As of 6/30/2018

Q3 2018

Spectrum Investor®
Quarterly Newsletter

SPECTRUM INVESTMENT ADVISORS

IN THIS ISSUE

UPCOMING EVENTS

Retirement Plan Investment Seminar

October 23, 2018

Co-Sponsored with the WICPA

New Northern Location!

Radisson Hotel & Conference Center
Green Bay, WI

IN THE NEWS

Spectrum was selected as a

2018 Fastest Growing Firms award winner

by the *Milwaukee Business Journal*

Please see important disclosures on page 5 of this newsletter

WEEKLY MARKET UPDATES

Visit our website at ***www.spectruminvestor.com*** *under Resources & Links and click on Investment Resources*

Our ADV Part 2A & 2B and our Privacy Policy can be found on our website

Economic Update

James F. Marshall
President

Jonathan J. Marshall
Chief Investment Officer

The Dow Jones Industrial Average eked out a meager gain of 1.26% in the second quarter 2018. For the year, the S&P 500 is up 2.65% while the tech-heavy NASDAQ has continued to outperform, up 9.37% as of 6/30/18 (Morningstar).

There is a lot of good news to share on the US economy. In our home state of Wisconsin, unemployment hit an all time low of 2.8% in April, while national unemployment is near an 18-year low of 4%. The US economy grew by 4.1% (GDP) in the second quarter, the fastest growth since 2014. S&P 500 corporate earnings in the second quarter are up over 20% compared to last year.

However, the momentum in stock prices has been cooled by rising interest rates and geopolitical risks, primarily around global trade. **President Donald Trump** is simultaneously taking on NAFTA, the EU, and China to improve what many believe are outdated and unfair trade agreements for the US.

The consensus remains that trade deals will be struck without severe wide-spread economic damage. So far, trade tensions have been described as something like professional wrestling, "A spectacle that's more bluster than real action, but still an inherently risky activity where people can get hurt" (PIMCO Secular Outlook, 5/18).

In the US, the overall stock market has held up, but certain areas have not. Soybean prices hit a 10-year low after the US Department of Agriculture projected an 11% decline in US soybean exports due to Chinese tariffs on US soybeans. According to **Mark Skousen**, author of the *Forecasts and Strategies* newsletter, the new steel and aluminum tariffs will create 30,000 new jobs in the United States, but it will cause a simultaneous loss of 400,000 jobs for US companies that import steel and aluminum *(Forecasts & Strategies*, 6/18). More than half of the 30 Dow components earn 50% or more of their revenue from outside the United States, according to FactSet.

History Of Tariffs In Our Country

Tariffs and the threat of tariff wars date back to **Alexander Hamilton**, the principal advocate of import restrictions. Congress adopted a 15% tariff - our nation's first - in 1789, with the goal of raising revenue. In 1816 Congress adopted a 25%-30% tariff on most textiles, which was later scaled back to 20%.

Nearly every industrial tariff in the history of our country was first imposed under the promise that in a few years it would be removed, but historically such measures rarely happened. The adverse effect of tariffs in America were offset by the economic expansion created by 20 million immigrants who moved to the US in the 19th Century (freetrade.org 2/4/18). Following the Civil War, tariffs were liberalized but not eliminated. They were lowered again by President Woodrow Wilson in the 1913 Underwood Act. The Fordney-McCumber Tariff of 1922 increased tariffs again.

Following the passage of the infamous **Smoot-Hawley Tariff Act in June 1930** during the **Herbert Hoover** administration, the US raised tariffs an average of 59% on more than 25,000 imports, doubling the tariffs of the 1913 Underwood Act. Our trading partners retaliated. Spain increased tariffs by 150% on American autos, Britain passed the Import Duties Act of 1932, its first major tariff regulation in 100 years. World trade collapsed after the Smoot-Hawley Tariff Act, and although it was not the only cause of the Great Depression, the tariffs contributed greatly to the struggling financial situation. The stock market crashed on October 25, 1929 on news that the Smoot-Hawley Tariff Act would become law in the next session of Congress. The Dow fell from 381 in September 1929 to 41 in July 1932, a decrease of 89%. US imports and exports both dropped to the 1905 level. By 1934, global trade had decreased by more than 60%. Economic protectionism rose, which partially led to World War II. The Smoot-Hawley Tariff Act went into effect in June of 1930 and stayed in place for four years before finally being repealed in 1934 after **President Franklin D. Roosevelt** was elected on a platform that included scaling back tariffs (*Washington Post, 7/9/18*). In 1934, President Roosevelt signed the Reciprocal Trade Agreements Act, which gave a US president the authority to raise or lower tariffs and the power to negotiate bilateral trade agreements without Congressional approval (Roosevelt Institute).

The long-term memory of the Smoot-Hawley Tariff Act kept Americans committed to a free trade policy for more than 60 years, with the belief that trade wars must be avoided at all costs. The policy was spearheaded by the General Agreement on Tariffs and Trade that reduced global tariffs in the decade following World War II during the Truman administration.

Seventy years later the **George W. Bush** administration imposed tariffs that harmed stocks. The post September 11, 2001 stock market peak occurred on March 19, 2002 when the Dow hit 10,635. Steel tariffs took effect the next day, and lumber tariffs and crop subsidies were implemented in May of that year. During the implementation of President Bush's tariffs, the S&P 500 lost more than $2 trillion in market capitalization. In 2003, the Bush administration reduced tariffs and

Quarterly Economic Update Continued

stocks increased. Ultimately, the president's advisors understood the wisdom of the adage that "my prosperity is dependent on the prosperity of my neighbor." According to **David Breuhan**, Vice President and Portfolio Manager with the investment firm Schwartz & Co., the issue isn't the impact of tariffs on GDP, it is the impact on corporate earnings, which support the price of stocks. The US can't control the actions of other nations (*Barrons*, 7/9/18).

