SPECTRUM℠ INVESTMENT ADVISORS

3rd Quarter | 2014

Upcoming Events:

Spectrum Investor®
Coffee House
Educational Series
January, 2015
JPMorgan
Economic Update

THANK YOU
To all that attended our
9TH ANNUAL
RETIREMENT PLAN
INVESTMENT SEMINAR
On June 18, 2014
In Waukesha, WI
As well as our
SPECTRUM INVESTOR®
COFFEE HOUSE
EDUCATIONAL SERIES
In January, May & Sept.

For an electronic version of this newsletter, our ADV Part 2A and our Privacy Policy, please visit our website at www.spectruminvestor.com

Past performance is not an indication of future results

We appreciate your business.

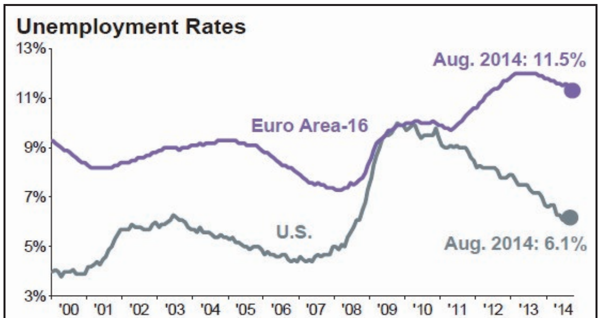
Quarterly Economic Update

James F. Marshall
President

Jonathan J. Marshall
Chief Investment Officer

The S&P 500 Index finished up 1.13% for the 3rd quarter, YTD up 8.34%, Dow - 17,042 (*Morningstar*, 9/30/14). The third quarter experienced the beginning of volatility in the market caused by events such as the Ebola Virus, the Umbrella Revolution in Hong Kong, Russia & the Ukraine, **Bill Gross** leaving PIMCO for Janus Funds and several cyber security scares. Years ago **Peter Lynch**, former veteran manager at Fidelity, called such news "noise". There is always something about the market that can scare the average investor. Rather than to follow the noise of the market, the average investor should **concentrate on the Fed and earnings**.

Last December, the Fed expected the unemployment rate to move below 6% before the end of 2015. Since then, the job market has improved faster than Fed Chairman, **Janet Yellen** had expected, with the unemployment rate now at 5.9% as of Sept. 2014. With the improving economy, the Fed's bond buying program ends in Oct.



Federal Reserve Summary of Economic Projections

Fed's September 2014 Forecasts*
Percent

	2014	2015	2016	2017	Long Run
Change in real GDP, Q4 to Q4	2.2	2.8	2.8	2.4	2.2
Unemployment Rate, Q4	6.0	5.5	5.3	5.1	5.4
PCE Inflation, Q4 to Q4	1.6	1.8	1.9	2.0	2.0
Federal Funds Rate, end of year	0.25	1.38	2.88	3.75	3.75

JPMorgan Guide to the Markets, 9/30/14

The Fed used the phrase '**considerable time**' to describe how long they will keep interest rates low, with anticipation that the first rate hike will take place late 2015. When the fed mentioned the phrase "considerable time" on Oct. 8, the market rose 275 points on that news, only to fall the next day by 335 points (*WSJ*, 10/9/14).

What could keep the Fed from raising rates too rapidly is weakness in Europe and Japan, due to demographics. **The Boston Consulting Group** (BCG) has published a study analyzing the impact of the slow rate in population growth of the world's 25 major economies. It concludes that labor shortages will become a big problem by 2030, depriving the global economy of $10 trillion in growth, equal to about 10% of today's GDP. The BCG study sees the problem affecting most of the world's major economies, specifically in Germany, Japan and Russia. The study notes that the US economy is projected to avoid a major demographic issue thanks to a growing population (helped by immigration) and better productivity growth than most (*Fidelity Monitor & Insight*, 9/14). With the above in mind, our investment models underweight international. In this market, we also suggest underweighting small cap stocks, which usually do better at the beginning of a bull market (the current bull market started on 3/9/09). In the later stages of a bull market, there's historically a flight to quality, where large cap stocks generally outperform.

