As of 6/30/2020

Q3 2020

Spectrum Investor® Quarterly Newsletter

SPECTRUM[SM] INVESTMENT ADVISORS

Newsletter Summary:

U.S. COVID-19 cases continue to rise
Growth stocks boosted by tech
Value stocks lifted by reopening
S&P 500 earnings recovery estimated by year-end 2021 (Factset)
Second major stimulus package expected this summer
Temporary unemployment improves
Interest rates lower for longer
US Election on the horizon
*Visit our website at **www.spectruminvestor.com***

See important disclosures on Page 6
Our ADV Part 2A-2B & privacy notice can be found on our website.

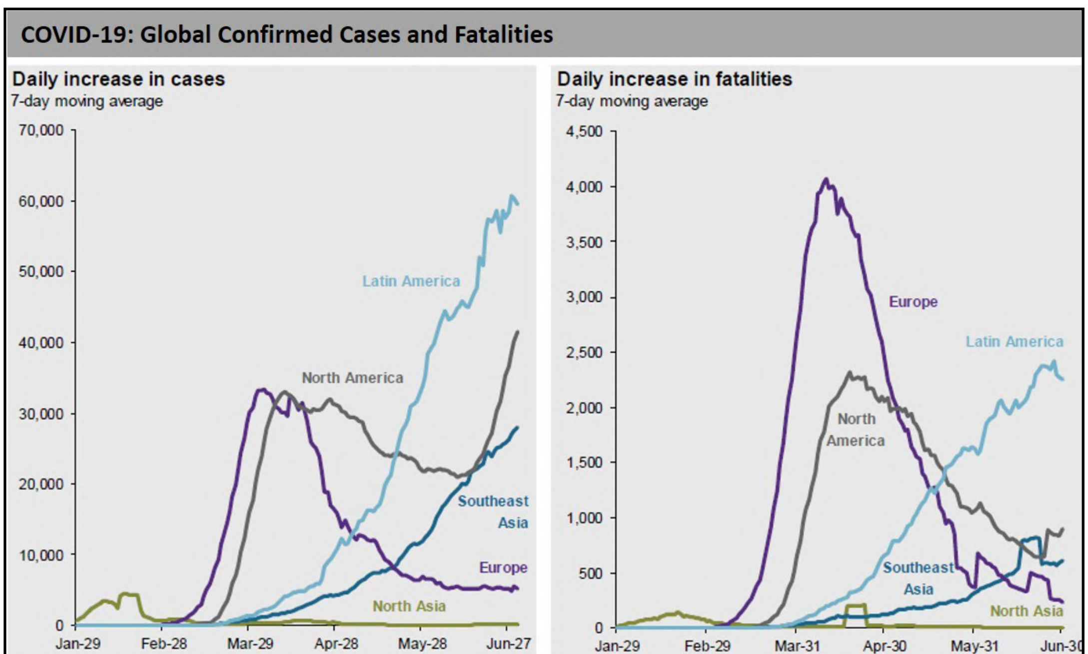
Jonathan Marshall
Chief Investment Officer

James Marshall
Chairman/Founder

US stocks wrapped up their best quarter in more than 20 years, a remarkable rally after the coronavirus pandemic brought business around the world to a standstill. The S&P 500 lost about 35% of its value in less than six weeks late in the first quarter. Partly due to a stimulus package from the Federal Reserve and Congress, the second quarter subsequent rebound was nearly as brisk. Through June 30, 2020, the S&P 500 was down just 4% year-to-date. The second quarter gain of 20.5% was its biggest quarterly gain since 1998. The Dow finished up 18% to 25,812.

COVID-19: As Mark Twain said, "History does not repeat itself, but it often rhymes." Similar to COVID-19, there were no proven cures and there was no vaccine for the polio epidemic of 1916. The two epidemics happened 104 years apart. New York and other cities shut down then as they have shut down now. Children under 16 were not permitted in crowded places and Fourth of July celebrations were canceled. The wait for a polio vaccine was long. Not until the summer of 1935 was there hope and it would take until 1955 before Dr. Jonas Salk developed a successful vaccine for polio. Today, Americans might seem almost spoiled at being told to wait 12-18 months before a vaccine for COVID-19 becomes available. Fortunately, we can now make vaccines faster than ever and for that we can be extremely thankful (*Time*, 5/25/20). Dr. Anthony Fauci, Director of the National Institute of Allergies & Infectious Diseases, said he remains hopeful of a vaccine as early as year-end 2020, but warned it may be only 70% effective and not everyone will want to be vaccinated.

The chart below shows new cases of COVID-19 peaked in early April and then began to slowly decline. Coronavirus cases are once again surging and hitting new records daily, primarily in the South and Western US. Governors in Texas, Florida, and Arizona have pulled back on their re-opening, including closing bars. The flaring of cases is an indication that we will have to go through a period of time managing life with the virus until vaccination is available. One key difference so far is that the number of coronavirus related deaths has fortunately not increased at the same pace as the number of new cases, the way it did in March and April.



