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INVESTMENT ADVISORS

**Spectrum Investor® Newsletter** **4th Quarter | 2011**

# Quarterly Economic Update

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Enclosed are your investment returns for the 4th quarter 2011. For the year the S&P 500 Index (including dividends) was up 2.1%. The MSCI EAFE international stock index lost 12.1% (total return) in 2011. The ten-year Treasury note finished the year with a 1.88% yield, a 30-year low. According to *BTN Research*, if you missed the three best days in 2011, the 2.1% gain falls to a 10.7% loss (1/2/12). Since the a bear market low on March 9, 2009 the S&P 500 has gained 97.2% through December 30, 2011 (*BTN Research*).

The stock market took investors on a wild ride in 2011. Much of the volatility was caused by unusual factors, such as the earthquake and tsunami in Japan, the unrest in the Middle East, political gridlock in Washington over the deficit and Europe's debt crisis. Despite all this negative news, cool heads prevailed inside America's best managed corporations. The recovery, after cost cutting, led to record cash reserves for large US corporations and in some cases, stock repurchase plans or increased dividends. Healthy corporate balance sheets and consumer activity in the 4th quarter helped the S&P 500 to finish the year in positive territory (*Fidelity Monitor* 1/12).

The greatest risk the stock market faces in 2012 is fears that a large European country, such as Italy, would default on its debts causing a banking crisis in Europe, which would cause a possible financial contagion around the globe. For example, Italy's 10-year bond yield ended 2011 around 7.11%, which most economists say is unsustainable. It's important that government bond yields in Europe don't rise out of control (*USA Today 1/3/12*).

A request that we get occasionally, despite all the bad news is "**tell me some good news about the market**." For starters, the US economy expected to keep growing at a sluggish (but positive) growth rate of 2% annually, which should be fast enough to avoid a recession (*Contango Capital Advisors 1/3/12*). Judging from the market's low expectations for the global economy, and as long as Europe stays in a mild recession and muddles through, it appears there may be more upside potential than downside risk at this stage. Odds are, with all that cash, corporate America will either be buying back stock or snapping up weakened European competitors.

Companies in the S&P 500 Index are trading at 12.2 times 2012s estimated earnings, well below the long-term average of 15. A key driver of economic activity next year is US manufacturing, which has expanded for 26 consecutive months. Holiday retail sales were strong despite the nation's 8.5% unemployment rate (*USA Today 1/12)*. Real estate analysts got upbeat news late in the year when housing starts were reported up 9.3% in November, a sign that 30-year low interest rates and low housing prices are spurring buyers to sign contracts. Auto sales surged to an annual rate of 13.6 million in November, the best showing since the financial crisis.

2012 is also the 4th year of the presidential cycle. Historically, the 4th year is the second best year of a Presidential term for stocks, according to statistics compiled by Citigroup. Since 1900, the S&P 500 has posted average annual gains of 7.8% in election years. The election year is often a respectable one for stocks because the administration is focused on trying to stimulate economic growth. Past performance is not an indication of future results.

David Kelly, Chief Marketing Strategist, for J.P. Morgan, who spoke at our WICPA seminar in June, 2011 said the best strategy for the average investor in this market is to stick with the discipline of investing in a balanced portfolio by diversifying over a number of asset classes. A balanced portfolio consisting of 55%-60% stocks and 40%-45% bonds for the average investor, depending on their age and risk tolerance. With interest rates at a 30-year low, in today's market, it's just as important to be diversified in a wide variety of bonds as well as stocks. Going forward, it's hard to predict, but we can prepare. See colored chart below.

