As of 6/30/2019

Q3 2019

Spectrum Investor®
Quarterly Newsletter

SPECTRUM
INVESTMENT ADVISORS

IN THIS ISSUE

UPCOMING EVENTS

Coffee House Educational Series
September 26, 2019
Featuring Guest Speakers
Ryan Bostwick - Transamerica
Debbie Alpert - FHK Insurance

Retirement Plan Investment Seminar
October 23, 2019
Bridgewood Resort Hotel
Neenah, WI
Co-Sponsored with the WICPA

IN THE NEWS

Spectrum was selected as the
2019 Ozaukee Economic Development Medium Business of the
by the Business Development Committee at OED

Named a winner for the
2019 Fastest Growing Firms
by the Milwaukee Business Journal

Named to the
2019 Future 50 List
by the Metropolitan Milwaukee Association of Commerce

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

Please see important disclosures on page 5. Our ADV Part 2A & 2B and our Privacy Notice can be found on our website

Economic Update

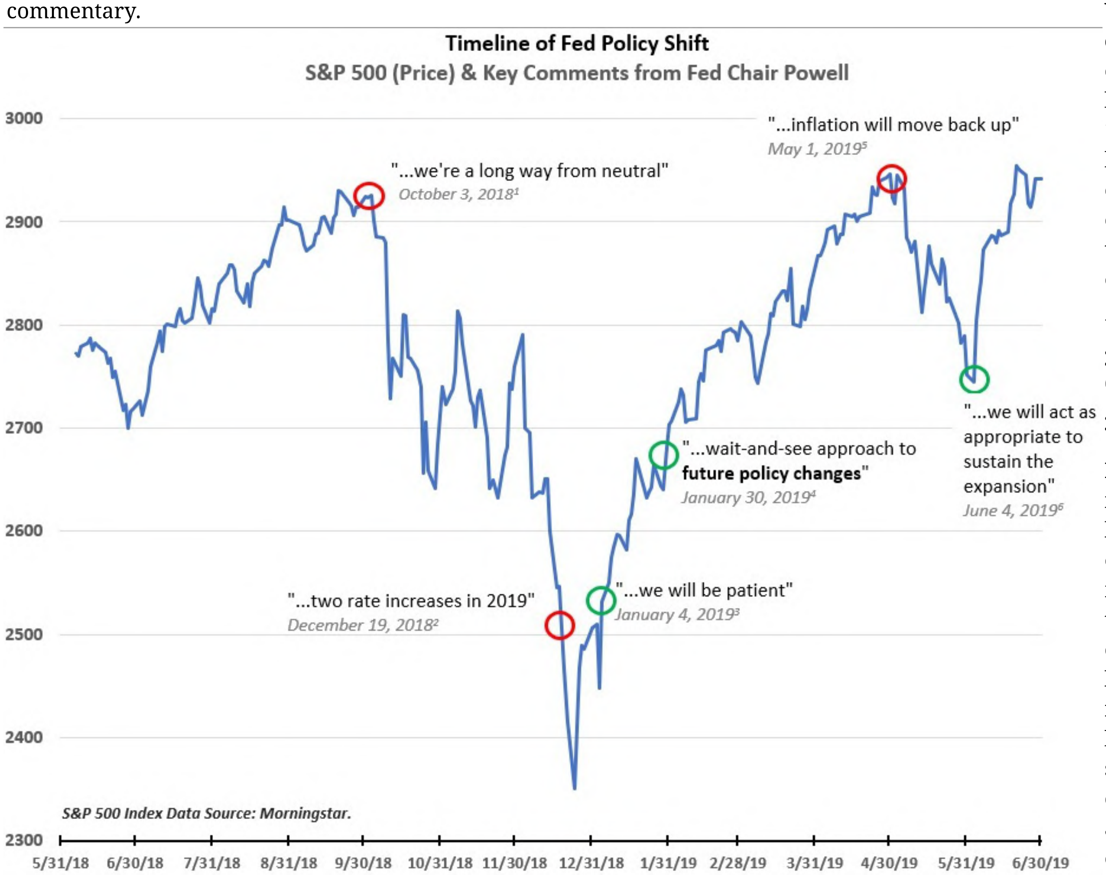
Jonathan Marshall
Chief Investment Officer

Katherine Marquez
Investment Analyst

James Marshall
Ambassador

The benchmark S&P 500 Index overcame an escalation in the U.S.- China trade fight to close up 18.54% year-to-date as of June 30, 2019. It was the best first half performance for the S&P 500 since 1997. The continued rally prolonged the decade-long bull market for stocks and erased the steep losses that jarred investors, with the market hitting a low on Christmas Eve in the fourth quarter 2018.