Source: Johns Hopkins CSSE, J.P. Morgan Asset Management. North Asia countries are China, Hong Kong, Japan, South Korea and Taiwan. Southeast Asia includes Singapore, India, Indonesia, Malaysia,Pakistan, Philippines, Thailand, Bangladesh, Sri Lanka and Vietnam. North America includes Canada and U.S. Europe includes eurozone countries,Bulgaria, Croatia, Czech Republic, Denmark, Hungary, Poland, Romania, Sweden, United Kingdom, and Switzerland. Latin America countries are Chile, Brazil, Mexico, Argentina, Colombia, Peru, Venezuela, Ecuador, Panama, Paraguay, Costa Rica, Bolivia, Uruguay, El Salvador, Honduras,Cuba, Dominican Republic, Haiti, and Nicaragua. Guide to the Markets – U.S. Data as of June 30, 2020.

Market Reaction: The situation with the virus is varying by location. Similarly, we are also seeing different impacts by sector and style within the stock market. Social distancing increased the use of technology as business, education, shopping, and entertainment shifted to take place remotely. As a result, tech and large growth had the least downside in 2020 and were the best performing categories year-to-date, June 30, 2020. Technology is the biggest component of the large growth category (red).

On the other side, value stocks (purple and orange) have higher exposure to financials, energy, and transportation companies, making value stocks much more sensitive to the shut-down and re-opening. Value stocks tend to outperform in periods of inflation and rising interest rates.

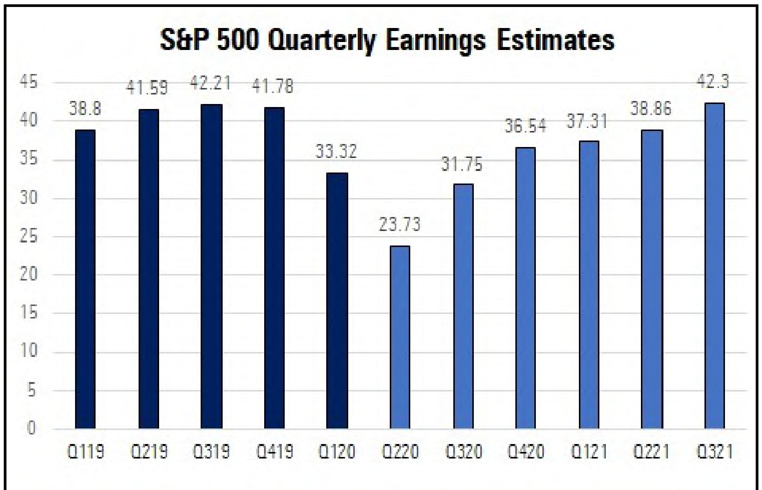
A faster return to normal could benefit value, and a prolonged recovery likely favors growth. At Spectrum, we generally suggest a balance of growth and value. Regardless of growth or value, as Warren Buffett says, **"It is far better to buy a wonderful company at a fair price, than a fair company at a wonderful price."**

Valuations: Given the uncertainty related to the virus, more than 180 companies in the S&P 500 have withdrawn their forecasts for 2020, according to FactSet, making it difficult for investors to value stocks. Just 49 companies have issued forward guidance for the coming second quarter earnings season, the fewest since FactSet began tracking such data in 2006.

The forward 12 month price to earnings ratio of the S&P 500 was 21.7, the highest since the late 1990s. The chart below can

Quarterly Economic Update Continued

help to explain. It shows that quarterly earnings are expected to rebound to near pre-Covid levels by the third quarter of 2021.



Dark blue bars represent actual earnings. Light blue represents forward estimates.
Source: Factset Earnings Insights, bottoms up quarterly EPS 7/17/20.

Support from the Fed and US Government: Higher valuations also project confidence that support by the Fed and Government will help bridge the gap to a vaccine and return to normal. In addition to lowering interest rates toward 0% by the end of 2020, the Federal Reserve is projected to have purchased $3.5 trillion in government securities with newly created (printed) dollars, according to Oxford Economics. It's one advantage of having our own currency (the US dollar) unlike Italy or Greece, where they are part of the Euro.

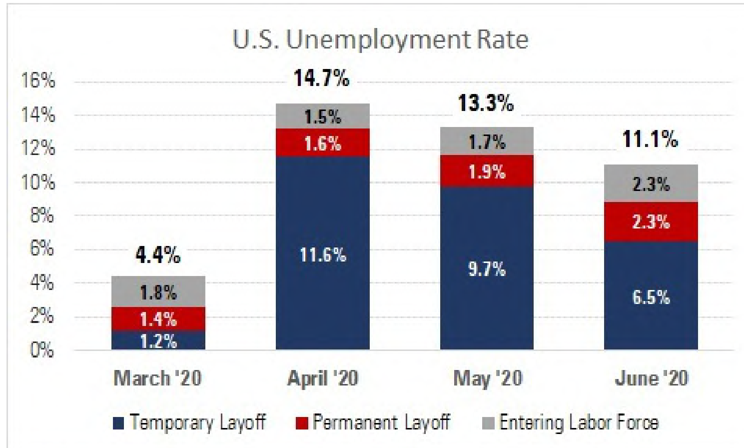
It appears that the Fed and Congress learned a valuable lesson from their slow response to the financial crisis in 2008. The stimulus in 2020 has provided ample liquidity to the markets, support to businesses and additional unemployment benefits to individuals. The $600 additional weekly unemployment benefits end in July 2020. According to the Century Foundation, approximately 25 million unemployed workers have been receiving the additional $600 weekly payment. The expiration of this benefit is one motivation for a follow-up package, which is currently in a development stage. There is no time table yet, but the total amount could be similar to the $2.2 trillion CARES Act.