Current Trade Dispute. The two main components of a trade war are tit-for-tat tariffs or other restrictions on trade, and unwillingness to negotiate (**John Boyd**, *Fidelity Monitor & Insight*, 7/18). The whole point of the recent tariff imposed by President Trump is to bring about serious negotiations with our trading partners, particularly with China. Those measures are aiming at fighting what the administration claims is China's theft of US intellectual property and its insistence that companies divulge valuable technology to enter Chinese markets. An all out trade war would most likely lead to a recession and bear market for stocks. However, those concerns may be premature. We are not in a trade war yet. Many people hope that President Donald Trump's tariffs and trade talk are simply a negotiating ploy consistent with his book, *Art of the Deal*.

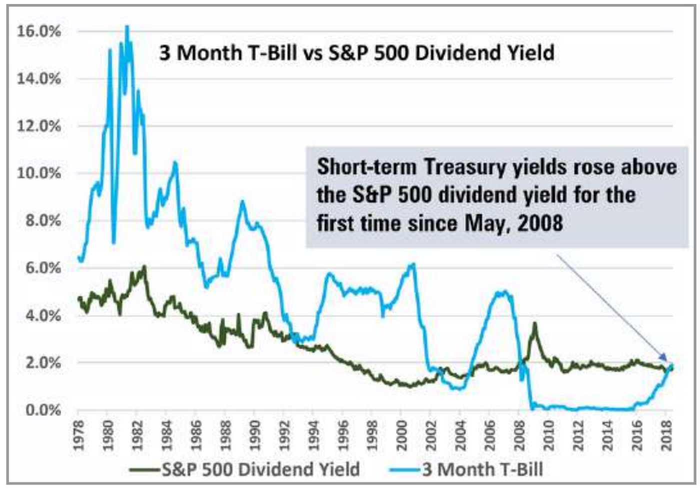
Two factors in our favor: one is that we are far less dependent on exports than other countries, which amounts to 12% for goods and services in the US, 27% in the euro-area and 21% in China. This means tariffs will inflict more pain on Europe and China than on us. China exported about $500 billion of goods to the US in 2017, while we exported only $130 billion to China. China has more to lose. The second factor is the strength of the US economy relative to the rest of the world. China's stock market is already in a bear market, down more than 20% through July 4 from its January highs. The euro-zone appears to be slowing, while the US second-quarter GDP is expected to increase from 2% in the first quarter to over 4% in the second quarter 2018, according to the Atlanta Fed forecast.

The uncertainty surrounding trade could cause businesses to delay spending on plants and equipment, creating an even more volatile market. Many US manufacturers use foreign-made materials to make their products. As material costs rise due to tariffs, it makes production costs more expensive. This increase may be difficult to pass onto consumers and manufacturing companies may need to absorb a portion of the additional costs, resulting in a potential decline in profits.

According to *Bloomberg*, **"Trade wars tend to create a strong stagflationary impulse, disrupting growth and increasing costs and prices"** (7/16/18). US financial markets have largely shrugged off fears of a trade war because the amount of goods covered by higher tariffs is small. Economists estimate that the tariffs imposed so far would knock more than a tenth of a percentage point off the growth rate. "I think the market is right in thinking that the most likely outcome is that free trade survives, but with tweaks," says **Mohamed El-Erian**, Chief Economic Adviser at Allianz.

According to **Dr. David Kelly**, Chief Global Strategist for J.P.Morgan, one temporary benefit of the tariff talks is the reintroduction of uncertainty to cool investor sentiment. Following the tax cuts, investors had few reasons not to love US stocks, pushing valuations to 16 year highs.

The Federal Reserve is also working to prevent the economy from over heating by continuing to raise short-term interest rates. In June, the Fed raised rates for the 7th time since December, 2015. With the latest hike, the yield on the three month T-Bill now exceeds the dividend yield of the S&P 500 for the first time since May, 2008 prior to the financial crisis.



**Source: Morningstar, Federal Reserve Bank of St. Louis. 3-Month T-Bill is an annualized rate. S&P 500 Dividend Yield represents the return provided by dividends only and does not indicate the potential for total return.*

While this is a major milestone, the chart above shows that it is more of a yellow flag than a red flag for stocks. From a historical perspective, rates are just now reaching what would have been considered the most accommodative Fed policy in past downturns, such as the early 2000s. The Fed is projecting four more rate increases in the next 12 months, gradually removing accommodation toward a "neutral" rate policy.

Dr. Kelly says the US unemployment rate could reach close to 3%, the lowest since the 1950s. Dr. Kelly sees the US running out of workers because of close to full employment and the slow down of new visas and immigration. The shortage of workers is likely to contribute to a slowdown in GDP growth in late 2019, especially as the effects of the tax cuts begin to fade.

Gabriella Santos, Global Market Strategist from J.P. Morgan, stated that a current stronger dollar would subside as the economy slows, making international and emerging markets more attractive again in the future. Santos suggests holding your international position. She stated that Emerging Markets refers not to emerging businesses, but to emerging consumers and the incentives young consumers have to join the middle class throughout the world. Gabriella forecasts, with the projected slowdown in our economy by the end of this decade, that we are likely headed for a multi-year declining dollar, which should be good for international investing.

Bruce Johnstone, a longtime market strategist who has worked for Fidelity Investments for 52 years, spoke for the fifth time at our June 20, 2018 Spectrum/WICPA Retirement Plan Investment Seminar. Bruce was far more cautious about the future of the global markets this year than he was two years ago when he said to buy as much real estate as you can with cheap money. Overall, Bruce's cautious message this year was similar to Dr. Kelly's message.

For the rest of 2018, the outlook for the economy looks strong and valuations remain reasonable. However, with bonds and cash now providing a low-risk real return alternative, we suggest reevaluating your overall allocation, especially if you are within 15 years of retirement and your asset allocation is greater than 60% in stocks.

The good news at Spectrum is that we have begun construction of a second floor addition for future growth, and that Jon Marshall had the good fortune of marrying Laura Needler, a nurse practitioner at Froedtert-Milwaukee, on June 16.

Spectrum Investor® Historical Analysis: The chart below indicates that for the past four years, small cap growth (yellow) and large cap growth (red) are leading investment styles. However, as the left side of the chart shows, large cap growth led for six years, and the following seven years, it dropped to the bottom. The market is getting late in the cycle, especially for growth stocks, as the valuations climb higher.

