up to the government shutdown and clocks *after* the shutdown counting how many hours it has been shut down for. What good does something like that do besides fill time, scare people and make them second-guess their investment decisions based purely on emotion?

We talk about emotional investing a lot in this column and it goes hand-in-hand with investment noise. Both involve a big challenge for the average investor; resist the noise so that you do not have to manage your investments through impulse and emotion. The markets, after all, are not necessarily in sync with the news. As the below chart indicates, despite periods of decline throughout the year, annual returns are positive in 9 of the last 10 years. **In other words**, the market has its ups and downs; don't let yourself become overly excited and stressed when another crisis comes along.



Source: Morningstar, JPMorgan. Calendar return is total return, intra-year decline is the largest peak to trough market decline during the year, price change only. For illustrative purposes only. Cannot invest directly in an index. YTD 2013 through 9/30/13.

When specific issues drive the market, it's amazing how quickly things can recover. Near the end of 2012 the issues were the fiscal cliff and the presidential election. From 10/1-11/15 the S&P 500 was down 5.75%, but from 11/16 -12/31 it was up 5.70%. Then on May 22, 2013 Fed Chairman Ben Bernanke reported to Congress to begin "tapering" bond purchases in the future. This set the market tumbling down 5.58% through 6/24, but by August it had recovered it's losses and gained 2.81% (Morningstar). Past performance is not an indication of future results.

The latest set of issues driving the market have been the government shutdown and Syria and another showdown over the debt ceiling. While these issues have been temporarily resolved, Congress has yet to agree on a long-term debt ceiling plan so we may find ourselves facing more volatility in the stock market in the near future. The best thing to do in uncertain times such as these is to tune out the noise and feel secure in the knowledge that you have a diversified, balanced portfolio (60% stocks, 40% bonds for example), meant for long-term investing.

Award winning Harvard educator, bestselling author and speaker, Shawn Achor, classifies noise into four categories: **Unusable, Untimely, Hypothetical and Distracting.** The information you hear can be considered Unusable and Untimely if your actions will not be altered by it and if you're not going to use the information you hear in the near future. For example, obsessing over current events and how they might affect our portfolios in the short-term, is an unnecessary worry when it comes to our long-term investments.

Hypothetical noise is the most common type and can be heard on a daily, scratch that, hourly basis, because it is based on what someone thinks will happen. Do not let other people's economic predictions control your investment decisions. And finally, Distracting. Investment noise is anything that distracts you from your long-term investment goal. According to Achor, we listen for bad news three times harder than we listen for good news. That's pretty depressing! When the market goes down, perhaps try to think positively and not negatively and consider it a buying opportunity.

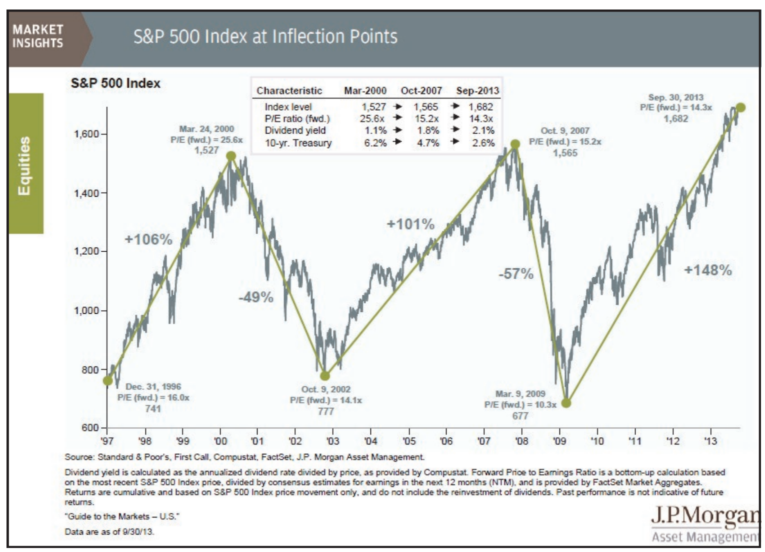
A successful investor is one that has a plan with a realistic goal that is implemented correctly and maintained. If you are unsure what your investment strategy should be in relation to your goals and risk tolerance, contact our office and talk with an advisor who can get you into a model portfolio that works for you. Once you have your assets in a diversified portfolio, maintain your chosen allocation by rebalancing (historically, May is a good time to rebalance).

Finally, be aware of the information you're hearing so you can determine whether it fits into any of the four categories of noise. Recognizing that what you're hearing is noise will help you to tune it out and stay the course. Unplugging for awhile, taking a walk or reading a book wouldn't hurt either.