According to **John Waggoner**, you cannot have a wage price spiral (like the inflationary late 70s) without a sharp increase in wages. Job growth has been increasing but is still too low for a wage spike. The Fed controls short-term rates currently between zero and 0.25%. Long-term rates are largely controlled by the bond market. Even as the Fed has tapered, rates have fallen. The benchmark 10-year Treasury note ended 2013 at 3.03%, as of 10/10/14 it has dropped to 2.31%. Russia's involvement in the Ukraine, fighting in the Middle East, and falling energy prices have kept long-term rates low (*USA Today*, 8/29/14).

According to **Burt White**, CIO of LPL Financial, "Bull markets have ended and bear markets have begun when the Fed pushes short-term rates above long-term rates. This is referred to as an **inverted yield curve**. For example, the S&P 500 Index peaked in 2000 and 2007 when the yield curve inverted, with the three-month T-bill yield about 0.5% above the yield on the 10-year T-note" (9/29/14). Almost every recession over the past 50 years was preceded by the Fed hiking rates to slow inflation enough to invert the yield curve. Based on the Fed's forecasts (see chart), an inverted yield curve may be about two years away.

In the past six years, the Fed has calmed the markets considerably with quantitative easing, each time the market faced peril. In the last two years, the market has realized very little volatility. With the recent volatility we want to guard participants from complacency and be sure their risk tolerance matches their asset allocation.

We can't predict, but we can prepare for a rise in volatility and also provide a flexible fixed income portfolio in the event rates continue to stay low or eventually rise. Keep in mind, interest rates are now at a 30 year plus low. The majority of our portfolios have a stable value option plus 3 types of bond choices and 2-3 lower risk moderate allocation choices. For most long-term investors, remain in a balanced portfolio of 60% stocks/40% bonds/stable value (cash). If you are closing in on retirement, with this being the sixth year of the bull market, you may want to consider a 50% stocks/50% bonds and cash allocation with annual auto-rebalancing. **For a weekly update on the markets, visit our website at spectruminvestor.com under Resources & Links, and click on Investment Resources.**

Wealth Management

Life Insurance Policy Awareness

Brian E. White, CFP®
Wealth Manager

As we enter the month of October, there are a few unique holiday/special days to look forward to. October 3rd is Virus Appreciation Day. The 11th is Take Your Teddy Bear to Work Day. The 31st is Halloween, but it's also Increase Your Psychic Powers Day. What did we miss in September? The entire month (among other things) is Life Insurance Awareness Month. While it's easy to write this off as a marketing gimmick sponsored by an insurance company, it's really a good reminder to review your current life insurance situation. After all, October 19th is Evaluate Your Life Day.

Who needs life insurance?
If you're married, have children or both, you're a good candidate for a life insurance policy. Should a tragedy occur among those married or with children, there's a good chance that income would need to be replaced. In a family situation where the husband and wife both work and support their children, a substantial drop in income leads to a substantial change in lifestyle (or a substantial loss in savings). Life insurance can help to fill the income gap.

A single individual with no children can make a good argument that life insurance is NOT for them. The same can be said for an empty-nest couple with significant personal and retirement savings. However, there still may be a benefit to life insurance. Think of a single individual with no children – maybe that individual is the primary caretaker for an elderly relative. If they die unexpectedly, what happens to the elderly relative? Are they able to afford that outside care? In the case of the empty-nest couple, maybe they provide childcare for grandchildren. If the childcare is no longer there, will the children be able to afford alternative child care services? These are all questions that should be explored when determining if life insurance is necessary.

How much do I need?
To answer this question you'll need to take away all emotion and assign yourself a value. Are you the primary income-producer in your family? If that income were to disappear, how much life insurance coverage do you need to replace that income? If you're a primary care-taker in your household, how much coverage is needed to replace your services?

There's no easy formula to determine a value for the amount of insurance coverage needed. Everyone has a unique situation when it comes to insurance. One place to start is www.lifehappens.org. This is a non-profit organization formed 20 years ago to raise public awareness about insurance issues. The website includes a calculator to determine an appropriate level of insurance coverage. Some of the factors taken into consideration are college education, paying off a mortgage, funeral costs and income needs. It takes less than five minutes and is a good exercise to see how close you are to matching your life insurance needs with your current coverage.