Spectrum Investor® Historical Analysis

25 ANNUAL RETURNS for key indices (1994-June 30, 2018) ranked in order of performance (Best to Worst)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
BEST	International 7.78%	Large Cap Growth 38.13%	Real Estate 37.05%	Large Cap Growth 36.53%	Large Cap Growth 42.16%	Small Cap Growth 43.09%	Real Estate 31.04%	Small Cap Value 14.02%	Int.-Term Bonds 10.25%	Small Cap Growth 48.54%	Real Estate 33.16%	Natural Resources 36.61%	Real Estate 35.97%
	Large Cap Growth 3.13%	Large Cap Blend 37.58%	Large Cap Growth 23.97%	Large Cap Blend 33.36%	Large Cap Blend 28.58%	Large Cap Growth 28.25%	Small Cap Value 22.83%	Real Estate 12.35%	Real Estate 3.58%	Small Cap Blend 47.25%	Natural Resources 24.59%	Real Estate 13.82%	International 26.34%
	Real Estate 2.66%	Large Cap Value 36.99%	Large Cap Blend 22.96%	Mid Cap Blend 32.25%	International 20.00%	Natural Resources 27.23%	Mid Cap Blend 17.51%	Int.-Term Bonds 8.44%	Small Cap Value -11.43%	Small Cap Value 46.03%	Small Cap Value 22.25%	International 13.54%	Small Cap Value 23.48%
	Large Cap Blend 1.32%	Small Cap Growth 31.04%	Large Cap Value 22.00%	Small Cap Value 31.78%	Mid Cap Blend 19.12%	International 26.97%	Natural Resources 15.79%	Small Cap Blend 2.49%	Natural Resources -12.99%	International 38.59%	International 20.25%	Mid Cap Blend 12.56%	Large Cap Value 20.80%
	Large Cap Value -0.64%	Mid Cap Blend 30.93%	Small Cap Value 21.37%	Large Cap Value 29.98%	Large Cap Value 14.67%	Small Cap Blend 21.26%	Int.-Term Bonds 11.63%	Mid Cap Blend -0.61%	Mid Cap Blend -14.53%	Real Estate 36.18%	Small Cap Blend 18.33%	Large Cap Value 6.33%	Small Cap Blend 18.37%
	Small Cap Value -1.54%	Small Cap Blend 28.45%	Mid Cap Blend 19.25%	Small Cap Blend 22.36%	Int.-Term Bonds 8.69%	Large Cap Blend 21.04%	Large Cap Value 6.08%	Small Cap Growth -9.23%	International -15.94%	Mid Cap Blend 35.62%	Mid Cap Blend 16.48%	Large Cap Blend 4.91%	Natural Resources 16.85%
	Small Cap Blend -1.82%	Small Cap Value 25.75%	Small Cap Blend 16.49%	Real Estate 19.66%	Small Cap Growth 1.23%	Mid Cap Blend 14.72%	Small Cap Blend -3.02%	Large Cap Value -11.71%	Small Cap Blend -20.48%	Natural Resources 34.40%	Large Cap Value 15.71%	Small Cap Value 4.71%	Large Cap Blend 15.79%
	Small Cap Growth -2.43%	Int.-Term Bonds 18.47%	Small Cap Growth 11.26%	Natural Resources 16.94%	Small Cap Blend -2.55%	Large Cap Value 12.72%	Large Cap Blend -9.10%	Large Cap Blend -11.89%	Large Cap Value -20.85%	Large Cap Value 31.79%	Small Cap Growth 14.31%	Small Cap Blend 4.55%	Small Cap Growth 13.35%
	Int.-Term Bonds -2.92%	Real Estate 12.24%	International 6.05%	Small Cap Growth 12.95%	Small Cap Value -6.45%	Int.-Term Bonds -0.82%	International -14.17%	Large Cap Growth -12.73%	Large Cap Blend -22.10%	Large Cap Blend 28.68%	Large Cap Blend 10.88%	Small Cap Growth 4.15%	Large Cap Growth 11.01%
WORST	Mid Cap Blend -3.56%	International 11.21%	Int.-Term Bonds 3.63%	Int.-Term Bonds 9.65%	Natural Resources -14.19%	Small Cap Value -1.49%	Large Cap Growth -22.08%	Natural Resources -15.59%	Large Cap Growth -23.59%	Large Cap Growth 25.66%	Large Cap Growth 6.13%	Large Cap Growth 3.46%	Mid Cap Blend 10.32%
				International 1.78%	Real Estate -17.01%	Real Estate -2.58%	Small Cap Growth -22.43%	International -21.44%	Small Cap Growth -30.26%	Int.-Term Bonds 4.10%	Int.-Term Bonds 4.34%	Int.-Term Bonds 2.43%	Int.-Term Bonds 4.33%

