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INVESTMENT ADVISORS

4th Quarter | 2014

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Spectrum Investor®
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Wednesday, May 2015
Social Security
Featuring a Guest Speaker
From Transamerica

10TH ANNUAL RETIREMENT PLAN INVESTMENT SEMINAR
Wed, June 10, 2015
Co-Sponsored by Spectrum
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We appreciate your business

Quarterly Economic Update

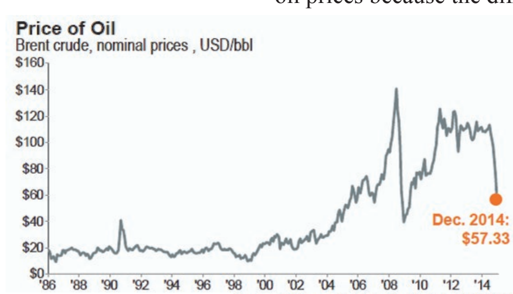
James F. Marshall
President

Jonathan J. Marshall
Chief Investment Officer

Since the March 2009 market bottom, the S&P 500 Stock Index has returned more than 200%, while bonds posted a 33% gain over that time. The S&P 500 Index was up 13.7% in 2014 (JPMorgan, 12/31/14).

The stock market rally is about to enter its seventh year in March 2015, making it one of the longest ever bull markets. As the US market risks have receded, **Jeff Kleintop**, Chief Global Investment Strategist at Charles Schwab, says the focus is changing from Fed stimulus to earnings.

The average stock in the S&P 500 Index is trading at a price of 16.2 times estimated earnings. That's below the 19.1 earnings average over the past quarter century, but not by a lot. Stock returns may be lower according to Senior Economist at Vanguard, **Roger Aliaga-Diaz**, but bond returns may be much less, so the relative advantage of stocks will be the same. The US economy is the healthiest, big player in the global field.



Source: *JPMorgan Guide to the Markets 12/31/2014*

10-Yr Government Yields

United States	1.93%	South Korea	2.46%
Japan	0.26%	Australia	2.69%
Germany	0.49%	Mexico (USD)	3.32%
France	0.78%	New Zealand	3.53%
Britain	1.57%	Brazil (USD)	4.18%
Canada	1.67%	Greece	9.68%

Source: *Bloomberg.com* (as of 1/12/2015)

Will the Federal Reserve end the bull market? According to **Burt White**, Chief Investment Officer at LPL, it is unlikely. While it *is* likely the Fed will start interest rate hikes in late 2015, which may contribute to an increase in stock market volatility, history has shown that stocks have subsequently performed well when the Fed starts to hike rates in response to better growth. During the nine economic expansions over the past 50 years, the S&P 500 has performed well around the first Fed rate hike. After the third Fed rate hike, stocks tend to become more volatile. The good news is, as gas prices fall, with the Fed's focus on inflation, it could hold down bond yields and make it tough to justify multiple rate hikes.

Jeff Gundlach, portfolio manager of the DoubleLine Total Return Bond Fund, believes that the Fed ending the stimulus will drive rates somewhat higher, but not by much. He stated that countries like Europe and Japan (buyers) will replace declining government support of the markets due to their own lower rates (chart). A likely strengthening dollar will help US bonds to remain attractive for foreign investors.

Jack Bowers, CEO of Independent Fidelity Investors, expects the US economy's growth to improve in 2015, which should put upward pressure on rates. When the Fed does raise rates, short-term bonds will be directly impacted. However, long-term bonds may not follow suit because of the world's trouble spots (*Fidelity Monitor*, 1/15). Our bonds are still a better deal than Europe's and Japan's.

A barometer to watch, is the yield curve. According to *Fidelity Viewpoints*, if the yield curve inverts, meaning short-term rates exceed long term rates, the economy historically goes into a recession (11/1/14).

Is a potential European recession a risk to US stocks? White explains that "Europe is teetering on the brink of another recession as the Eurozone struggles to return to reasonable growth," which has led to more stimulus by Europe's Central Banker, **Mario Draghi**. US companies have managed the slow down in Europe well thus far, helped by the relatively limited amount of revenue coming from Europe, which is about 15%, according to White.