The first half of 2019 was also terrific for bond investors. The Bloomberg Barclays US Aggregate Bond Index was up 6.11% year-to-date. The fact that both equities and bonds have rallied together largely reflects the policy pivot by the Federal Reserve. **On July 31, the Federal Reserve is expected to lower interest rates for the first time since the financial crisis.** This a major reversal from just nine months ago in October of 2018 when the Fed was expecting as many as four interest rates increases in 2019. The chart below shows key comments from Federal Reserve Chairman Powell along with the S&P 500. Red circles indicate higher interest rate commentary. Green circles indicate lower interest rate commentary.



Fed Chair Powell quote sources: 1. PBS Newshour interview: Altlantic Ideas Festival. 2. FOMC Press Conference. 3. American Economic Association annual meeting. 4. FOMC Press conference. 5. FOMC Press conference. 6. Fed Conference on Monetary Policy

Why is the Federal Reserve expected to cut interest rates? As of July 1, 2019, the current economic expansion became the longest ever at 121 months, edging out the 120 months of growth in the 1990s. The baseline outlook is for the expansion to continue. However, Fed Chairman Powell cited the following key uncertainties for the economy when he testified to Congress on Wednesday, July 10, 2019:

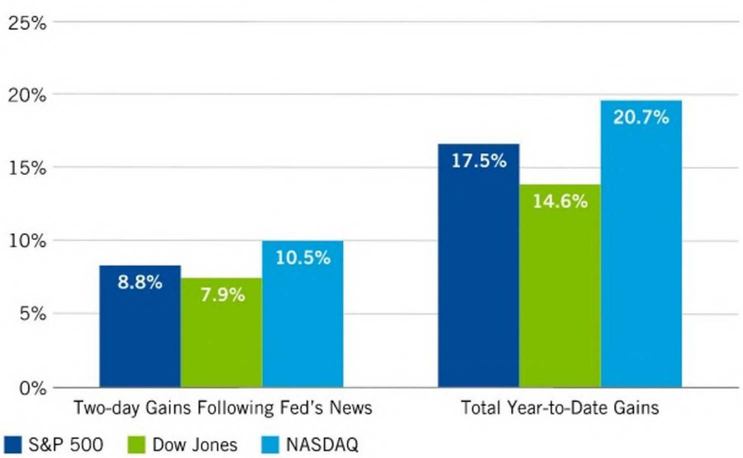
1. **Slowing global growth**
2. **Unresolved government policy issues** (trade conflict, US Debt ceiling, and Brexit)
3. **Persistently low inflation**

Risk tolerance check. The Fed lowering interest rates is a clear sign that risks are higher, but it can also be a good thing. The economy is still strong and, for now, the market is anticipating the Fed can offset the risks and prolong the expansion; that dynamic is reflected in the chart on the left. The S&P 500 dropped more than 5% four times on its way to an 11% gain in the last 13 months. Half of the S&P 500 gains so far in 2019 were made in just the two days following each new Fed comment about potential easing of rates. These are classic reminders not to try timing the market. As always, make sure your asset allocation aligns with your risk tolerance and think long-term.

Quarterly Economic Update Continued

EQUITY MARKET GAINS HAVE BEEN SUPPORTED BY US FED NEWS

Exhibit 1: Select Index Performance (Comparison of two-day gains following Fed news and year-to-date gains in 2019)



Past performance does not guarantee future results.

Sources: Franklin Templeton Capital Market Insights Group, FactSet and S&P Dow Jones. Indices shown in cash USD. Fed events: Jan 4, 2019 Fed chairman indicates it 'will be patient' with monetary policy as it watches how economy performs; June 4, 2019 Fed chairman speaks at the "Conference on Monetary Policy Strategy, Tools, and Communications Practices" sponsored by the Federal Reserve, Chicago; and June 19, 2019 Federal Open Market Committee (FOMC) Meeting press release is distributed. For illustrative purposes only; not representative of any Franklin Templeton fund's portfolio composition or performance. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses and sales charges. Please see Benchmark Disclosures on page 5.

Fed tightrope. If only looking at a snapshot of the US today versus three years ago (when rate hikes began), it would be hard to see a reason to cut interest rates. Unemployment is down, wages are rising, inflation is stable, GDP grew over 3% in three of the last four quarters and the stock market is near all time highs. However, there are signals of being late in the cycle. Time is one (longest expansion in history), but high levels of employment and corporate debt are more important. The Federal Reserve is viewing cutting rates today as an opportunity to avoid a recession that would require even more rate cuts in the future.