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	6.30.18
BEST	Natural Resources 34.44%	Int.-Term Bonds 5.24%	Natural Resources 37.54%	Small Cap Growth 29.03%	Real Estate 9.37%	Small Cap Value 18.05%	Small Cap Growth 43.30%	Real Estate 32.00%	Large Cap Growth 5.52%	Small Cap Value 31.74%	Large Cap Growth 27.44%	Small Cap Growth 9.70%
	International 11.17%	Small Cap Value -28.92%	Mid Cap Blend 37.38%	Real Estate 28.07%	Int.-Term Bonds 7.84%	Mid Cap Blend 17.88%	Small Cap Blend 38.82%	Large Cap Growth 14.89%	Real Estate 4.48%	Natural Resources 30.87%	International 25.03%	Small Cap Blend 7.66%
	Large Cap Growth 9.13%	Small Cap Blend -33.79%	Small Cap Growth 34.47%	Small Cap Blend 26.85%	Large Cap Growth 4.65%	Large Cap Value 17.68%	Small Cap Value 34.52%	Large Cap Blend 13.69%	Large Cap Blend 1.38%	Small Cap Blend 21.31%	Small Cap Growth 22.47%	Large Cap Growth 7.28%
	Mid Cap Blend 7.98%	Large Cap Growth -34.92%	International 31.78%	Mid Cap Blend 26.64%	Large Cap Blend 2.11%	International 17.32%	Mid Cap Blend 33.50%	Large Cap Value 12.36%	Int.-Term Bonds 0.55%	Mid Cap Blend 20.74%	Large Cap Blend 21.83%	Small Cap Value 5.44%
	Small Cap Growth 7.05%	Mid Cap Blend -36.23%	Large Cap Growth 31.57%	Small Cap Value 24.50%	Large Cap Value -0.48%	Real Estate 17.12%	Large Cap Growth 32.75%	Mid Cap Blend 9.77%	International -0.81%	Large Cap Value 17.40%	Mid Cap Blend 16.24%	Natural Resources 5.29%
	Int.-Term Bonds 6.97%	Large Cap Blend -37.00%	Real Estate 28.46%	Natural Resources 23.88%	Mid Cap Blend -1.73%	Small Cap Blend 16.35%	Large Cap Blend 32.39%	Int.-Term Bonds 5.97%	Small Cap Growth -1.38%	Large Cap Blend 11.96%	Large Cap Value 15.36%	Mid Cap Blend 3.49%
	Large Cap Blend 5.49%	Small Cap Growth -38.54%	Small Cap Blend 27.17%	Large Cap Value 15.10%	Small Cap Growth -2.91%	Large Cap Blend 16.00%	Large Cap Value 31.99%	Small Cap Growth 5.60%	Mid Cap Blend -2.18%	Small Cap Growth 11.32%	Small Cap Blend 14.65%	Large Cap Blend 2.65%
	Large Cap Value 1.99%	Real Estate -39.20%	Large Cap Blend 26.46%	Large Cap Blend 15.06%	Small Cap Blend -4.18%	Large Cap Growth 14.61%	International 22.78%	Small Cap Blend 4.89%	Large Cap Value -3.13%	Large Cap Growth 6.89%	Small Cap Value 7.84%	Real Estate 1.82%
	Small Cap Blend -1.57%	Large Cap Value -39.22%	Large Cap Value 21.18%	Large Cap Growth 15.05%	Small Cap Value -5.50%	Small Cap Growth 14.59%	Natural Resources 16.49%	Small Cap Value 4.22%	Small Cap Blend -4.41%	Real Estate 6.68%	Real Estate 3.76%	Int.-Term Bonds -1.62%
WORST	Small Cap Value -9.78%	Natural Resources -42.55%	Small Cap Value 20.58%	International 7.75%	Natural Resources -7.35%	Int.-Term Bonds 4.21%	Real Estate 1.22%	International -4.90%	Small Cap Value -7.47%	Int.-Term Bonds 2.65%	Int.-Term Bonds 3.54%	Large Cap Value -2.22%
	Real Estate -17.56%	International -43.38%	Int.-Term Bonds 5.93%	Int.-Term Bonds 6.54%	International -12.14%	Natural Resources 2.20%	Int.-Term Bonds -2.02%	Natural Resources -9.77%	Natural Resources -24.28%	International 1.00%	Natural Resources 1.23%	International -2.75%

U.S. Dollar Index Annual Percent Change

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	6.30.18
USD	-1.6%	-5.7%	4.6%	7.7%	4.8%	-1.4%	4.9%	6.0%	-1.6%	-12.3%	-8.2%	-1.9%	-1.5%	-5.6%	-4.5%	4.3%	-2.9%	-6.0%	3.8%	3.2%	3.2%	16.1%	0.6%	-0.5%	3.5%

Negative % Change: Dollar weakening vs Major Currencies (Red); Positive % Change: Dollar strengthening vs Major Currencies (Green).

Source: Federal Reserve Bank of St. Louis Economic Research. Major currencies index includes the Euro Area, Canada, Japan, United Kingdom, Switzerland, Australia, and Sweden

Investment Style	Intermediate-Term Bonds	Large Cap Value	Large Cap Blend	Large Cap Growth	Mid Cap Blend	Small Cap Value	Small Cap Blend	Small Cap Growth	International	Real Estate	Natural Resources
Representative Index	Barclays US Agg Bond Index	S&P 500 Value Index	S&P 500 Index	S&P 500 Growth Index	S&P MidCap 400 Index	Russell 2000 Value Index	Russell 2000 Index	Russell 2000 Growth Index	MSCI EAFE NR Index	DJ US Select REIT Index	S&P North American Natural Resources
Correlation to S&P*	0.04	0.98	-	0.98	0.95	0.89	0.91	0.90	0.89	0.74	0.74

Past Performance is not necessarily an indication of future results. You cannot invest directly in an index. Source Fidelity Investments/Morningstar

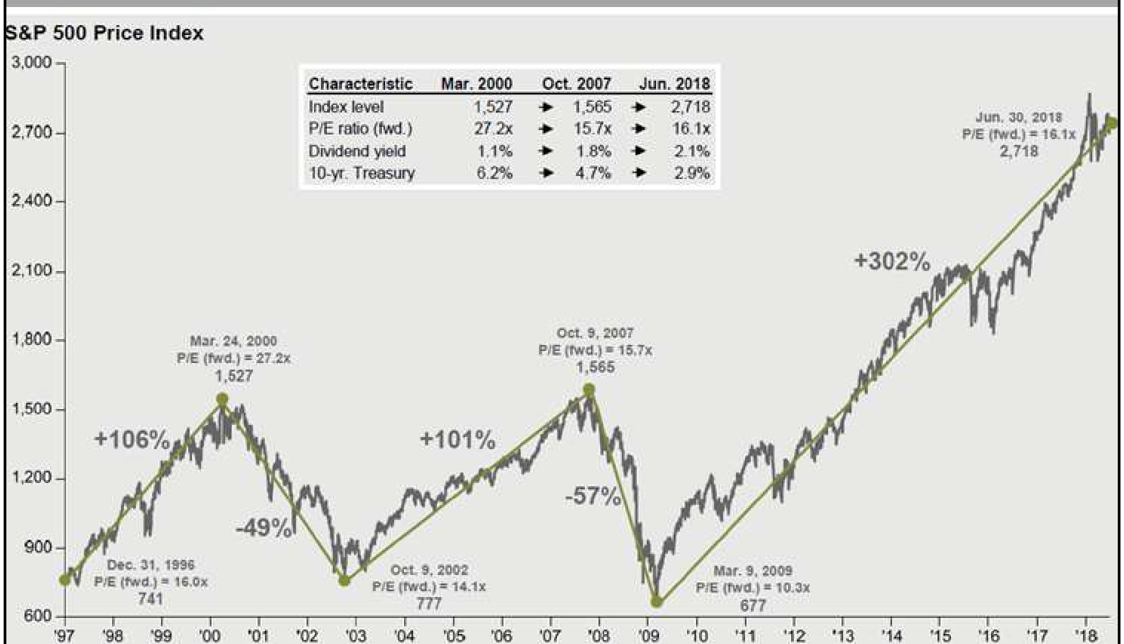
*Correlation is based on the past 120 monthly returns from 1-1-08 to 12-31-17 and provides a measurement of diversification by indicating whether or not two different investments have moved in the same direction in the past.