How about the 4th quarter plunge in oil prices? The big news in the fourth quarter was the 40-year reign of the OPEC cartel being undone by the competition from US shale-field oil producers. According to Saudi Prince, **Al-Waleed bin Talal**, the Saudis are unlikely to cut production by 1-2 million barrels per day in an effort to drive up oil prices because the difference will likely be made up by other oil producers like Russia, Iran and Libya (*USA Today*, 1/11/15).

Gundlach believes the declining price of crude oil in 2014 will only accentuate **deflationary forces globally**, best illustrated by a recent decline in copper prices to $2.50, down from over $4 in 2011 (*WSJ*, 1/15/15). As Gundlach explains, "When you have [an oil] market that showed extraordinary stability for five years, trading consistently at $90 or above, undergo a catastrophic crash like this one, prices usually go down a lot harder than people think is possible" (*Barron's*, 1/5/15). Bowers states that the growth in US oil production is likely to slow, but not reverse.

The long-term demand for energy is still up, especially from the future demand in India and China, which is why we continue to like a small position in natural resources. In addition, with the strengthening dollar, we continue to like mid-cap stocks, where earnings are more closely aligned with domestic consumer spending vs. large cap stocks that rely on both international and domestic sales.

The good news is, unemployment has now dropped to 5.6%, down from 10% in October 2009. New light vehicle sales hit 17.1 million as of November 2014, according to JPMorgan, well above the average annual sales of 15.3 million. Goldman Sachs has predicted that lower gas prices will amount to a $125 billion dollar "tax cut", which benefits the US consumer. This is also the third year of a presidential term, which is historically strong for stocks.

Now is an important time to make sure your asset allocation is in line with your time horizon. Unless you are in your 20s/30s, for most investors, we suggest balanced portfolios consisting of a mix of both stocks, bonds/cash. Even if you've refinanced, consider **refinancing again**.

Wealth Management

A Good Problem To Have

Brian E. White, CFP®
Wealth Manager

In the last month or so, the Spectrum team has met with countless individuals. A question we've had from many of them is about cash they have on the sidelines. Most of the time the conversation goes something like this: "I'm sitting on <fill in the blank> dollars at my local bank in a savings account. I'm getting nothing from the bank. Do you have any ideas for me to put the money where I can get a better return?"

With short-term interest rates at an all-time low, money market and savings accounts can look very unattractive. Although inflation is very low right now, prices are still increasing. For example, food prices continue to increase. According to the USDA Economic Research Service, the price of pork is expected to rise 4.5 – 5.5%. The fresh vegetable prices are expected to increase 2 – 3%. It's hard to maintain purchasing power when your funds increase 0.05% annually. But, where do you turn? Here's another common question that usually follows the first: "Do you have some type of investment that is risk-free, pays about 5% and is completely liquid?" Unfortunately, like the mystical unicorn, it simply doesn't exist.

So, what does one do with excess cash in this low-interest rate environment? That really depends on a few factors:

Do you have an emergency fund? An emergency fund is a dedicated amount of liquid savings on hand for unexpected events. We suggest you have 3-6 months of living expenses in an easily accessible account. Some financial planners actually suggest up to a year of expenses in an emergency fund, but it really comes down to a personal preference. What do you feel comfortable with in an emergency fund? What amount will help you sleep at night?

If you don't have an emergency fund, try to get started as soon as possible. Set a reasonable goal for yourself – maybe $500 or $1000, then work your way up to the 3-6 months level. Make it a part of your monthly bills and consider using an automatic monthly transfer into your emergency fund.

Do you have any credit card or high interest debt? Consider paying it off rather than investing the money or keeping it in a savings account earning next to nothing. There is no tax deduction for credit card interest and the rates are often much higher than a person can expect to achieve by investing in the stock market.

What's your goal for this money? If you have an emergency fund established and don't have any credit card or high interest debt, you're in a good position to find an alternative to the cash position. This starts with your goal. Do you plan to never spend this money and pass it on to your heirs? Or would you like to use it as a down payment on a house? Are you saving it for education for your children/grandchildren?

Let's start with the education scenario. If you have a large cash balance that is earmarked for education in the future, consider moving those funds into some type of education savings account. A 529 plan or Coverdell Education Savings account can provide tax benefits and even professional management of those funds and are a better vehicle than a savings or money market account.

If the cash is meant for the down payment on a house within a year or less, stick to an FDIC insured account or accounts. If the timeframe is three months or longer, consider an FDIC insured CD to earn a higher rate of interest.