The chart above shows that markets have had dramatic responses to Fed policy announcements in 2019. We would expect that trend to continue, but caution that the reaction may not always be positive. The market is currently pricing in three or four rate cuts in the next 12 months, that sets the markets up for ironic disappointment if the Fed sees the economy stabilizing after just one or two rate cuts. This makes effective communication critical with last year's fourth quarter being a reminder of the potential consequences.

According to the CME FedWatch Tool, as of July 17 there is a 76% chance rates will be 0.50% lower by the September Fed meeting, including a 35% chance of July's cut being 0.50% rather than just 0.25%.

Global pressures. On June 30, 2016 the world was just processing Britain's decision to leave the European Union and soon after interest rates around the globe hit record lows. At the same time, commodity prices were collapsing, hitting emerging markets quite hard in particular. Three years later, and interest rates are again approaching or breaking through those record low levels with over $13 trillion of global bonds having negative yields.

The easing of the Federal Reserve and other central banks around the world has provided stability to markets and kept the slowdown relatively gradual to this point. Aside from the broad asset sell off in the fourth quarter, we have yet to see widespread shocks like we saw with commodities in 2015 and 2016.

The biggest issues appear trade-related as manufacturing and agriculture are the areas slowing most. While immediate shocks have been avoided, Brexit and tariffs developments may have lead to weakness by causing dislocations in manufacturing: order delays, relocating purchase or production to different countries, and other supply disruptions. Being more gradual has meant less layoffs, which is good news for the consumer. The chart below shows the service sector global PMI (Purchasing Managers' Index) has held up much better, but it too is showing signs of slowing.

Source: JPMorgan Asset Management, Markit. PMI is the Purchasing Managers' Index. Guide to the Markets – U.S. Data as of 6/30/19.

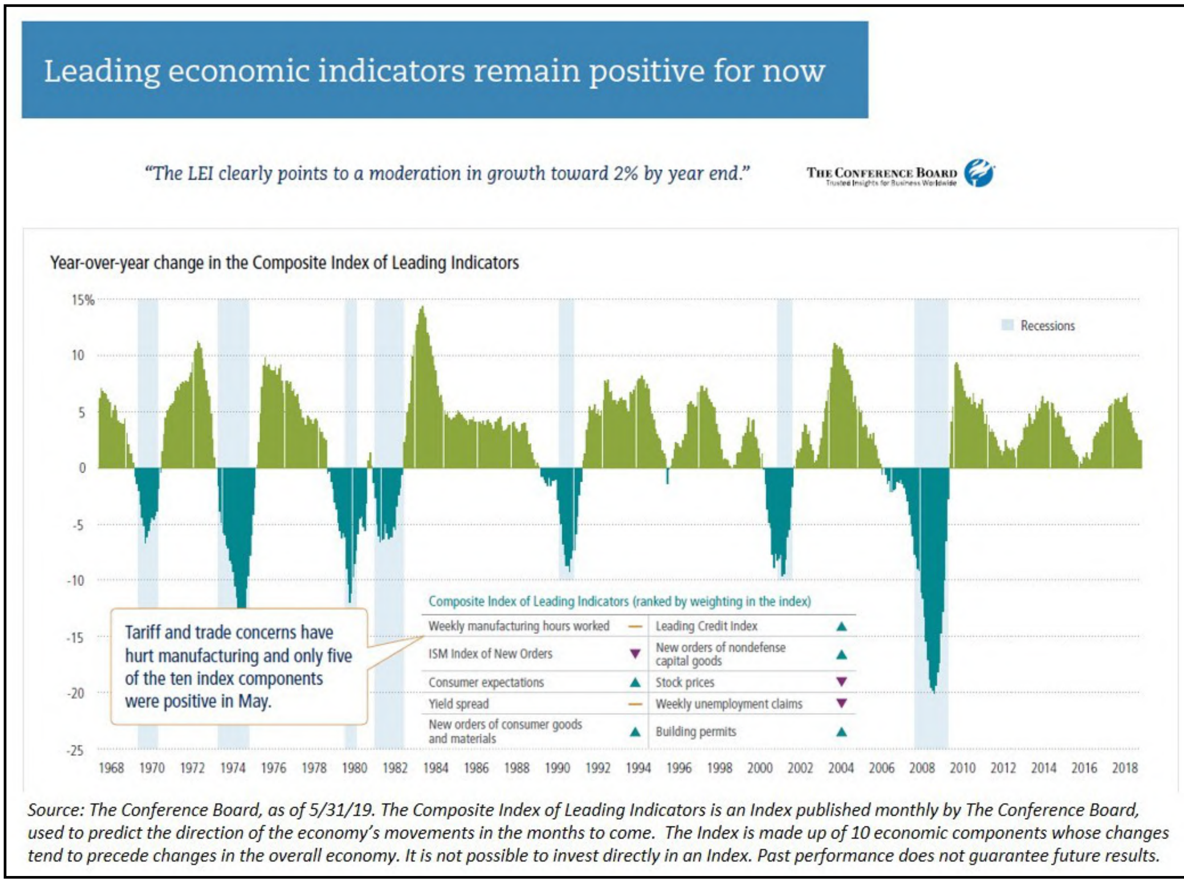
Unresolved government policy issues. The United States and China appeared to be nearing a deal until China unexpectedly backed away from negotiations on May 3, reigniting uncertainty. Some nerves were settled at the G-20 meeting at the end of June, but it seems doubtful a deal will be struck this quarter.