The total US federal debt at the end of 2019 was $23.2 trillion and running at a pace of close to a trillion a year in the last two years. The total US debt projected at the end of 2020 will be close to $27 trillion. The last time the US ran such huge deficits, measured by a percentage of the GDP, was during WWII (*MarketWatch* 7/13/20). In 1945, in addition to war bonds to fund the deficit, the highest US individual income tax bracket was 94% on incomes over $200,000 ($2.5 million in today's dollars) compared to today's highest tax bracket of 37% over $510,301 for a single filer (TurboTax).

Economy: There has been a lot written about whether the shape of the recovery will be a "V", "U", or "W". As Dr. Kelly said in late March 2020, the journey of COVID-19 regarding the economy will be **"a fall, a stall, and a surge"**. Once we have a vaccine, the economy should surge. In the meantime, it may be a slow going economy.

Our unemployment rate has recovered from the 14.7% peak in April, but is still the highest since 1940 at 11.1% as of June 2020. The additional stimulus could help us avoid a "W" shaped double dip recession. Something to keep an eye on is the amount of people claiming temporary versus permanent unemployment.

The chart below shows that the majority of today's unemployed workers believe it will be temporary. Temporary unemployment has improved since the reopening, but permanent unemployment has risen.



Source: Bureau of Labor Statistics, July 2020

Deflation or inflation ahead? The Fed has a goal of inflation at 2%. The core inflation index, which is the change in costs of goods and services, not including those from the food or energy sectors, peaked at 10% in the mid 1970s and the early 1980s, especially due to rising energy prices. Core inflation has failed to meet the Fed's 2% target in all but 14 of the 138 months since the peak of the financial crisis in late 2008, despite low interest rates.

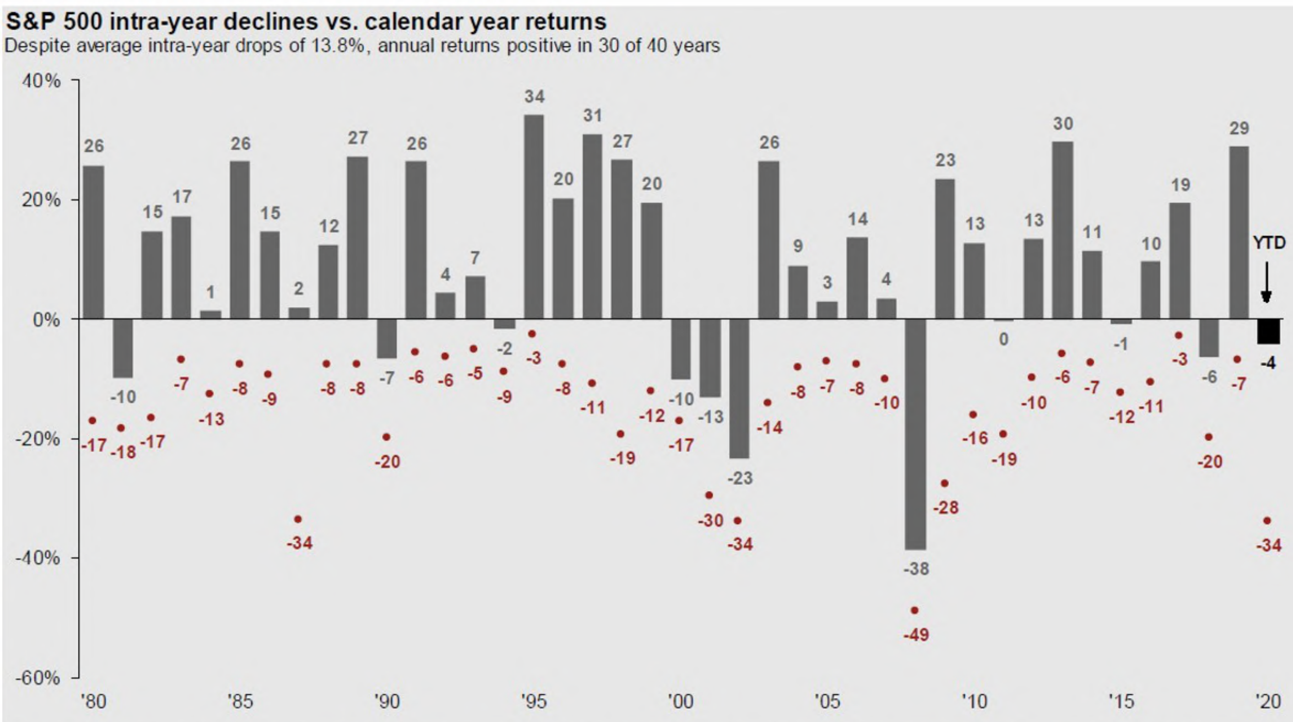
Near-term, deflation is the far greater risk. However, consumer prices could spike by mid to late 2021 due to the trillions in stimulus money. Long-term, governments will be incentivized to inflate their way out of debt, as did Germany after WWI and the US after WWII, (Tom Saler, *MJS* 6/6/20). One way or another, the Golden Age of consumer price stability could be in jeopardy. With record low interest rates, 30-year mortgage rates are now at 3.1%. **If you haven't done so already, refinance.** Student loan rates have dropped to 2.75% vs. 4.53% last year. A new historic low according to savingforcollege.com. Expect lower interest rates for longer. Fed Chairman Jerome Powell stated at the June FOMC press conference **"we're not even thinking about thinking about raising interest rates."**