A correlation of 1.0 means the returns move in the same direction. A correlation of -1.0 indicates the returns move in opposite directions. A correlation of 0.0 suggests that the investment returns of two different investments are completely independent of one another.

The returns on this page represent returns of indices and do not represent the results of any model or actual performance results derived from SIA, Inc. services.

SIA, Inc. does not manage models or actual accounts, except for those clients who have elected to use SIA, Inc.'s management by entering into a separate service agreement with the firm.

S&P 500 Index at inflection points



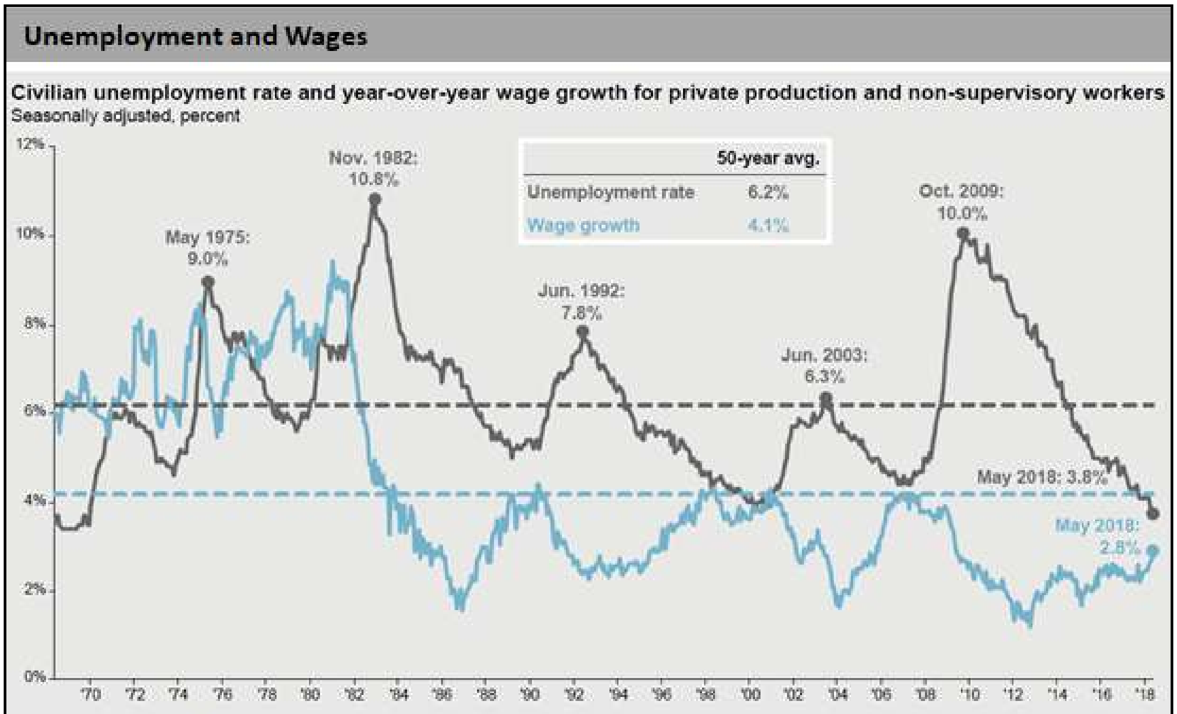
Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, Thomas Reuters, JPMorgan Asset Management. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price to earnings ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns. See benchmark disclosures on page 5 of this newsletter. Guide to the Markets – U.S. Data as of 6/30/18.

S&P 500 Index at inflection points: The S&P 500 is up 302% since early 2009. Pay particular attention to the comparison of the dividend yield in the S&P 500 versus the interest rate on the 10-year treasury.

In 2000 and 2007, as interest rates went over 4.5%, the market flowed to bonds versus stocks. We are not there yet, but we are getting close, as the dividend yield on the S&P 500 is 2.1 versus the interest rate on 10-year treasuries at 2.9%.

With four more rate hikes by the Fed in the next year, you could see a greater spread in favor of bonds.