While the US economy was boosted by tax cuts, it has resulted in higher levels of Federal debt and the self imposed debt ceiling will come back into play in early September if it is not lifted. A lack of action could lead to another government shutdown, which would add to uncertainty, but unlikely to cause major lasting harm to the economy.

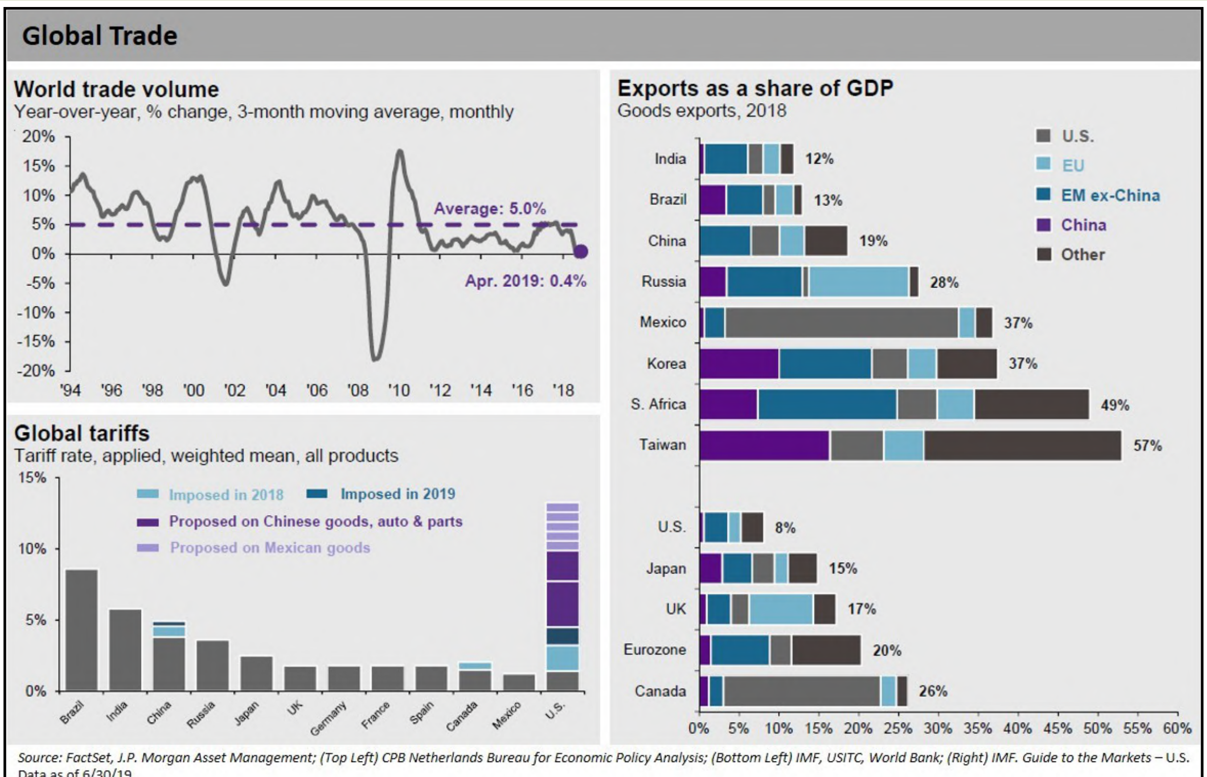
After being delayed twice, Brexit is scheduled to occur on October 31. We are now more than three years into Brexit negotiations, but little progress has been made and a third delay is possible. Theresa May announced that she will step down as U.K. Prime Minister on May 24, with the new leader expected to be announced on July 23.

While risks look elevated, keep in mind that there are always "unresolved government policy issues". The shift in Fed policy is a reminder that things can turn quickly. Remember to invest in an allocation you can stick with, no matter what tomorrow's headlines read.