What types of life insurance are available?
At the most basic level, life insurance is available in either a permanent or term policy. Term life insurance is a policy where you pay a premium for a period of time. It is the most affordable type of insurance and gives you coverage for a specific length of time.
Permanent life insurance has a cash-value component and is meant to build up value over time, while still providing coverage. The insurance premiums you pay are higher than term policies because of the cash value associated with the policy. Permanent life insurance comes in many different variations, including whole, variable, universal and variable universal. Each individual policy varies among insurance companies and can be utilized for different purposes.

Which type of policy is best?
It completely depends on your situation. If you're a young, married parent of two small children trying to make ends meet, a term policy might be the best fit. If you're a 60 year-old involved in a complex business ownership position and need personal coverage, maybe a permanent insurance policy is best. Every other situation is unique and requires a unique solution. Sometimes the need for insurance can be solved through a workplace policy. Many businesses will offer a term policy for two times the employee's salary through a type of group insurance. This is a very attractive option since the premiums are often much lower than an individual can find on their own.

If you have any questions about life insurance, be sure to contact your life insurance professional about what makes the most sense for your personal situation. Should you have any questions about policies, coverage or need help finding a professional, call Spectrum. We would gladly point you in the right direction. Meanwhile, enjoy the most random of holidays, Count Your Buttons Day on October 21st.

Spectrum Investor® Update 9/30/14

Morningstar Category Averages	3rd Qtr	1 Year	3 Year
Intermediate-Term Bond	-0.09%	4.34%	**3.41%**
Moderate Allocation	-1.28%	9.80%	13.26%
Large Cap Value	-0.55%	16.35%	21.41%
Large Cap Blend	-0.08%	**16.84%**	21.59%
Large Cap Growth	**0.68%**	16.24%	21.28%
Mid Cap Value	-3.42%	13.56%	**22.86%**
Mid Cap Blend	-3.30%	12.20%	21.86%
Mid Cap Growth	-2.29%	10.05%	20.14%
Small Cap Value	-7.14%	6.31%	20.98%
Small Cap Blend	-6.75%	5.66%	20.91%
Small Cap Growth	-5.80%	**2.78%**	20.06%
Foreign Large Blend	-5.62%	3.75%	13.05%
Real Estate	-3.01%	12.64%	15.77%
Natural Resources	**-9.38%**	4.95%	8.74%

Source: Morningstar, 3 yr return is annualized. Morningstar classifies categories by underlying holdings and then calculates the average performance of the category. Past performance is not an indication of future results. Returns in **Blue** = Best, Returns in **Red** = Worst

DOW: 17,042	**10 Yr T-Note: 2.51%**
NASDAQ: 4493	**Inflation Rate: 1.7%** (8/2014)
S&P 500: 1972	**Unemployment Rate: 5.9%** (9/2014)
Barrel of Oil: $91.16	Source: Morningstar, bls.gov, eia.gov

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

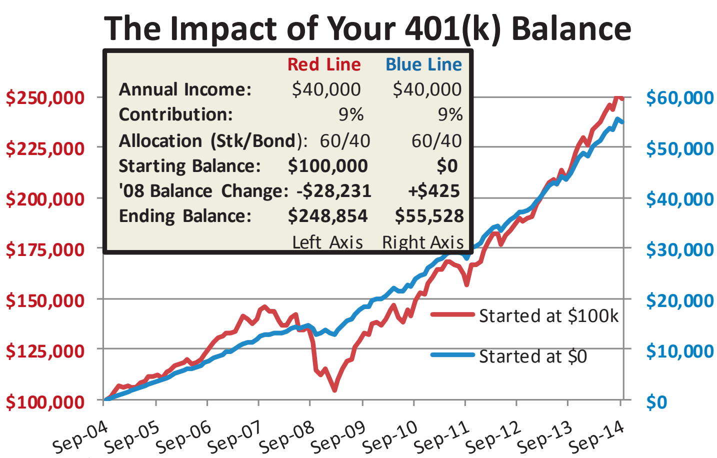
In Other Words

Size Matters and Age Is More Than Just A Number

Angie Franzone
Newsletter Editor

You may have read the title of this column and thought, “Wow, she’s really diverging from investments this quarter!” Stick with me on this one. Size does matter and age really is more than just a number...when it comes to investing in your retirement plan, that is.