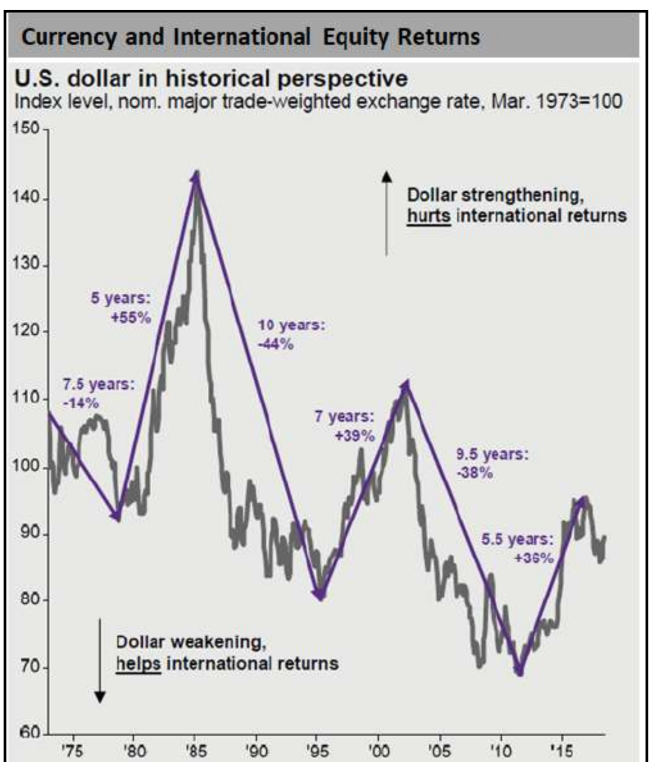
Unemployment and Wages: As the below chart indicates, when unemployment and wage growth come close to intersecting, the Fed has to put the pedal to the medal and raise interest rates multiple times. We are getting closer to that point, with unemployment at 3.8% and wage growth at 2.8%. Dr. David Kelly, Chief Global Strategist at JPMorgan, said that by late next year, the unemployment rate could fall close to 3%, which means companies will need to raise wages to attract new employees, having an inflationary effect long-term, impacting the market.



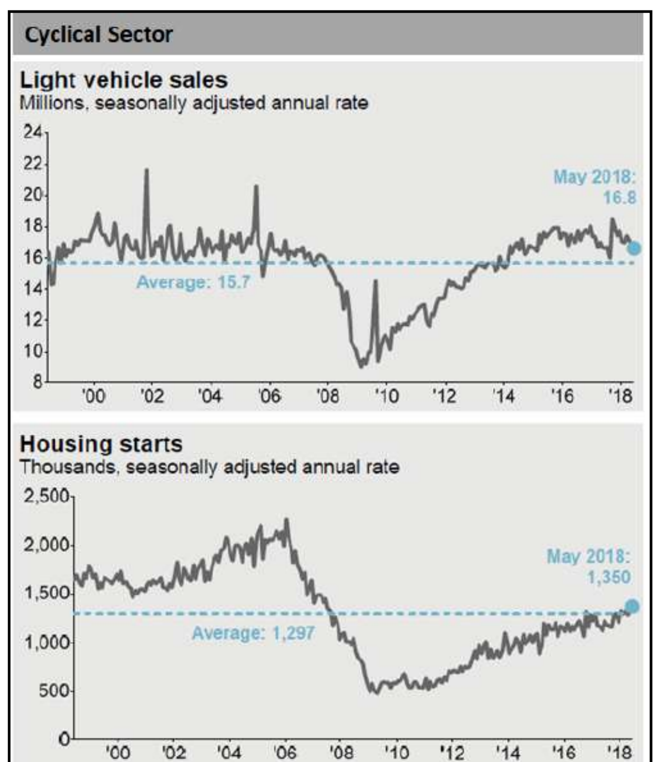
Source: BLS, FactSet, JPMorgan Asset Management. Guide to the Markets – U.S. Data as of 6/30/18.

US Dollar in Historical Perspective: According to Gabriela Santos, Global Market Strategist at JPMorgan, as the US economy slows next year, we are likely headed for a weakening dollar, which should give a boost to international investing. Be sure to include international selections in your investment allocation. A weakening and strengthening dollar tends to run in cycles, as is reflected in the chart on the lower left.

Cyclical Sectors (light vehicle sales, housing starts): Light vehicle sales are above average, at 16.8 million per year, versus an average of 15.7. Housing Starts at $1.3 million are just above the average of $1.29 million per year. According to Dr. Kelly, should 30-year mortgage rates exceed 5%, it could be the tipping point for housing starts.



Source: JPMorgan Asset Management, Census Bureau, FactSet. Capital goods orders deflated using the producer price index for capital goods with a base year of 2009. SA – seasonally adjusted. Past performance is not a reliable indicator of current and future results. *Guide to the Markets* - U.S. Data as of 6/30/18.



Source: JPMorgan Asset Management, (Top) BEA, (Bottom) Census Bureau, FactSet. Capital goods orders deflated using the producer price index for capital goods with a base year of 2009. SA – seasonally adjusted. Past performance is not a reliable indicator of current and future results. *Guide to the Markets* – U.S. Data as of 6/30/18.

In Other Words

Income Sources In Retirement

Angie Franzone | Newsletter Editor

As I was driving my seven-year old twin daughters to daycare the other day, the younger one (by 38 whole minutes) asked, "Mom, after you pay to get out of work, how do you have money to buy things?" At first I laughed at the idea of paying to get out of work, but then I really thought about it and contributing to a retirement plan every paycheck is like paying to get out of work! Essentially, the question she was asking was, "Once I've retired, what will my income sources be mom?" Clearly I'm raising a genius.

The main sources of income in retirement are Social Security and employer-sponsored retirement plans and/or individual retirement accounts (IRAs). According to the Social Security Administration (SSA), nearly nine out of 10 individuals age 65 and older receive Social Security benefits and those benefits represent about 33% of the income of retirees. When it comes to Social Security as a source of income, workers expectations differ considerably from what retirees actually experience.

In a survey conducted by the Employee Benefits Research Institute (EBRI), just 36% of workers said Social Security will be a major source of income in retirement, while 67% of retirees said it *is* a major source of income in retirement (2018 Retirement Confidence Survey). Although you can take reduced benefits at age 62, ideally you'll want to wait until you're eligible to receive your full benefits, which is dependent on the year you were born (66 for most baby boomers). Increased life expectancy makes waiting to receive your full Social Security benefits even more important.

In 1940, the life expectancy of a 65-year was almost 14 years; today it is just over 20 years (SSA). Longer life expectancy means living longer in retirement, which of course, requires more income. A key source for that income is contributing to an employer-sponsored retirement plan and/or an IRA. The question is, how do you know when you've put enough money away in a retirement plan to last through your golden years? The answer is different for everyone and depends on what type of lifestyle you want to lead and what your spending habits are, but as a general rule of thumb, Fidelity Investments suggest having 10 times your salary saved if you want to retire by the age of 67.