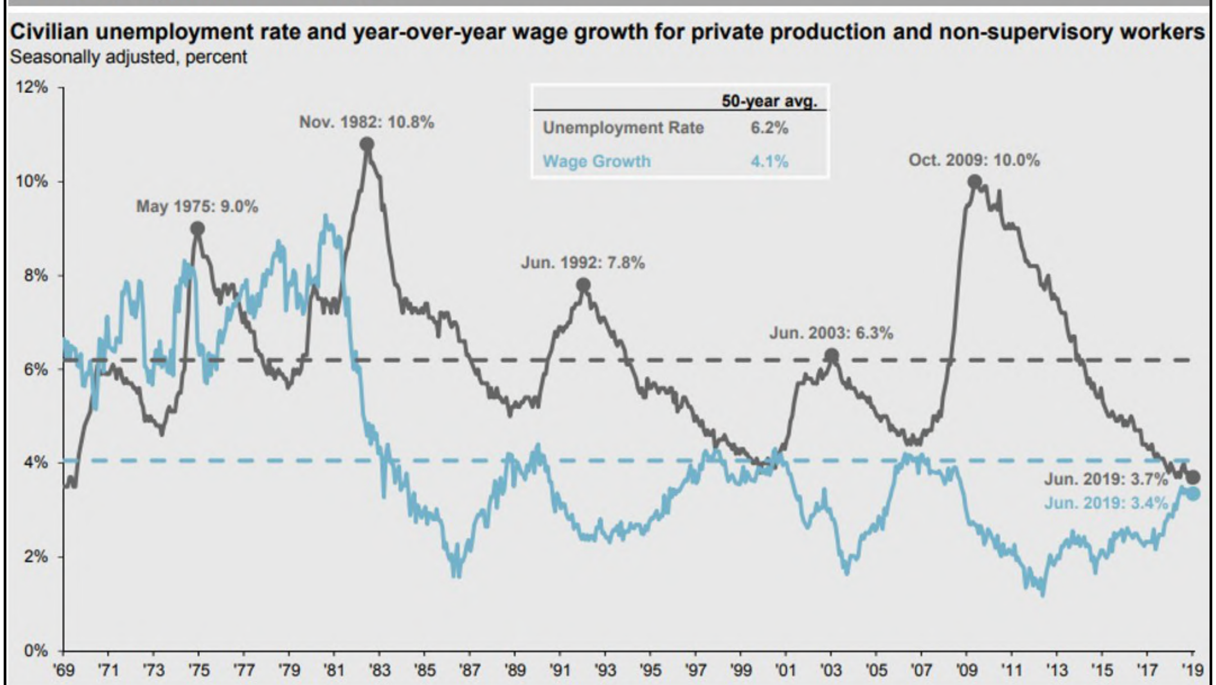
Leading Economic Indicators (LEI): The LEI chart below provides insight into the underlying drivers of US economic activity. The LEI reading turned negative (turquoise declining bars) prior to each of the past seven economic recessions (shown by the light blue shaded areas). The recent positive readings (green bars) tell us that the U.S. economy continues to grow at a slowing but healthy pace and that a recession is unlikely in the next 18-24 months.



Global Trade: Trade tensions, especially between the US and China, are putting downward tension on global trade volume. Economic global growth could slow further if no deal is reached. Countries whose economies have been hit hard by trade tensions are the four export powerhouses: Germany, Japan, Korea, and Taiwan, as you can see by the chart on the right below. Not shown on the chart is Germany's exports, which as a share of GDP, is nearly half.