60% Stocks/40% Bonds Allocation vs. Indices Ending 9/30/13

15 Yr	10 Yr	5 Yr	3 Yr	1 Yr		Index Definition
Mid Cap 11.21%	Nat. Res. 12.55%	Sm. Growth 13.17%	Sm. Growth 19.96%	Sm. Growth 33.07%		Small Growth: Russell 2000 Growth TR
Real Est. 10.40%	Mid Cap 10.84%	Mid Cap 13.08%	Sm. Blend 18.29%	Sm. Blend 30.06%		Small Blend: Russell 2000 TR
Sm. Value 9.80%	Sm. Growth 9.85%	Lg. Growth 11.58%	Mid Cap 17.45%	Mid Cap 27.68%		Mid Cap Blend: S&P MidCap 400 TR
Nat. Res. 9.46%	Sm. Blend 9.64%	Sm. Blend 11.15%	Lg. Growth 16.73%	Sm. Value 27.04%		Small Value: Russell 2000 Value TR
Sm. Blend 8.91%	Real Est. 9.29%	Lg. Blend 10.02%	Sm. Value 16.57%	Intl. 23.77%		International: MSCI EAFE NR
60/40 8.13%	Sm. Value 9.29%	60/40 9.41%	Lg. Blend 16.27%	Lg. Value 22.15%		Large Value: S&P 500 Value TR
Sm. Growth 7.43%	60/40 8.53%	Sm. Value 9.13%	Lg. Value 15.86%	Lg. Blend 19.43%		Large Blend: S&P 500 TR
Lg. Value 5.79%	Intl. 8.01%	Lg. Value 8.38%	Real Est. 12.09%	Lg. Growth 17.00%		Large Growth: S&P 500 Growth TR
Intl. 5.46%	Lg. Growth 7.57%	Intl. 6.35%	60/40 10.10%	60/40 11.34%		60/40: 60% Diversified Stocks/40% Bonds
Lg. Blend 5.33%	Lg. Blend 7.57%	Bonds 5.41%	Intl. 8.47%	Nat. Res. 7.25%		Natural Res: S&P North Am. Nat. Resources TR
Bonds 5.27%	Lg. Value 7.49%	Real Est. 5.30%	Nat. Res. 8.32%	Real Est. 4.70%		Real Estate: DJ US Select REIT Index TR
Lg. Growth 4.62%	Bonds 4.59%	Nat. Res. 4.85%	Bonds 2.86%	Bonds -1.68%		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.©2013 Spectrum Investment Advisors, Inc.



Invest In Your Health

Subway Sinks the Sodium

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

In the category of "What Took Them So Long?" the Subway sandwich chain has announced a reduction in the salt content of some of their products.

The Subway "Fresh Fit" six-inch sandwich will drop by 287 mg to 737 mg. Their average sandwich will drop from 1241 mg to "just" 1037 mg by using less salt in the bread and meats. Yes, that's still a lot of salt, especially when you consider that **the American Heart Association recommends you only take in a total 1500 mg of sodium for the entire day.** And yes, that still doesn't count all the extras like pickles, cheese, olives, and dressing; all of which can add a lot more sodium.

But, let's give credit where credit is due. Subway has more locations around the world than even McDonald's and this seems to reflect a trend by restaurants and food manufacturers to improve the nutritional quality of what they offer. Even though the food industry has got a long way to go, we've got to start somewhere.

About one-third of all adults in the US have a problem with high blood pressure. **By the time they're 65 years old, more than 60% of Americans have blood pressure that's too high.** Anything at or above 140/90 is considered actual high blood pressure, or by its official name, hypertension. A reading above 120/80 is designated as pre-hypertension. Your goal is less than 120/80.

"Your salary will be $75,000 per year plus a company car and stock options. Do you want fries with that?"

We no longer tolerate just a "little high blood pressure." Be sure you know what yours is. But surprisingly, getting rid of the salt shaker is NOT the best way to fix the problem. **Only about one-fourth of our salt intake comes from the salt shaker.** The rest comes from processed foods that we buy. Like at places like Subway. But they're not alone. The table to the right shows America's Top 10 Sodium Bombshells you need to watch out for when you go out to eat.

#10	Saltiest Bread: Dunkin' Donuts Salt Bagel	4,520 mg
#9	Saltiest Sandwich: Quiznos Turkey Bacon Guacamole Large Sub with Cheese and Reduced-Fat Ranch	4,670 mg
#8	Saltiest Pizza: Pizza Hut Meat Lover's Stuffed Crust Pizza (3 slices of the 14" large)	5,070 mg
#7	Saltiest Comfort Food: Denny's Meat Loaf Dinner (with Mashed Potatoes and Corn)	5,080 mg
#6	Saltiest Salad: Romano's Macaroni Grill Chicken Florentine	5,460 mg
#5	Saltiest Mexican Entrée: Chili's Buffalo Chicken Fajitas	5,690 mg
#4	Saltiest Kids Meal: Cosi Kid's Pepperoni Pizza	6,405 mg
#3	Saltiest Seafood Entrée: Romano's Macaroni Grill Grilled Teriyaki Salmon	6,590 mg
#2	Saltiest Appetizer: Papa John's Cheesesticks with Buffalo Sauce	6,700 mg
#1	The Saltiest Dish in America: Romano's Macaroni Grill Chicken Portobello	7,300 mg

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