Election: The path ahead for the stock market is less clear, especially with the November presidential election coming into view. Some investors are concerned that a Democratic-controlled government would likely roll back the tax cuts Congress enacted in 2017, constraining corporate profit margins and hurting stock prices. Data going back to 1928 shows that the incumbent party has won the contest 89% of the time if the S&P 500 is positive over three months ahead of the election, and lost when it was negative (**Courtney Rosenberger**, Director of Policy Research at Strategas Securities). For the remainder of the third quarter, COVID-19 is likely to outweigh the presidential election in terms of market direction.

If you're looking for more information on the markets, please visit our website at www.spectruminvestor.com and click Resources and Links. There you can find a recording of our July 15, 2020 mid-year market outlook webinar featuring **Emily Roland**, Co-Chief Investment Strategist at John Hancock. In the meantime, find your risk level and stay the course. If you need assistance in your investment allocation, please call us at 800-242-4735. In June 2020, we celebrated our 25th year in business at Spectrum, thanks in part to our loyal customers. Thank you for your continued trust and partnership.

Annual Returns and Intra-Year Declines: The chart below illustrates the year-end return of the S&P 500 Index vs. the intra-year declines for the past 40 years. As of June 30, 2020, the S&P was down 4% as investors battle between the opposing impacts of the coronavirus pandemic and unprecedented stimulus. According to JPM, the stock market historically finished up during 76% of calendar years. This chart can help a long-term investor understand the volatility of the market, and why, in most cases, the best thing to do is stay the course.

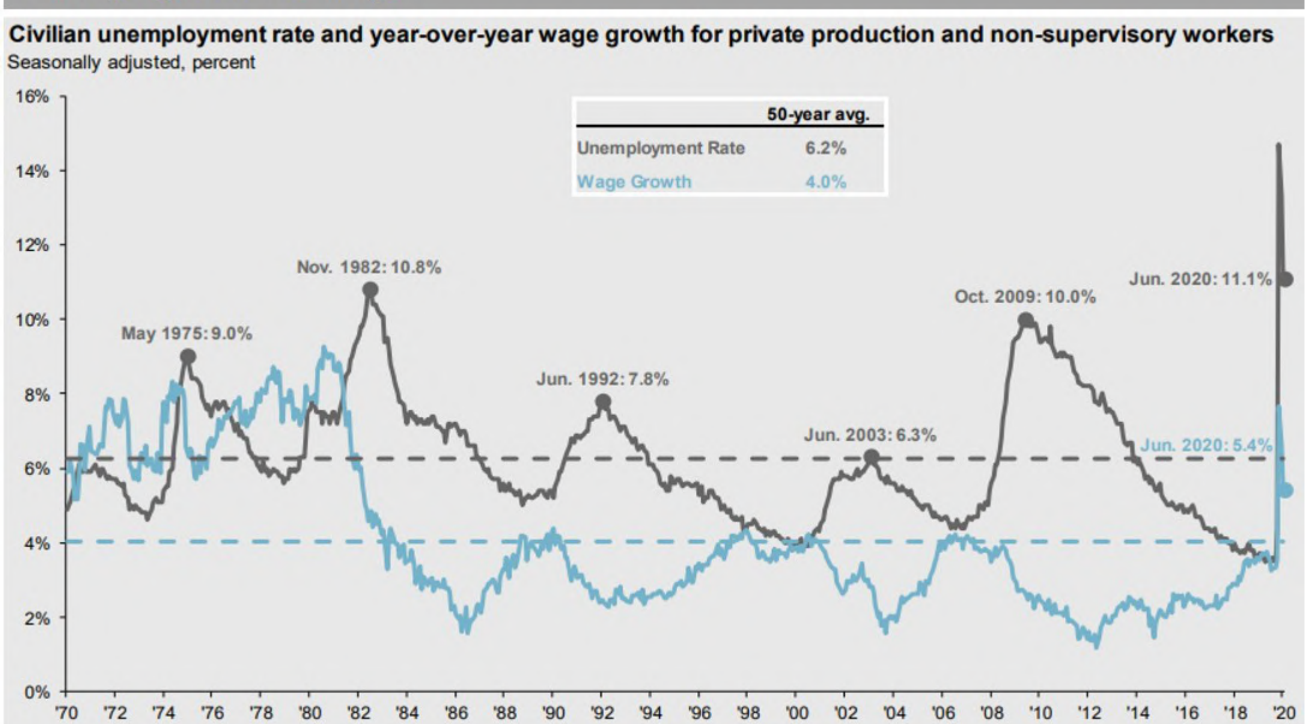
Annual Returns and Intra-Year Declines



Source: FactSet, Standard & Poor's, JPMorgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2019, over which time period the average annual return was 8.9%. Past performance is not indicative of future results. Guide to the Markets – U.S. Data as of June 30, 2020.