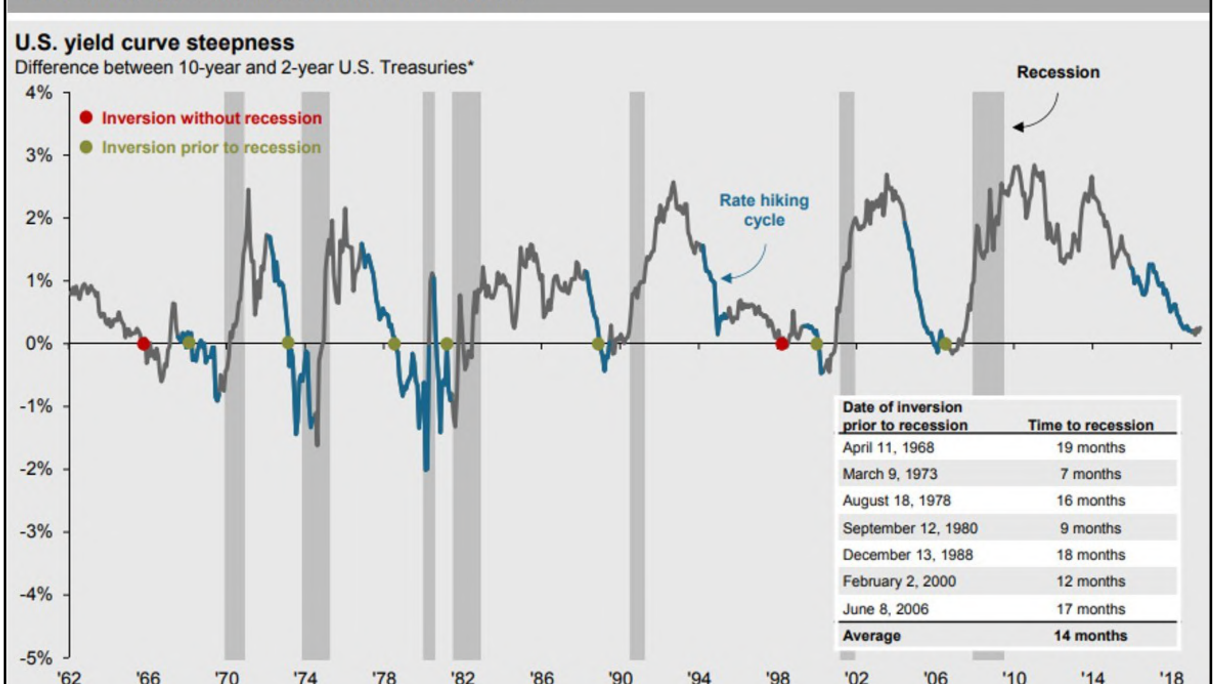


Unemployment and Wages: As the below chart indicates, when unemployment and wage growth come close to intersecting, the Fed typically will raise interest rates multiple times, which they have done, with nine rate increases. The Fed closely watches the unemployment rate, at 3.7% and wage growth at 3.4%. Due to global weakness and political uncertainties, the Fed is expected to cut interest rates for the first time with unemployment below 4% in order to prolong the expansion and sustain low levels of unemployment.



Source: BLS, FactSet, JPMorgan Asset Management. Guide to the Markets – U.S. Data as of 6/30/19.

Inverted Yield Curve: The 3-month Treasury and 10-month Treasury inverted on March 22, 2019. However, the 2-year vs. 10-year Treasury has yet to invert, but is extremely close. Once the yield curve inverts, to be valid it needs to stay inverted for months, not weeks. Should the 2-year and 10-year Treasury invert and remain that way for months, the average time from that point to a recession is 14 months. With the Fed lowering interest rates, we may see the yield curve begin to steepen or at least hold steady rather than further inverting.



Date of inversion prior to recession	Time to recession
April 11, 1968	19 months
March 9, 1973	7 months
August 18, 1978	16 months
September 12, 1980	9 months
December 13, 1988	18 months
February 2, 2000	12 months
June 8, 2006	17 months
Average	**14 months**

*Source: FactSet, Federal Reserve, J.P. Morgan Asset Management. *From January 1962 to May 1976, short-term bond is U.S. 1-year note, and from June 1976 onwards the short-term bond is the 2-year note due to lack of data availability. Time to recession is calculated as the time between the final sustained inversion of the yield curve prior to recession and the onset of recession. Guide to the Markets* – U.S. Data as of 6/30/19.

Spectrum Investor® Quarterly Newsletter

In Other Words

Achieve Retirement Goals by Making a Plan

Angie Franzone | Newsletter Editor

According to the 2019 Retirement Confidence Survey conducted by the Employee Benefit Research Institute (EBRI), 59% of workers surveyed say that preparing for retirement makes them feel stressed. Do you consider yourself to be in that category of workers? Actually sitting down and making a plan for achieving your retirement goals is one important way to keep yourself from stressing about your retirement future, and it can help you to sleep better at night. Some important things to consider when creating a plan are: what age you'd like to retire, what you will do in retirement, how much it will cost and where the money will come from.

There are several threats to retirement security: rises in the cost of living (inflation), medical costs, not knowing how much risk is in your portfolio and even life expectancy, that can derail your retirement. The earlier you acknowledge and plan for those threats, the less stressful your retirement preparation could be. The same survey showed that while workers are confident they know how much money they need to live comfortably in retirement, just 4 in 10 have actually tried to calculate how much money they will need.

While you may not be able to control the rate of inflation, future medical costs and how long you live (although making healthy choices doesn't hurt) you can prepare for them. Often times when people build their retirement plan they set their budget and don't take into consideration that the costs of goods and services increases over time. Over the past 30 years, the average inflation rate has been 2.54%, that means that the amount of income you need to maintain the same standard of living needs to increase by 2.5% every year. Pair this with the fact that we're living longer in retirement and it's imperative that you invest your money in a way that it can grow and work for you.