**60% Stocks/40% Bonds Allocation vs Indices Ending 12/31/11**

| 15 Yr | 10 Yr | 5 Yr | 3 Yr | 1 Yr | Index Definition |
|---|---|---|---|---|---|
| Mid Cap 9.98% | Nat. Res. 10.99% | Bonds 6.77% | Real Est. 21.63% | Real Est. 9.37% | Real Estate: DJ US Select REIT Index TR |
| Real Est. 9.18% | Real Est. 10.12% | Nat. Res. 4.04% | Mid Cap 19.57% | Bonds 7.84% | Int.-Term Bonds: BarCap Aggregate Bond |
| Nat. Res. 8.79% | Mid Cap 7.04% | 60/40 3.62% | Sm. Growth 19.00% | Lg. Growth 4.65% | Large Growth: S&P 500 Growth TR |
| Sm. Value 7.98% | 60/40 6.75% | Mid Cap 3.32% | Lg. Growth 16.57% | 60/40 2.12% | 60/40: 60% diversified Stocks, 40% bonds |
| 60/40 7.60% | Sm. Value 6.40% | Lg. Growth 2.38% | Nat. Res. 16.44% | Lg. Blend 2.11% | Large Blend: S&P 500 TR |
| Bonds 6.32% | Bonds 5.78% | Sm. Growth 2.09% | Sm. Blend 15.63% | Lg. Value -0.48% | Large Value: S&P 500 Value TR |
| Sm. Blend 6.25% | Sm. Blend 5.62% | Sm. Blend 0.15% | Lg. Blend 14.11% | Mid Cap -1.78% | Mid Cap Blend: S&P MidCap 400 TR |
| Lg. Growth 5.52% | Intl. 4.67% | Lg. Blend -0.25% | Sm. Value 12.36% | Sm. Growth -2.91% | Small Growth: Russell 2000 Growth TR |
| Lg. Blend 5.45% | Sm. Growth 4.48% | Sm. Value -1.87% | 60/40 12.28% | Sm. Blend -4.18% | Small Blend: Russell 2000 TR |
| Lg. Value 5.03% | Lg. Blend 2.92% | Real Est. -2.04% | Lg. Value 11.55% | Sm. Value -5.50% | Small Value: Russell 2000 Value TR |
| Intl. 3.94% | Lg. Value 2.87% | Lg. Value | Intl. 7.65% | Nat. Res. -7.35% | Natural Res: S&P North Am. Nat. Resources TR |
| Sm. Growth 3.39% | Lg. Growth 2.84% | Intl. -4.72% | Bonds 6.77% | Intl. -12.14% | International: MSCI EAFE NR |

Annualized returns. The above indices are unmanaged, which 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 (Yellow). Rebalanced annually on Jan 1.


This newsletter would not be complete without mentioning the passing of Steve Jobs on October 5, 2011 at age 56. Walter Isaacson, author of the *New York Times* best seller, *Steve Jobs*, interviewed Steve Jobs over 40 times and wrote a biography about Steve's life. If there are three words that describe his life, they are, **passion**, **focus** and **simplicity**. The passion to create a company with over 40,000 jobs which will live on to the next generation, and to focus on a few wonderful products that are simple, eloquently designed and easy-to-use. Years from now, Steve Jobs will be remembered in history along with Henry Ford, Thomas Edison and Walt Disney as one of the icons that made America great. We highly recommend reading this book.

For an electronic copy of this newsletter and our ADV Part II, please visit our website at www.spectruminvestor.com. We appreciate your business.

# Wealth Management

*Making the most of retirement*

**Brian E. White, CFP®**
Wealth Manager

Happy New Year! A new year reminds us that we're all one year older and for many folks, one year closer to retirement. As you approach retirement, thoughts of what your day-to-day life will be like may come to mind. You may wonder things like: How can I make my money last? What will I do if I don't go into work? How will I pass the time? Should I watch Ellen or Dr. Phil?

With the exception of your daytime television choices, we want to give you some tips on surviving retirement and making your money last. The last decade in the stock market was filled with volatility, which makes the average investor nervous, especially if they don't have a pension to rely on. At Spectrum, we continue to recommend the balanced portfolio approach to investing in order to reduce your volatility. We also suggest you review your estate plan, insurance, taxes and budget. While helping you invest for your future in retirement is our expertise, life in retirement is not, which is why we reached out to some of our retired clients for their suggestions.

**Stay in touch.** Being retired doesn't mean cutting off all connections within your social network. Stay in touch with those friends and former co-workers. Join LinkedIn or another social networking website so that you can stay connected.

Why should you stay in touch with your past business connections? One simple reason is to help the next generation prosper. Back in November of 2011, the Wall Street Journal did a series called *Generation Jobless*, which looked at the challenges young people are facing in today's job market. The series showed that the unemployment rate for individuals under the age of 24 was almost 17%. By staying in touch, you may be able to help some of your younger relatives find jobs as they get out of college – an extremely valuable graduation gift!

Beyond helping relatives find jobs, you may also discover that retirement isn't exactly what you thought it would be. Your spouse may realize that having you at home isn't exactly what he/she thought it would be either! Our part time employees at Spectrum have all retired from previous careers and now work one to three days a week. It provides them with extra income, a reduced-stress job and a way to show our clients what retirement really looks like.