Fidelity's time line is as follows:

- Age 30: one time your salary
- Age 40: three times your salary
- Age 50: six times your salary
- Age 60: eight times your salary

In a survey conducted by the EBRI, two in three workers are confident they will have enough money for retirement, although only 17% feel *very* confident. This lack of confidence is reflected in the fact that 68% of workers stated that they planned to keep working in retirement, however, just 26% of retirees surveyed actually receive income from work (2018 Retirement Confidence Survey). All the more reason to contribute to an employer-sponsored retirement plan; you never know what the future holds, or if continuing to work in retirement will even be an option for you.

What it all comes down to is that in order to manage your retirement income, you need to know what your sources will be. If you are overwhelmed at the thought of determining how much money you'll need to live comfortably in retirement and need help determining what your income sources will be and the amount you'll receive from each source, please call our office and speak with an advisor who can help you with your investment strategy.

I, of course, did not explain all of this to my daughters, instead I simply reinforced the importance of saving all those quarters grandpa gives them (their current retirement income source), to which the older daughter replied, "We probably have at least $200 in change. That has to be enough to go to Disney World!" One child genius out of two ain't bad I guess...

60% Stocks/40% Bonds Allocation vs. Indices Ending 6/30/18

15 Yr	10 Yr	5 Yr	3 Yr	1 Yr	Index Definition
Mid Cap 11.39%	Lg. Grth 11.70%	Lg. Grth 15.99%	Lg. Grth 14.48%	Lg. Grth 21.86%	Large Growth: S&P 500 Growth TR
Sm. Grth 10.95%	Sm. Grth 11.24%	Sm. Grth 13.65%	Lg. Blend 11.93%	Sm. Grth 20.63%	Small Growth: Russell 2000 Growth TR
Sm. Blend 10.50%	Mid Cap 10.78%	Lg. Blend 13.42%	Sm. Value 11.22%	Nat. Res. 19.80%	Natural Res: S&P North Am. Nat. Resources TR
Lg. Grth 10.04%	Sm. Blend 10.60%	Mid Cap 12.69%	Sm. Blend 10.96%	Sm. Blend 17.57%	Small Blend: Russell 2000 TR
Sm. Value 9.93%	Lg. Blend 10.17%	Sm. Blend 12.46%	Mid Cap 10.89%	Lg. Blend 14.37%	Large Blend: S&P 500 TR
Real Est. 9.88%	Sm. Value 9.88%	Sm. Value 11.18%	Sm. Grth 10.60%	Mid Cap 13.50%	Mid Cap Blend: S&P 400 MidCap 400 TR
Lg. Blend 9.30%	Lg. Value 8.44%	Lg. Value 10.45%	Lg. Value 8.82%	Sm. Value 13.10%	Small Value: Russell 2000 Value TR
Nat. Res. 8.38%	Real Est. 7.63%	Real Est. 8.29%	Real Est. 7.71%	60/40 7.68%	60/40: 60% Diversified Stocks/40% Bond
Lg. Value 8.38%	60/40 7.34%	60/40 7.47%	60/40 6.61%	Lg. Value 7.58%	Large Value: S&P 500 Value TR
60/40 8.13%	Bonds 3.72%	Intl. 6.44%	Intl. 4.90%	Intl. 6.84%	International: MSCI EAFE NR
Int'l 7.26%	Int'l 2.84%	Bonds 2.27%	Nat. Res. 3.29%	Real Est. 4.23%	Real Estate: DJ US Select REIT Index TR
Bonds 3.77%	Nat. Res. -1.08%	Nat. Res. 1.74%	Bonds 1.72%	Bonds -0.40%	Int-Term Bonds: BarCap Aggregate

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. Please see benchmark disclosures below.

Important Disclosures: *To be selected for Fastest Growing Firms a company must be located in the Milwaukee area and have annual revenue between $3 million and $500 million and have a record profit for the past three years. The 21 firms with the highest percentages of growth from 2015-2017 were selected as winners.* ***Benchmark Disclosures: Morningstar Category Averages:*** *Morningstar classifies mutual funds into peer groups based on their holdings. The Category Average calculates the average return of mutual funds that fall within the category during the given time period. The following indexes and their definitions provide an approximate description of the type of investments help by mutual funds in each respective Morningstar Category. One cannot invest directly in an index or category average.* ***Large Cap Growth: S&P 500 Growth Index****– Measures the performance of growth stocks drawn from the S&P 500 index by dividing it into growth and value segments by using three factors: sales growth, the ratio of earnings change to price and momentum.* ***Intermediate-Term Bonds: Barclays US Agg Bond Index****– Measures the performance of investment grade, US dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS, ABS and CMBS.* ***Large Cap Blend: S&P 500 Index****– A market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenue are based in the US.* ***Large Cap Value: S&P 500 Value Index****– Measures the performance of value stocks of the S&P 500 index by dividing into growth and value segments by using three factors: sales growth, the ratio of earnings change to price and momentum.* ***Mid Cap Blend: S&P MidCap 400 Index****– Measures the performance of mid-sized US companies, reflecting the distinctive risk and return characteristics of this market segment.* ***Small Cap Blend: Russell 2000 Index****– Measures the performance of the small-cap segment of the US equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.* ***Small Cap Value: Russell 2000 Value Index****– Measures the performance of small-cap value segment of Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.* ***Small Cap Growth: Russell 2000 Growth Index****– Measures the performance of small-cap growth segment of Russell 2000 companies with higher price-to-value ratios and higher forecasted growth values.* ***Foreign Large Cap Blend: MSCI EAFE NR Index****–This Europe, Australasia, and Far East index is a market-capitalization-weighted index of 21 non-US, developed country indexes.* ***Real Estate: DJ US Select REIT Index****– Measures the performance of publicly traded real estate trusts (REITs) and REIT-like securities to serve as proxy for direct real estate investment.* ***Natural Resources: S&P North American Natural Resources Index****– Measures the performance of US traded securities classified by the Global Industry Classification Standard (GICS) as energy and materials excluding the chemicals industry and steel but including energy companies, forestry services, producers of pulp and paper and plantations.* ***MSCI ACWI Ex-US*** *is a market-capitalization weighted index maintained by Morgan Stanley Capital International and designed to provide a broad measure of stock performance throughout the world, with the exception of US-based companies.* ***The Dow Jones Industrial Average (DJIA)*** *is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.* ***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.*