When it comes to medical costs, according to Fidelity, a 65-year old couple retiring in 2019 can expect to spend $285,000 in health care and medical expenses throughout retirement, compared with $280,000 in 2018. For single retirees, the health care cost estimate is $150,000 for women and $135,000 for men. Without a plan to cover the cost of unexpected medical bills, you may end up having to use those assets that were designated for your cost of living expenses, which could have a negative affect on your financial future.

One threat to your retirement security that you can control is knowing how much risk is in your portfolio. One phrase we like to use at Spectrum is, "Long-term investing is a marathon, not a sprint." When deciding what the best mix of investments is for your specific situation, consider your goals, time horizon (amount of time you have to invest) and tolerance for risk. While it does make sense to take on more risk as a younger investor who has 30 or 40 years until retirement, as you get closer to retirement your tolerance for risk will likely become less and you need to be sure that your investment portfolio reflects that change in risk tolerance. Speaking with an advisor to determine your risk tolerance and annually rebalancing your portfolio are effective strategies that are in your control.

So next time you catch yourself daydreaming about relaxing on the beach in retirement, traveling the world, or whatever image pops into your head when you go to your happy place, get those thoughts out of your head, onto paper, and start making a plan so those daydreams can become a reality.

Spectrum Investor® Update

Morningstar Category Averages	2nd Qtr	1 Year	3 Year
Intermediate-Term Bond	2.83%	7.24%	2.09%
Allocation 50%-70% Equity	2.95%	5.73%	7.79%
Large Cap Value	3.02%	5.79%	10.12%
Large Cap Blend	3.81%	8.20%	12.53%
Large Cap Growth	4.63%	10.02%	16.97%
Mid Cap Value	2.52%	0.25%	8.73%
Mid Cap Blend	3.04%	2.41%	9.98%
Mid Cap Growth	5.61%	9.88%	15.59%
Small Cap Value	0.63%	-8.05%	7.69%
Small Cap Blend	2.21%	-3.76%	10.09%
Small Cap Growth	4.12%	3.22%	16.12%
Foreign Large Blend	2.97%	-0.06%	8.13%
Real Estate	1.93%	10.45%	4.66%
Natural Resources	0.26%	-7.94%	5.97%

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 below..

DOW: 26,560 **10 Yr T-Note: 2.00%**
NASDAQ: 8,006 **Inflation Rate: 1.6%**
S&P 500: 2,942 **Unemployment Rate: 3.7%**

Data as of 6/30/19 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 S&P 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, and is related to the total value of the Index. Indices cannot be invested into directly.

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.

Important Disclosures: *Spectrum was selected as a winner for 2019 Ozaukee Economic Development Business of the Year in the medium category. Winners were selected by the Business Development Committee, made up of business and government leaders throughout Ozaukee County, at Ozaukee Economic Developement. the program recognizes companies that have seen significant business and job growth over the past five years adn are strong community partners. Spectrum was named a winner for the Milwaukee Business Journal's 2019 Fastest Growing Firms. To be selected, a company must have revenue between $3 million and $500 million and have recorded a profit for the past three years. the 26 firms with the highest growth from 2016 to 2018 were selected as winners. Accounting firm CliftonLarsonAllen LLP, was used in the verification process. Spectrum was named to the 2019 Future 50 list presented by the Metropolitan Milwaukee Association of Commerce (MMAC) and its Council of Small Business Executives (COSBE). The Future 50 program recognizes 50 companies in the seven-county Milwaukee Region that have been experiencing strong growth in both revenue and employment. To qualify for the award a company must be headquartered in the seven-county Milwaukee Region, independently owned and in business for at least three years. Spectrum Investment Advisors is not affiliated with FHK Insurance or WICPA. Please see disclosures on page 6 regarding FHK Insurance. The WICPA, Wisconsin Institute of Certified Public Accountants, is the premier professional organization for Wisconsin CPAs, with nearly 8,000 members working in public accounting, industry, government, nonprofit and education.* ***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 held 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 Value/Mid Cap Growth: S&P MidCap 400 Index****–A market cap weighted index that covers the complete market cap for the S&P 400 Index. All S&P 400 index stocks are represented in both and/or each Growth and Value index.* ***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. Past performance is no guarantee of future results.*

Spectrum Wealth Management

Medicare Options & Insurance Coverage

Contributing Writer
Debbie Alpert
Senior Advisor, FHK Insurance

*Debbie Alpert is a Senior Advisor at FHK. **Debbie has been in the benefits field for over 30 years and will be a speaker at our Spectrum Investor® Coffee House Seminar on September 26, 2019.** Spectrum Investment Advisors is not affiliated with FHK Insurance.*

Why should you consider reviewing and possibly changing your health insurance during this upcoming Annual Open Enrollment? If you are turning 65 in the next year or anticipating coming off of group insurance, why is this a good time to get educated?