**Keep up with technology.** Why? As one of our clients has said, keep up with technology or the world will pass you by. This doesn't mean that you need to buy all of the latest Apple products as soon as they're introduced. You don't need a Smartphone, tablet computer or 80" LCD TV to survive in retirement. However, utilizing email, social media (Facebook, Twitter, LinkedIn, etc.) and Skype are some of the ways you can stay in touch with the younger generation of relatives and co-workers. According to MSNBC, the average teenager sends or receives over 100 text messages per day. If you have younger relatives that you'd like to communicate with, text messaging, email and social media just may be your best bet.

**Stay (or get) In Shape.** At Spectrum, we stress this point to all of our customers; that's why we include articles by David Meinz on page four of the newsletter. There is absolutely no downside to being healthy and in shape. A recent study by Fidelity suggests that 68% of pre-retirees listed the cost of medical care as one of their three biggest financial concerns in retirement. Investing in your health doesn't need to include a fancy gym membership and personal trainer. You don't need to purchase the latest home gym or most expensive elliptical machine. A simple pair of walking shoes and the dedication to use those shoes 3 – 4 times per week will make a big difference. Just one more thing – a diet pill is not the answer. Like most challenges in life, hard work produces the best results!

Other suggestions from our retired clients include:

- Maintain a healthy lifestyle.
  *(Multiple retirees mentioned this)*
- Have an interest other than work. If you don't have one, come up with one.
- If you're married, be sure to understand your spousal relationship. If it's challenging while you're working, it will be even more difficult in retirement.
- Spend time with your spouse and grandchildren while you're able to.
- If you think it will be difficult to retire, try to cut back your hours or do consulting work.
- Volunteer, get into politics, join a golf league – anything that helps you build new social networks.
- Be sure to have a good investment advisor and retirement plan that lets you live your life without worry.



## Spectrum Investor® Update 12/31/11

| Category Average | 4th Qtr | 1 Year | 3 Year |
|---|---|---|---|
| Intermediate-Term Bond | **1.32%** | 5.86% | 9.22% |
| Moderate Allocation | 6.69% | -0.11% | 11.54% |
| Large Cap Value | 11.97% | -0.75% | 11.76% |
| Large Cap Blend | 11.14% | -1.27% | 13.18% |
| Large Cap Growth | 9.30% | -2.46% | 15.34% |
| Mid Cap Value | 12.83% | -3.96% | 16.57% |
| Mid Cap Blend | 12.72% | -3.81% | 17.41% |
| Mid Cap Growth | 10.36% | -3.96% | 18.63% |
| Small Cap Value | **15.86%** | -4.45% | 16.87% |
| Small Cap Blend | 15.25% | -4.07% | 16.77% |
| Small Cap Growth | 13.56% | -3.55% | 18.45% |
| Foreign Large Blend | 4.48% | **-13.97%** | **7.79%** |
| Real Estate | 14.79% | **7.51%** | **21.67%** |
| Natural Resources | 10.98% | **-13.97%** | 15.18% |

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

| | |
|---|---|
| **DOW: 12,217** | **10 Yr T-Note: 1.88%** |
| **NASDAQ: 2605** | **Inflation Rate: 3.4%** (11/2011) |
| **S&P 500: 1257** | **Unemployment Rate: 8.5%** (11/2011) |
| **Barrel of Oil: $98.83** | Source: www.bls.gov |
| | Source: *USA Today* 1/3/12 |

# In Other Words

*When is it okay to take out a 401(k) loan?*

**Angie Franzone**
Newsletter Editor

No matter how careful, responsible or prepared we try to be with our money, the reality is that life happens. We get into jams and we struggle to find our way out. We're only human after all. Not all of us have an emergency fund to turn to when times get tough, although that should be a top priority in everyone's lives, and with help from an investment advisor or wealth manager, can be easier to set up than you think**. If you find yourself in need of money and you're considering taking out a loan on your 401(k) plan, ask yourself the following questions first:**

**Am I taking out a loan for the right reasons?** Your 401(k) plan is first and foremost a retirement savings plan and should be treated as such. If you're taking out a loan to buy something frivolous that you don't need and can't afford like a new snowmobile or a 92" television, then the answer is probably 'no'. Even in the case of funding your child's education, which is by no means a frivolous thing to spend money on, we suggest going to a financial institution and getting a student loan instead of dipping into your 401(k). One of the benefits of getting a student loan as opposed to taking a loan out of your 401(k) is that your child will eventually make the payments, as opposed to you having to make them at the expense of your retirement account. If you are taking out a loan on your 401(k) to buy a home or for emergency purposes, and I mean a *real* emergency, not because you just bought the iPad 2 in December and now the iPad 3 is coming out, then it may be an option, but only if it doesn't get you into even more debt, which leads us to question two.