With a long-term goal in mind for your cash, consider investing in a portfolio that meets your risk tolerance guidelines and time horizon needs. As you are probably aware, there is a correlation between risk and reward. If you take on more risk, you may get a higher return. Until risk-free returns increase from current levels, consider moving some of your cash into the market IF you have a long-term goal for that cash. There will be ups and downs, of course, but history has shown that an investment in the stock market will help you keep up with inflation. Speak with your financial advisor or financial planner to talk about a plan of action.

If you don't currently use an investment advisor or would like another opinion, please give us a call. We'd love to hear your story. As always, past performance is not an indication of future results.

Spectrum Investor® Update 12/31/14

Morningstar Category Averages	4th Qtr	1 Year	3 Year
Intermediate-Term Bond	1.09%	5.16%	3.38%
Moderate Allocation	1.82%	6.21%	11.68%
Large Cap Value	3.59%	10.23%	18.33%
Large Cap Blend	4.18%	10.96%	19.01%
Large Cap Growth	4.41%	10.00%	19.42%
Mid Cap Value	4.94%	9.38%	**19.89%**
Mid Cap Blend	4.75%	7.80%	18.99%
Mid Cap Growth	5.14%	6.99%	18.22%
Small Cap Value	6.37%	3.33%	17.72%
Small Cap Blend	7.21%	3.79%	17.85%
Small Cap Growth	7.97%	2.44%	18.07%
Foreign Large Blend	-3.17%	-4.99%	10.24%
Real Estate	**13.14%**	**28.03%**	15.23%
Natural Resources	**-13.25%**	**-12.48%**	**-0.36%**

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

DOW: 17,823	**10 Yr T-Note: 2.17%**
NASDAQ: 4736	**Inflation Rate: 1.3%** (11/2014)
S&P 500: 2059	**Unemployment Rate: 5.8%** (11/2014)
Barrel of Oil: $53.27	Source: Morningstar, bls.gov, eia.gov

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors. The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

IRS Indexed Limits for 2015: 401(k), 403(b), 457 Plan Deferral Limit is $18,000. Catch-up Contribution limit is $6,000. Source: 401khelpcenter.com

In Other Words

Active vs. Passive Investing

Angie Franzone
Newsletter Editor

If you take a look at your quarterly 401(k) statement, you will see a list of investment options ranging from bonds, to balanced funds, to stocks, and each of those options employs either an active or passive investment strategy. Active vs. passive investment management may seem like an intimidating topic, but a basic understanding of each strategy is important knowledge to have as an investor. The difference between active and passive investment management is the goal of each strategy and the approach used to reach that goal.

In an active management strategy, portfolio managers carefully select each holding in the portfolio with the goal of outperforming specific benchmarks. For this service, the portfolio manager charges investors an additional fee above the trading costs. Investors looking for an opportunity to outperform a benchmark or a chance for reduced volatility are likely to prefer active management.

In a passive management strategy (index investments), the managers attempt to replicate the portfolio of a specific benchmark, which eliminates the need for economic or security research, thus minimizing costs associated with determining the makeup of the portfolio. Unlike active management, a passive strategy does not offer any potential for above-market returns or risk reduction, but it does provide low-cost exposure to market performance. Neither active nor passive strategies can completely shelter you from possible loss of principal.

At this point you might be thinking, 'Well that's great information to have, but how am I supposed to determine what mix of management strategies is right for my portfolio?' That's where Spectrum's Chief Investment Officer, Jonathan Marshall, comes into play. Part of his job is to research and analyze investments to determine the best ones to offer in our model portfolios. The following questions and answers provide an inside look into Spectrum's process of choosing the investments we offer in our plans and why.

How does Spectrum decide whether to choose actively or passively managed investments? For Spectrum, it's not a matter of choosing active or passive, but a matter of choosing the investment we feel provides the best chance to achieve our objective. Using analysis tools like our Spectrum Investor Fund Monitoring Scorecard® with our SIRRP® score, helps us make those decisions. The majority of Spectrum's portfolios include both active and passive investments. Historically, passive managers (index) outperform with declining interest rates, and active managers (stock pickers) do better in a rising interest rate environment (*Barron's*, 1/12/15).