Medicare Advantage plans and prescription drug plans will be in their Annual Open Enrollment Period (AEP) from October 15 through December 7. During this window of time, if the review suggests changing your MAPD (Medicare Advantage combined with a prescription drug plan) or your Standalone prescription drug plan (a companion plan to a Supplement/Medigap plan), this is the one time a year you can make a change absent having a special enrollment event. In other words, it becomes a seamless transition with the new coverage taking effect the first of the year. There are reasons to review your plan with an experienced licensed insurance agent.

If you have a Medicare Advantage Prescription Drug Plan (MAPD):

Are your doctors still in that plan's network? Doctor affiliations with insurance company networks can change and that may be particularly important especially if you have an HMO type MAPD.

Have your circumstances changed? For example, are you now spending any significant time outside your primary resident state? Some MAPD's who have provided you excellent doctor networks and coverage may not be as mobile as you would expect.

Are there any other significant changes in your present coverage, such as changes in copay or deductible dollar amounts? Your Annual Notice of Change (ANOC) that you will receive will reveal any coverage changes for the following year. These are mailed in early October to current plan participants.

Have you had any changes or additions in your prescription drug use? Prescription drug plans change from year to year. Each insurance company's drug formulary and coverage can change from year to year and that may affect how your existing drugs will be covered for the following year. Various drugs can be reclassified and thus covered with a different set of copays than in the previous year. Is your pharmacy still in your drug plan's network and is it designated as a preferred pharmacy provider? Prescription deductibles change and may apply to different tiers year over year.

The best approach to review your drug coverage is to provide a list of your monthly drugs (name, dosage, and frequency) to a licensed insurance agent, such as FHK Insurance, for review. Many of our clients who had been reviewed last year and changed plans as a result of that review have avoided over a thousand dollars of extra out of pocket expenses in buying their prescription drugs. For FHK to review, go to www.fhkinsurance.com, enter your drugs using our RX page by clicking on Client Services, then RX Drug Review. For the name of the agent, insert Debbie Alpert so the information can be directed for follow-up.

If you have a Medicare Supplement:

Medicare supplement premiums will usually increase each year. These increases add up over time and many people lose track of what premiums they're actually paying because many times the premiums are set up to be automatically deducted monthly from a checking account or credit card. Despite whatever your health conditions may be, Medicare Supplements should also be reviewed every year and compared to the advantages of what a MAPD plan can provide. At any point during the year, we can evaluate if you are a candidate for being able to move to a lower cost Supplement plan. All Supplements in Wisconsin are identical in coverage, so changing for price might be an option.

Are you going to be new to Medicare this year or next? If you are, the mail must be flowing in. Yes, it can feel overwhelming. Sitting down with an independent insurance agent is an important step to take. You can do this even before you are eligible, just to gain some education. An independent agent is able to present you with various options and plans that might be a fit. If you work directly with one company, there is no incentive to work with you in the future, as they have sold you the only product they offer. Independent agents, like FHK, have an ongoing relationship so that as your life changes, you can continue to be advised.

There is a Legislative Change to all Supplements in 2020:

Starting in 2020, coverage for the Part B deductible will no longer be available to new enrollees. Individuals who already have this Part B Deductible Rider coverage will be able to continue to keep it. The deductible is $185 in 2019 and tends to increase slightly each year. However, those who buy the rider are usually charged a premium close to the value of the deductible. Because of this, the removal of this rider will not financially impact people in a negative way. However, it will be the first time that Supplements do not provide 100% coverage for new enrollees.

Next Steps:

Whether you have an existing MAPD, a Standalone drug plan and Medicare Supplement, having your coverage reviewed with these points in mind is important. All MAPD's and standalone prescription drug plans adhere to the Open Enrollment period each year. We urge you to use this opportunity to visit with us. Let us help determine what's best for you and have us find you the most suitable plan available for you in 2020. Lastly, this review could result in us advising you that your existing insurance will be the most suitable for next year. Going through this no obligation and free review is worth the peace of mind in knowing for sure that your coverage is as suitable as it can be for the following year.

FHK Insurance Services - We speak health insurance.
www.fhkinsurance.com - 414-228-7555

Mr. William Kravit is the owner and President of FHK Insurance Services. FHK has been servicing individual insurance needs in the marketplace for over four generations. Spectrum does not have a financial interest in the success of FHK Insurance and recommends you consult with your insurance agent to assess your specific needs.

IRS Indexed Limits for 2019:
401(k), 403(b), 457 Plan Deferral Limit is $19,000.
Catch-up Contribution limit is $6,000. Source: www.irs.gov