**Can I afford to pay the loan back?** If you take a loan out on your 401(k) plan and it's not for the **purchase of a home, which is the only instance Spectrum recommends a 401(k) loan**, then you usually have five years to pay it back. In addition, the fees the plan charges for taking out the loan are generally low, it's a fast and easy process, there's no credit check and the interest you're paying on it goes back to yourself instead of to some other loan institution. You're probably saying to yourself, 'sounds great so far, sign me up!', but let's just take a step back for a minute.

After taking the loan out you may find yourself unable to make the necessary payments and end up using your credit card to pay the remaining balance. Then you find that you're unable to afford the credit card payments for the loan you just paid off and end up taking out yet another loan on your 401(k) to pay the credit card company. You can see where I'm going with this. It's very easy to end up in a dangerous situation that's not so easy to get out of.

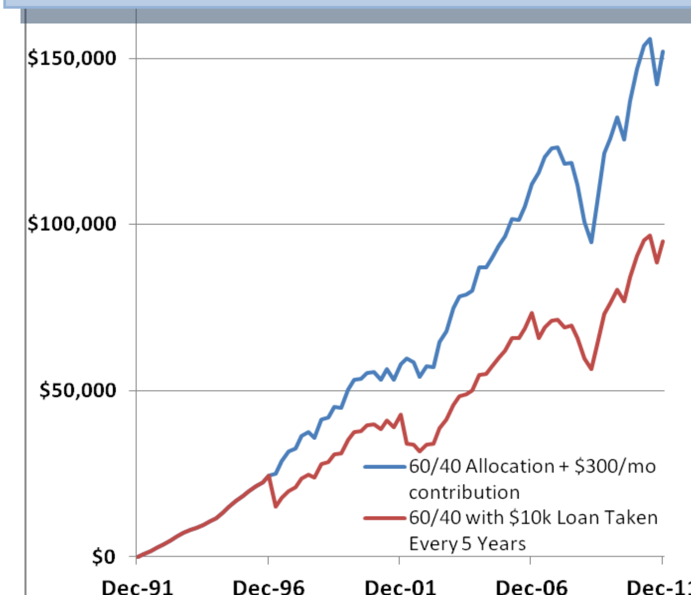
In addition to being able to afford to pay back the loan, if your plan allows it, you should also continue contributing to your 401(k) plan at the same time. Not only is the borrowed money not earning an investment return, but if you can't afford to continue contributing then you're also losing out on the opportunity to earn an investment return on the new money as well. In other words, the money you've borrowed from your account, as well as the money you've stopped contributing because of the need to pay back your loan, is no longer working for you and therefore, loses the potential to grow.

And finally, the last question you should ask yourself is – **How stable is my job?** Before you even consider taking out a loan, you must be aware of the risk that you could lose your job, either by choice or through a lay off. In most cases, upon termination you must immediately repay the loan, usually within 60 days, or face penalties. If the loan is not paid back in time, it counts as a distribution and is subject to federal and state tax as well as a 10% penalty if under the age of 59 ½.

Overall, a 401(k) loan can be a wise choice if it's taken out for the right reason (to purchase a home), if you can afford to pay it back while maintaining your full 401(k) contribution and if you are in a stable job, in which you know you will not be getting laid off or quitting before you have the chance to pay it back. If your 401(k) plan offers a loan option and you have been considering using it, please call our office and talk with an advisor to see if it's the right decision for you.

## The Cost of Borrowing from Your 401(k)

*Reducing your contribution to repay loans could cost you more than principal and interest alone*




For illustration only. Does not reflect actual account performance. Not an indication of future results.

*In the above example: 60/40 allocation: 60% stocks (20% S&P 500, 15% MSCI EAFE, 15% S&P Mid Cap 400, 10% Russell 2000) 40% Bonds (BarCap Agg Bond Index). Cannot invest directly in an index. Allocation is rebalanced annually at year end. Source: Morningstar.* ***Loan rate assumed at 5%, $300 monthly contribution reduced by loan payment amount of $188.71*** *($188.71 loan payment + $111.29 contribution = $300 monthly)*

*IRS Indexed Limits for 2012 are as follows:*
*401(k), 403(b) & 457 Employee Deferral limit is $17,000.*
*Catch-up Contribution limit is $5,500.*
*Source: The Internal Revenue Service*

# Invest In Your Health

*Why Women Love Chocolate on Valentine's Day*

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

Chocolate is the most commonly craved food in America. That's because there's lots of women in America. So what's the deal with women and chocolate? Are these cravings *physiological*? Is it your body telling you it actually needs something healthy that's found in chocolate? Or maybe the cravings are *pharmacological*. That is, does chocolate actually have a drug-like effect on your body? Or are the cravings *psychological*? In other words, is it just all in your head?