Unemployment and Wages: US unemployment is at 11.1%, down from 14.7% in April 2020 - the highest reading in five decades. Wages were up by 5.4%. According to JPMorgan, economic data like unemployment, historically lags the stock market performance by an average of four and a half months.

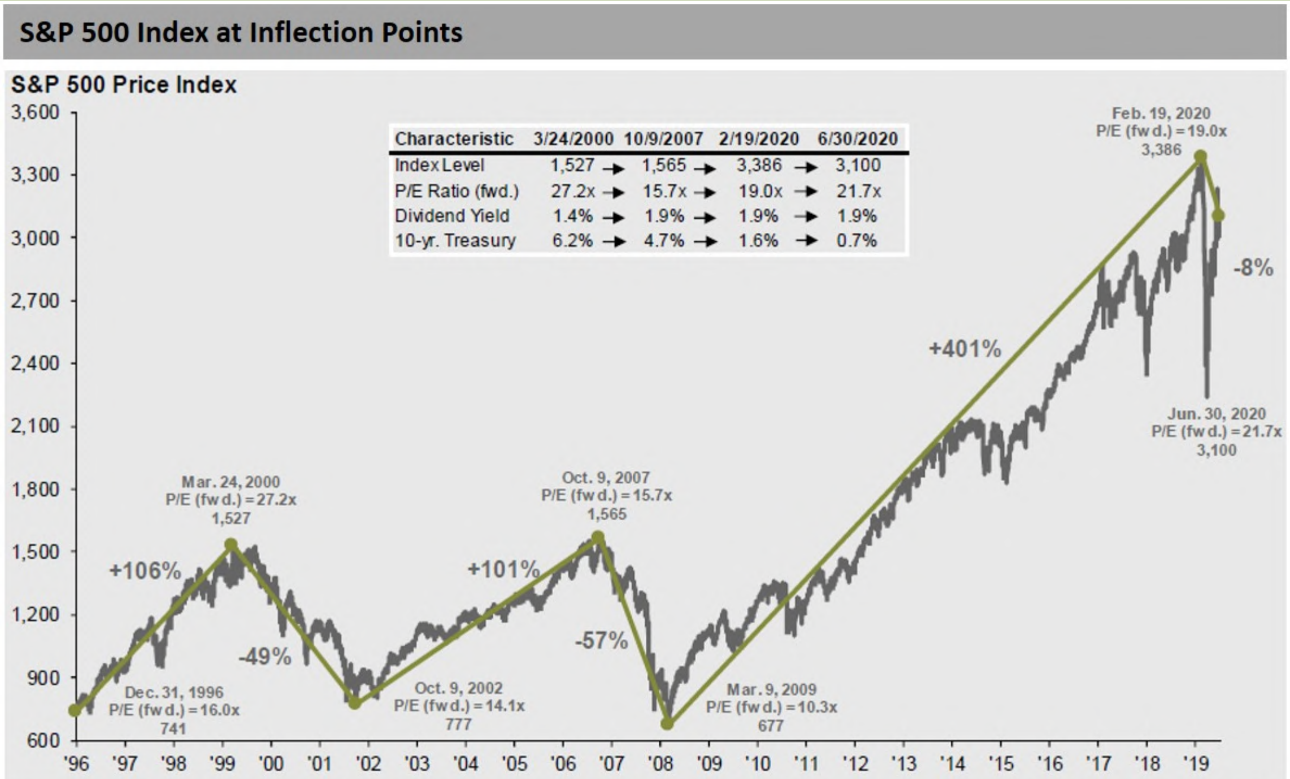
Unemployment and Wages



Source: BLS, FactSet, JPMorgan Asset Management. Guide to the Markets – U.S. Data as of 7/17/2020.