What are the major considerations Spectrum takes into account when it comes to evaluating active managers? The major considerations are performance, relative risk, and expenses, but it is also important to evaluate the strategy and composition of each investment to understand why a portfolio may outperform or underperform in various market conditions. That goes for passive index investing as well active management. The benchmark the passive fund selects to follow is a very critical component to consider, as not all indexes are structured in the same way.

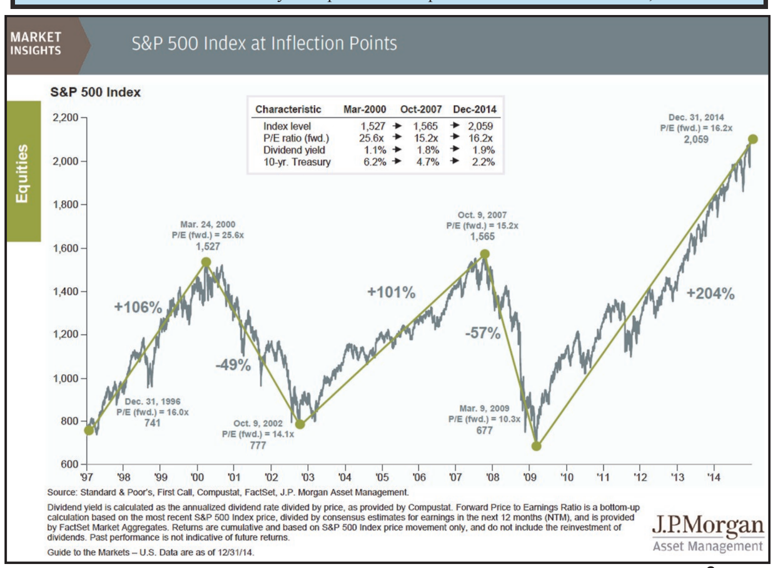
How do fees factor into your decisions? We select investments based on performance net of manager expenses, meaning, the returns are already after fees have been deducted. With that in mind, a higher fee is worthwhile if the end result is a higher return. However, high fees make it more difficult to produce outperformance consistently over the long run, so we favor those with lower expenses. We typically hear more requests for index investing close to a market top, as was the case in 1999, after a six year bull market.

To what extent should investors be concerned with whether an investment option is actively or passively managed? Investors should first focus on proper diversification and allocation for their risk tolerance and objective, then select the most suitable investments based on costs, performance, risks, objective and strategy, to build a diversified portfolio. Suitability is different for each investor, but in general, focusing too much on low cost index options could result in unintended consequences, such as lack of diversification. Our favorite low-cost index option (passive) is the mid cap index (light blue) which, as the below chart illustrates, has been very consistent unlike a lot of other indexes. Our second favorite is the S&P 500 Index. Our least favorite index is either international (white), which has the potential to underperform the market (see below), or the bond index. A typical bond index has approximately 70% in intermediate US governments, according to Morningstar. With the future of rising interest rates, intermediate US governments will likely not be a good place for the majority of your bond position.

60% Stocks/40% Bonds Allocation vs. Indices Ending 12/31/14

15 Yr	10 Yr	5 Yr	3 Yr	1 Yr		Index Definition
Real Est. 12.74%	Mid Cap 9.71%	Real Est. 16.99%	Lg. Growth 20.46%	Real Est. 32.00%		Real Estate: DJ US Select REIT Index TR
Sm. Value 10.23%	Sm. Growth 8.54%	Sm. Growth 16.80%	Lg. Blend 20.41%	Lg. Growth 14.89%		Large Growth: S&P 500 Growth TR
Mid Cap 9.65%	Lg. Growth 8.49%	Mid Cap 16.54%	Lg. Value 20.40%	Lg. Blend 13.69%		Large Blend: S&P 500 TR
60/40 7.70%	Real Est. 8.13%	Lg. Growth 16.05%	Sm. Growth 20.14%	Lg. Value 12.36%		Large Value: S&P 500 Value TR
Nat. Res. 7.54%	Sm. Blend 7.77%	Sm. Blend 15.55%	Mid Cap 19.99%	Mid Cap 9.77%		Mid Cap Blend: S&P MidCap 400 TR
Sm. Blend 7.38%	Lg. Blend 7.67%	Lg. Blend 15.45%	Sm. Blend 19.21%	60/40 7.50%		60/40: 60% Diversified Stocks/40% Bonds
Bonds 5.70%	Nat. Res. 7.65%	Lg. Value 14.86%	Sm. Value 18.29%	Bonds 5.97%		Int.-Term Bonds: Bar-Cap Aggregate Bond
Lg. Value 5.33%	60/40 7.56%	Sm. Value 14.26%	Real Est. 16.10%	Sm. Growth 5.60%		Small Growth: Russell 2000 Growth TR
Sm. Growth 4.34%	Sm. Value 6.89%	60/40 10.23%	60/40 11.10%	Sm. Blend 4.89%		Small Blend: Russell 2000 TR
Lg. Blend 4.24%	Lg. Value 6.79%	Intl. 5.33%	Intl. 11.06%	Sm. Value 4.22%		Small Value: Russell 2000 Value TR
Lg. Growth 3.03%	Bonds 4.71%	Bonds 4.45%	Bonds 2.66%	Intl. -4.90%		International: MSCI EAFE NR
Intl. 2.54%	Intl. 4.43%	Nat. Res. 4.28%	Nat. Res. 2.42%	Nat. Res. -9.77%		Natural Res: S&P North Am. Nat. Resources TR