Or maybe it's all *physical*. You know, "hormones." After all, we know a lot more women than men crave chocolate. In fact, cravings seem to get much worse just before menstruation, when estrogen levels are moderate and progesterone levels are very high. What's more, we know that stress increases the loss of magnesium from your body. It's interesting that both chocolate and cocoa powder contain very high levels of magnesium. We also know that magnesium deficiency can contribute to symptoms of PMS. Now we're getting somewhere, this makes perfect sense. If you're under a lot of stress, or you don't eat enough magnesium because of an unbalanced diet, then that magnesium deficiency will aggravate your PMS symptoms and you desire a high magnesium food like chocolate. Oh, if it were only that simple. Unfortunately, kidney beans, lentils, and mackerel have a lot more magnesium than chocolate does, and I don't see too many women claiming to be mackerel-a-holics. No, that's not it.

It's also been suggested that a brain neurotransmitter called serotonin goes down before menstruation. Since eating carbohydrates can increase serotonin levels, this might explain a woman's desire for more pasta and breads and cereals. More "comfort foods." Unfortunately, it doesn't explain her specific desire for chocolate.


**"This magazine says we can lose 50 pounds in a week by eating chocolate cake three times a day. Finally, a diet that makes sense!"**

Could it be that chocolate is having some kind of drug like effect? Sorry, chocolate does not qualify as an addictive substance in the true sense. A true addictive substance will cause actual chemical changes in the brain. True addicts also develop a tolerance for the substance and suffer withdrawal pains as well. While chocolate and cocoa powder do contain some substances that can give your brain a sense of well-being, they have so little of it that you would have to eat between 50 and 100 pounds of chocolate at one sitting to get any real chemical effect. I bet even *you* don't eat that much chocolate.

Here's the bottom line. Those that study this kind of thing tell us that food cravings in general, and chocolate cravings in particular, really come down just to the human desire for pleasure. Period. Plain and simple. When we feel stress, depressed, or anxious, the body's natural response is to desire a pleasurable feeling. Even when we're not hurting, we still like pleasure. Our bodies simply perceive fat and sugars as pleasurable. And there's nothing on the planet that so uniquely combines the pleasures of fat and sugar at the same time as does chocolate. The complex flavor, the aroma, the texture, and the way it just melts in your mouth, (not in your hands!). There's nothing that spells pleasure like chocolate. That may be why the average woman eats eleven pounds of it a year.

But isn't chocolate *good* for you? Here's some basics. Chocolate is made from cocoa beans which come from the *cacao* tree. Unsweetened cocoa powder is made after the cocoa beans are roasted and a significant amount of cocoa butter is removed. The result is very bitter. If you use unsweetened cocoa powder you have to add your own sweetener. The good news that's coming out about chocolate really applies to *cocoa powder*, not your chocolate candy bar. It's specifically the cocoa powder that contains the healthful antioxidant substances called flavonoids. Chocolate candy, of course, has added fat and added sugar. Remember that every average 2.6 oz. bar of chocolate has around 23 grams of fat. It also has over eight teaspoons of sugar and around 400 total calories. Oh by the way, not all chocolate is the same either. Dark chocolate has more of the flavonoids than milk chocolate does. The darker the chocolate the better. By comparison, milk chocolate has more sugar, and it has butter fat and whole milk added as well. And white chocolate doesn't contain any of the good flavonoids at all. If you're going to eat chocolate for health purposes it needs to say it contains at least 70% cocoa content. Look on the label.

The bottom line on chocolate is that it is *not* a health food. Not in the form that most people consume it. Women crave it simply because it tastes so good. Same reason men like it. A much better way to get your antioxidants is from fruits and vegetables. They're also loaded with vitamins, minerals, and fiber, too. And you get a lot less fat, sugar, and calories than with a chocolate candy bar. Technically speaking, dark chocolate may have some minor health benefits. But don't fool yourself into eating chocolate because it's good for you. Just eat it--in moderation--because it tastes *sooo* good! Hey, you didn't really need a *reason* to eat chocolate anyway did you?

Nutritionist **David Meinz** presents keynotes to businesses and associations around the US and Canada based on his new book *Wealthy, Healthy & Wise: How To Make Sure You and Your Money Last A Long Time.* For information on his speaking services, or to order an autographed copy of his book, visit www.SpeakingOnHealth.com.

David Meinz is not affiliated with LPL Financial or Spectrum Investment Advisors.

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