The asset allocation that works best for you depends largely on your time horizon (how long you will be investing for until you reach a certain goal) and your risk tolerance. Your risk tolerance is your willingness to lose some or all of your original investment in exchange for potentially greater returns. A younger investor just starting out, who has a longer time horizon and smaller account balance, should not be afraid to be more aggressive. If a younger investor is contributing in his or her retirement plan, market corrections will have less of an impact on his or her account balance because there’s less money to lose and the contributions help offset the losses, as can be seen in the below chart. Two investors with the same stock to bond allocation and contribution percentage, but with very different balance sizes, can have much different experiences during market fluctuations.



60/40 Allocation: 60% S&P 500 TR, 40% Barclays US Agg Bond TR.
Cannot invest directly in an index. Source Morningstar.
Past Performance not an indication of future results.

Not only does your plan balance size have to be taken into account when choosing your investment mix, but your age as well. For older investors with larger balances and shorter time horizons, a more aggressive allocation can have a greater impact on your account balance. It is for this reason that an aggressive allocation when you’re younger, 80% stocks/20% bonds for example, is not necessarily an appropriate choice as you get older. **Risk profiles change over time as balances grow and investors get closer to retirement.**

At our latest Spectrum Investor® Coffee House Educational Series seminar this past September, former Navy SEAL John Choate presented the following quote by Irish playwright George Bernard Shaw: “The single biggest problem in communication is the illusion that it has taken place.” Not only is this a great quote to think about in your personal and work relationships, but it can be directly applied to investing in your retirement plan. If the only time you sat down with an advisor to discuss your asset allocation was when you first entered the plan and several years have gone by, you are doing yourself and your retirement plan, a disservice.

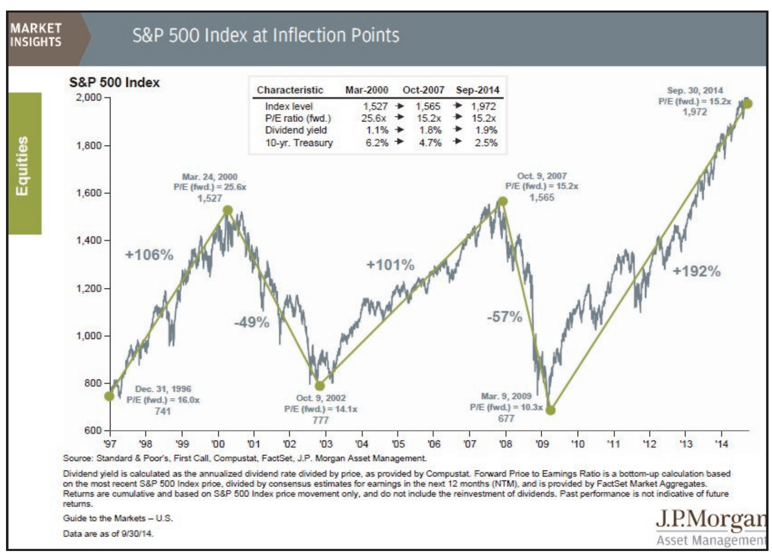
For example, if you communicated your risk tolerance seven years ago, right before the recession, and haven’t spoken to an advisor since, you are now seven years closer to retirement and may have doubled your account balance. Are you in the same position to weather another market correction as you were in 2007? The answer is likely, no. Not only do you have the potential to lose more money because your account balance is bigger, but you have less time to make it up. In other words, size, at least in relation to your retirement account balance, matters. If you’re not rebalancing annually or checking in with an advisor to reassess your risk tolerance, then that initial communication loses some of its worth. In order for communication to be effective, it has to be ongoing.

At Spectrum we suggest rebalancing on an annual basis. Historically, late April and early May are good times to rebalance your portfolio, but if you did not rebalance then, don’t fret. Contact our office and an advisor will be glad to help you determine if you need to rebalance and if your risk profile still works for you. Communicate!