Spectrum Wealth Management

Education Savings

Brian White, CFP® | Wealth Manager

While we're in the middle of summer, millions of students are looking forward to their fall semester of college. The National Center for Education Statistics stated that 20.4 million students were enrolled in college classes for the fall of 2017. That number is almost certain to increase this fall. With the rare exception of those with full-ride scholarships, most students and their parents will need to **pay** for their college experience. If you have young children (or grandchildren, nieces, nephews, etc.), take a look at the price of college. Since we're in Wisconsin, how about the largest public university? The University of Wisconsin-Madison has a price tag of about $25,000 per year for tuition, fees, room and board, books, etc. How can a family save for this sizable price tag? Let's explore the options:

529 Plans. There are actually two different types of Section 529 plans: Prepaid Tuition Plans and Education Savings Plans. Prepaid tuition plans are sponsored by state governments and can allow individuals to prepay some credits for participating colleges. This is not available in the state of Wisconsin, but it is available in other states, like Illinois.

The 529 Education Savings Plan is what most people are familiar with. Wisconsin has Edvest, and Illinois has BrightStart, among others. Each state is different and has their own rules, regulations and investment products. This is a tool for an individual to save for a beneficiary's future college expenses. These expenses can be tuition, room & board, books, supplies, etc. The funds are typically invested in some type of an age-based portfolio of mutual funds and Exchange Traded Funds (ETFs). Portfolios get more conservative as the beneficiary gets closer to age 18.

One of the biggest benefits to a 529 plan is that there are no income limitations. There are certain limits, such as an annual gift tax exclusion amount ($15,000 for 2018) and a lifetime contribution amount (depends on the state). These contributions can grow tax-free and the withdrawals are also tax-free as long as they are used to pay for a qualified higher education expense. 529 Education Savings Plans can also be used for private elementary or secondary tuition (up to $10,000/year).

Coverdell Education Savings Accounts (ESA). Formerly known as an Education IRA, the ESA allows for contributions of up to $2,000 annually into a brokerage account for future education savings. While the types of investment vehicles you can invest in are limitless, the flexibility of these accounts are not. Should the designated minor child not use the funds for education expenses, the account **cannot** be reassigned to a sibling or other beneficiary like a 529 account can. Qualified withdrawals are tax-free, but there are income limits for the $2,000 contribution. If your adjusted gross income is over $110,000 ($220,000 for joint filers), you are **not** eligible to contribute.

Taxable Accounts. You can always save for college in a taxable account and can even put it in the name of a minor child through the Uniform Transfers to Minors Act (UTMA). Contributions to these accounts are considered gifts and are the property of the minor. They can be accessed at any time and are re-titled in the name of the minor after they reach the age of majority (21 for Wisconsin). They are the least favorable from both the taxation standpoint and the affect on financial aid eligibility.

Roth IRAs. Roth IRAs are tremendous **retirement** savings vehicles. The principal amount you contribute can be withdrawn at any time for any reason with no taxes or penalties. While this may sound like another good tool for education savings, we believe that retirement vehicles such as IRAs and 401(k) accounts should be utilized solely for that purpose. A withdrawal of $40,000 from your Roth IRA is the same whether you use it for tuition payments or boat payments. Either way, you're taking money from your future retired self. There are many different options for education savings so that you are able to effectively separate education savings from retirement savings.

Researching education savings plans can be overwhelming. Please contact Spectrum with any questions and we'll help you wade through the different options available. The following websites in particular are extremely useful for research into college savings plans:

www.finra.org/investors/saving-college. FINRA, The Financial Industry Regulatory Authority, has a page dedicated to the different options on saving for college. You can also look up the fees associated with each state's 529 plan.

www.savingforcollege.com. This site is sponsored by 529 plans, but has some very good calculators and articles on college savings.

www.collegesavings.org. The National Association of State Treasurers established this site which contains in-depth information on each state's 529 plan.

IRS Indexed Limits for 2018:
401(k), 403(b), 457 Plan Deferral Limit is $18,500.
Catch-up Contribution limit is $6,000. Source: www.irs.gov

Spectrum Investor® Update

Morningstar Category Averages	2nd Qtr	1 Year	3 Year
Intermediate-Term Bond	-0.24%	**-0.36%**	**1.69%**
Allocation 50%-70% Equity	1.13%	6.58%	5.62%
Large Cap Value	1.61%	9.08%	8.35%
Large Cap Blend	2.64%	12.56%	9.91%
Large Cap Growth	5.13%	20.62%	**12.19%**
Mid Cap Value	2.55%	8.91%	7.97%
Mid Cap Blend	2.93%	11.25%	7.88%
Mid Cap Growth	4.17%	18.12%	9.73%
Small Cap Value	6.61%	12.44%	9.13%
Small Cap Blend	6.23%	14.57%	9.37%
Small Cap Growth	**8.49%**	**22.64%**	11.02%
Foreign Large Blend	**-2.17%**	6.06%	4.58%
Real Estate	7.90%	3.32%	7.19%
Natural Resources	3.67%	15.22%	5.47%

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. Please see Benchmark Disclosures on page 5.

DOW: 24,271 | **10 Yr T-Note: 2.85%**
NASDAQ: 7,510 | **Inflation Rate: 2.2%** (5/2018)
S&P 500: 2,718 | **Unemployment Rate: 3.8%** (5/2018)
Barrel of Oil: $70.53 | Source: Yahoo Finance, bls.gov, eia.gov

Data as of 3/31/18 unless otherwise noted. 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. Barrel of Oil: West Texas Intermediate. Inflation Rate: CPI. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day,

To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.