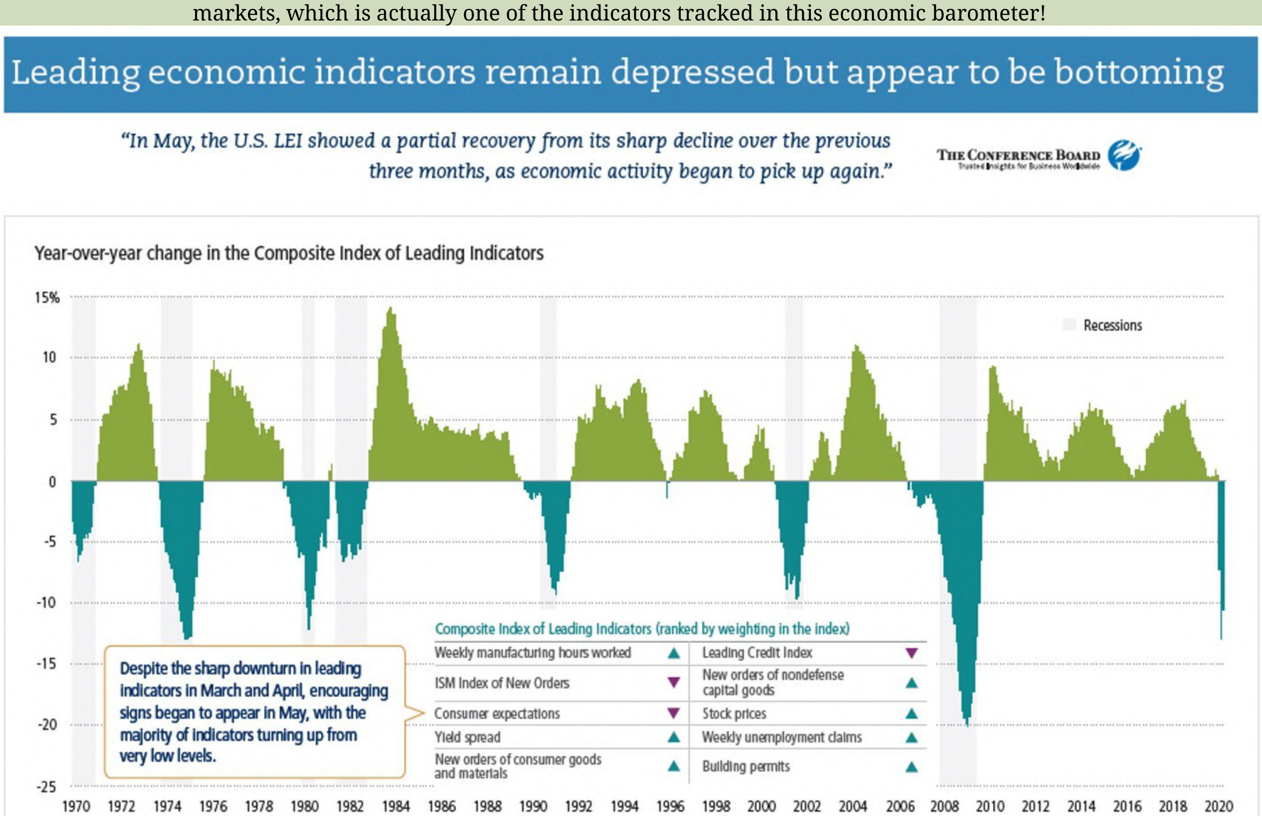
Spectrum Investor® Quarterly Newsletter

S&P 500 Index at Inflection Points: The chart below illustrates the performance history of the S&P 500 from 1996 to June 30, 2020. As you can see, the S&P 500 dropped in the first half of 2020 by 8%. Despite rising numbers of coronavirus cases across the US, the S&P 500 rebounded sharply in the second quarter on improving economic data. As of July 15, 2020, the S&P 500 is nearly flat YTD. (*Marketwatch*).



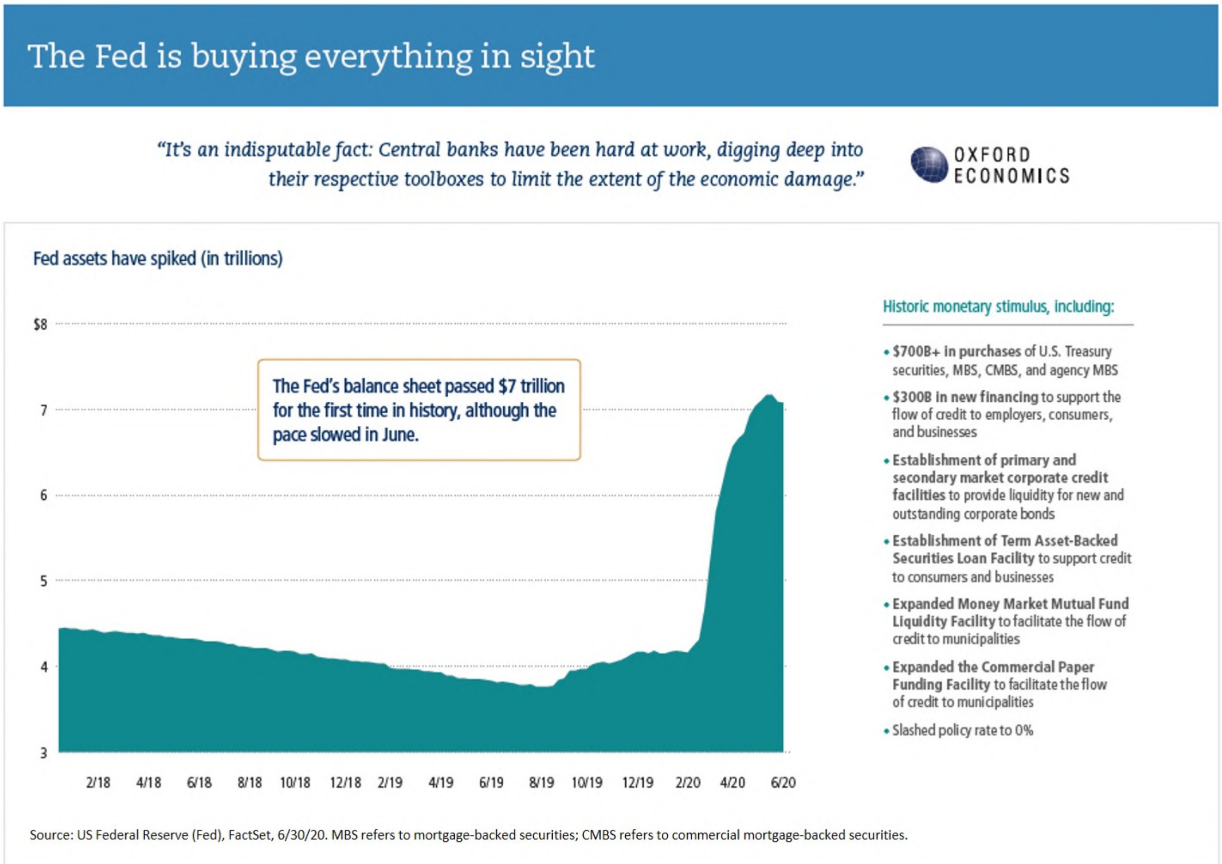
Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat.Forward price to earnings ratio is a bottom-up calculation based 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. Guide to the Markets – U.S. Data as of June 30, 2020.