60% Stocks/40% Bonds Allocation vs. Indices Ending 9/30/14

15 Yr	10 Yr	5 Yr	3 Yr	1 Yr	Index Definition
Real Est. 11.70%	Mid Cap 10.29%	Lg. Growth 16.64%	Lg. Value 23.46%	Lg. Growth 21.55%	Large Growth: S&P 500 Growth TR
Mid Cap 10.36%	Nat. Res. 9.79%	Mid Cap 16.37%	Lg. Blend 22.99%	Lg. Blend 19.73%	Large Blend: S&P 500 TR
Sm. Value 9.68%	Sm. Growth 9.03%	Real Est. 15.77%	Lg. Growth 22.62%	Lg. Value 17.77%	Large Value: S&P 500 Value TR
Nat. Res. 8.69%	Lg. Growth 8.90%	Lg. Blend 15.70%	Mid Cap 22.43%	Real Est. 13.44%	Real Estate: DJ US Select REIT Index TR
60/40 7.95%	Real Est. 8.21%	Sm. Growth 15.51%	Sm. Growth 21.91%	Mid Cap 11.82%	Mid Cap Blend: S&P MidCap 400 TR
Sm. Blend 7.93%	Sm. Blend 8.19%	Lg. Value 14.73%	Sm. Blend 21.26%	Nat. Res. 10.27%	Natural Res: S&P North Am. Nat. Resources TR
Sm. Growth 5.69%	Lg. Blend 8.11%	Sm. Blend 14.29%	Sm. Value 20.61%	60/40 8.99%	60/40: 60% Diversified Stocks/40% Bonds
Lg. Value 5.58%	60/40 7.96%	Sm. Value 13.02%	Real Est. 16.19%	Intl. 4.25%	International: MSCI EAFE NR
Bonds 5.57%	Sm. Value 7.25%	60/40 10.32%	Intl. 13.65%	Sm. Value 4.13%	Small Value: Russell 2000 Value TR
Lg. Blend 4.87%	Lg. Value 7.25%	Nat. Res. 8.82%	Nat. Res. 12.53%	Bonds 3.96%	Int.-Term Bonds: Bar-Cap Aggregate Bond
Lg. Growth 3.97%	Intl. 6.32%	Intl. 6.56%	60/40 12.47%	Sm. Blend 3.93%	Small Blend: Russell 2000 TR
Intl. 3.87%	Bonds 4.62%	Bonds 4.12%	Bonds 2.43%	Sm. Growth 3.79%	Small Growth: Russell 2000 Growth TR

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

The Holidays Can Be Confusing

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

Yes, you know you're trying to watch your weight. Maybe your doctor told you your cholesterol's a little too high. But the holidays are approaching for Pete's sake! How are you supposed to navigate that minefield of tasty temptations people push on you over the next several weeks? Well, if you're the cook in the family, or you know the cook in the family, here's seven quick tips to help make those holiday treats delicious, but just a little more nutritious.

1. **In fruit pies you can cut the sugar called for by half.** You save 744 calories for every cup of sugar you don't use in the recipe. This way you may actually be able to taste the natural sweetness of the fruit.

"The shepherds and wise men saw a very bright light in the sky. That was Rudolph's nose!"

2. **In cookies and crusts use half whole wheat pastry flour and half all-purpose flour** instead of just using all-purpose flour. You and your guests probably won't taste the difference, but it's a delicious way to increase the fiber.

3. **In brownies and fruit breads use puréed pumpkin, or canned pumpkin, instead of oil.** You'll save more than 900 calories and 100 grams of fat for every half cup of oil you substitute with the pumpkin instead. The pumpkin also helps keep the baked goods moist as well.

4. **In chocolate cake and fudge use three tablespoons of cocoa powder for every ounce of baking chocolate** called for. You'll save 85 calories and 13 grams of fat. The good news you've heard about chocolate and your health really applies to cocoa powder, not chocolate candy.

5. **In puddings and pudding pie fillings, use 2% milk instead of heavy cream** and you'll save 700 calories per cup and still have a nice creamy consistency.

6. **In recipes that call for cream cheese, you can use part skim ricotta cheese instead.** You'll double the amount of protein per serving and cut the fat by about 60 grams for each cup you use.

7. Finally, if you're not yet familiar with the new all-natural sweetener called "**stevia**" you can find it in the sugar section of your grocery store under the brand names of "Truvia" or "PureVia." For baking and cooking purposes, you can use "Stevia Extract In The Raw Baker's Bag", which measures cup for cup just like sugar. For some great recipes using stevia go to **www.SteviaInTheRaw.com.**

Happy Holidays. See you next year. David

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**.

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