Leading Economic Indicators: The LEI chart below provides insight into the underlying drivers of the US economy. In May, many LEI's began to recover from low levels. Investor expectations for continued improvement are gaining steam, as reflected in the performance of the equity markets, which is actually one of the indicators tracked in this economic barometer!

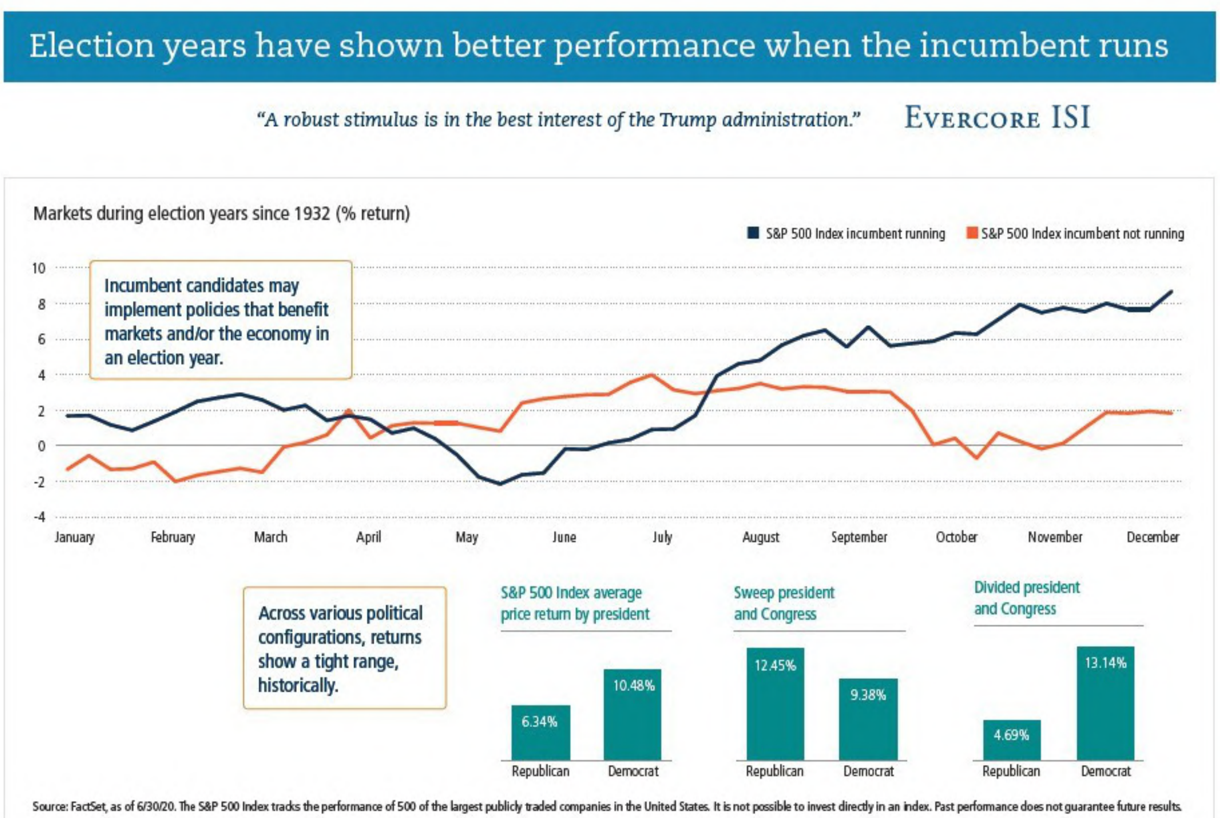


Source: The Conference Board as of 5/31/20. The Composite Index of Leading Indicators (LEI) is an index published monthly by the Conference Board, used to predict the direction of the economy's movements in the months to come. The index is made up of 10 economic components whose changes tend to precede changes in the overall economy. It is not possible to invest directly in an index. Past performance does not guarantee future results.

The Federal Reserve Balance Sheet: The chart below illustrates the Fed's commitment to do "whatever it takes" to support the US economy. The swift growth in the balance sheet was due to Fed purchases of US Treasuries, various forms of mortgage backed securities, and investment grade corporate bonds.



Election Years and The Stock Market: Equity markets prefer certainty, as illustrated in the chart below. History shows that the S&P 500 performs better when the incumbent candidate for President is running for a second term.



Spectrum Wealth Management

Taking Control of Your Future

Brian White, CFP® | Wealth Manager

Unprecedented times. Weird. Interesting age we live in. Strange. These words and phrases have dominated our conversations over the last four months. We're in a time in our history where there are more questions than answers. What will school look like in the Fall? Will there be fans in the stands for sporting events? When will we see a vaccine? What's the stock market going to do?

All of the answers to those questions are outside of our control. For any of us who are planners, that's a tough pill to swallow. In his book, *The 7 Habits of Highly Effective People*, Dr. Stephen Covey talks about the Circles of Influence. If you've read the book, you may remember that the circle on the inside (Circle of Influence) is what we CAN control. The circle on the outside (Circle of Concern) is what we have no influence or control over. This column is going to discuss three areas of retirement planning that you CAN'T control and three areas that you can focus on in order to better plan for life after work.

What you CAN'T control: The stock market. While most people understand this, there are many who think they can time the market. They may get nervous during the volatile times and move to cash until 'the market settles down'. One of our favorite market strategists is Dr. David Kelly at JP Morgan. During times of uncertainty in the market, his favorite saying is 'the stock market doesn't settle **down**. It settles **up**.' Earlier this year, we saw the fastest bear market drop in the S&P 500, and with that came one of the quickest recoveries, with the market up almost 40% from the low point on March 19. It's quite unusual and unpredictable.

What you CAN control: Your risk level. The portfolio you invest in should be appropriate for your risk tolerance and time horizon. At Spectrum, we believe that each client should be in a portfolio that not only meets your long-term goals, but also helps you sleep at night. If the ups and downs of the market are causing you to worry about your investments, you may be invested too aggressively, or you could be checking your investments too frequently. According to the Oxford Quarterly Journal of Economics, the more frequently an investor monitors their portfolio, the more risky they perceive investing to be. This is called myopic loss aversion.

What you CAN'T control: Inflation. Over the last 20 years, inflation has not been much of a concern. However, there will come a time when it is a concern. We have seen food prices jump recently and will likely see inflation in other areas of the economy.

What you CAN control: Your spending. This is really the most basic tenet of investing 101. Don't spend more than you make. How do you get to the point of saving more than you make? Make a budget and stick to it. Online budget templates and other resources are plentiful. Mint.com is a great website that is free to use and helps you figure out where your money is going. Spectrum also has resources that can help you figure out a budget that works for you and your family.

Keeping a clean balance sheet is also a good way to help control your spending. High-interest credit card debts and loans can affect your ability to save. We love to see people get to retirement debt-free, including the mortgage. While that may be a lofty goal, we find that our clients really feel peace of mind when that monthly payment isn't looming over their heads.

What you CAN'T control: Health Care Costs. If you assume an annual health care inflation rate of 6%, you can expect to see your costs triple while in retirement. According to the US Department of Health and Human Services, 69% of individuals will need one or more types of long-term care services. This could mean paid home care, nursing facilities, assisted living or unpaid care from family/friends. With 10,000 people turning 65 each day, these numbers are sure to go up.

What you CAN control: Your health. We all know that it's in our best interest to stay physically fit. There are endless resources when it comes to physical fitness, but what about mental fitness? At Spectrum, we recently hosted a webinar on the effects of COVID 19 as it relates to mental health., which is a big concern given our current circumstances. If you weren't able to listen live, check out the replay on our website at www.spectruminvestor.com. We had an expert in mental health counseling, Caroline Poland, talk about the importance of mental health and strategies for coping and increasing resiliency during COVID-19. Stay healthy (both physically and mentally), stay safe and focus on what you can control!

Spectrum Investor® Update

Morningstar Category Averages	2nd Qtr	1 Year	3 Year
Intermediate-Core Bond	**3.89%**	7.89%	4.84%
Allocation 50%-70% Equity	13.05%	2.30%	5.04%
Large Cap Value	15.68%	-7.59%	2.22%
Large Cap Blend	19.61%	3.74%	8.15%
Large Cap Growth	27.43%	**17.34%**	**15.95%**
Mid Cap Value	19.39%	-13.56%	-1.59%
Mid Cap Blend	22.13%	-6.19%	2.41%
Mid Cap Growth	30.27%	9.65%	12.58%
Small Cap Value	22.29%	**-17.33%**	**-5.15%**
Small Cap Blend	22.95%	-11.41%	-0.64%
Small Cap Growth	**32.19%**	4.46%	10.08%
Foreign Large Cap Blend	16.24%	-4.66%	0.30%
Real Estate	13.66%	-9.81%	0.60%
Natural Resources	26.24%	-12.78%	-2.86%

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 and Benchmark Disclosures below.

DOW: 25,812

NASDAQ: 10,058

S&P 500: 3,100

10 Yr T-Note: 0.65%

Inflation Rate: 0.2% (5/20)

Unemployment Rate: 11.1%

Data as of 06/30/20 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.

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.* ***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.* ***Allocation 50%-70% Equity****–These funds invest in both stocks and bonds and maintain a relatively higher position in stocks. These funds typically have 50%-70% of assets in equities and the remainder in fixed income and cash.* ***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.* ***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 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.* ***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 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 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.* ***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.* ***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.* ***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. This report is for informational purposes only and should not be construed as a recommendation or solicitation to buy or sell any security, policy or investment.*