Annualized returns. The above indices are unmanaged and cannot be invested into directly. Past performance is not an indication of future results. Diversification cannot protect from market risk. Source: Morningstar. *60/40 Allocation: 40% Bonds, 6% Lg. Value, Blend, & Growth, 12% Mid Cap, 6% Sm. Value & Blend, 6% Intl., Nat. Res., and Real Est. Allocation, excludes Small Growth. Rebalanced annually on Apr 1.©2014 Spectrum Investment Advisors, Inc.



Invest In Your Health

How To Have More (Healthy) Birthdays

David Meinz, MS, RD, FADA, CSP

America's Personal Health Humorist

A woman walked up to a little old man rocking in a chair on his porch. "I couldn't help noticing how happy you look," she said. "What's your secret for a long happy life?" " Well, honey, I smoke three packs of cigarettes a day," he said. "I also drink a case of whiskey a week, eat fatty foods, and never exercise." "That's amazing," the woman said. "How old are you?" "26," he said.

At this time of year, many of us reflect back and look forward. We've all had an extra birthday since last year at this time. Here're some suggestions on how to make sure that your future birthdays are healthy ones:

1. MARRY WELL. We've known for some time that being part of a committed relationship is good for your health and longevity. A 20-year study found that married men typically lived three years longer than unmarried men. Researchers looked at 1 ½ million employed men and women who were 30-59 years old. They found that men who were living with a woman without any high school education were 25% more likely to die during the study period than those living with a college graduate. It turns out that a woman's education was also important for her own health and longevity as well. And since women traditionally have more responsibilities in the home than men do, a higher education in the woman seems to be important for the family's lifestyle as well. Women with more education probably have more access to, and respond better to, important health information. That can translate into better eating habits and medical care not only for the husband, but for the whole family as well.

"After all these years, I'm finally comfortable in my own skin. Maybe it's because my skin is a lot bigger than it used to be!"

2. JOIN THE OPTIMISTS CLUB. Optimism is good for you. Mayo Clinic found that those scoring the highest on the pessimism scale were 20% more likely to die prematurely than the optimistic. Chronic negative thinking has been linked to poor health. Why? Pessimists tend to develop "can't win" attitudes and are less likely to take care themselves, get medical help, eat well, and avoid cigarettes. But more directly, pessimism may actually harm your immune system. Optimists are less likely to develop colds. In cancer patients, optimists tend to have better long-term results. Optimists are also more willing to try new things, and it turns out that lifelong learning is good for your mind as well. Just like your body needs exercise, so does your brain. A mind that is stimulated throughout life is less prone to depression, forgetfulness, and maybe even dementia. So after you retire, plan on learning a musical instrument or studying a new language.

3. GO VISIT YOUR RELATIVES. Or get some new ones that you like. Research has shown over and over again that humans are social creatures. We were not designed to go through life as lone rangers. Regardless of your age, the risk of premature death is 2-4 times higher in those that are socially isolated than in those who are socially connected to other people. Research is clear that quality relationships in your life with both family and friends can help you live both a longer and healthier life. Dedicate some time to maintaining and creating good relationships. Look for classes or organizations that share a passion that you do. Take a cooking class. Volunteer. You'll be healthier because of it.

4. AIM FOR 30 MINUTES OF ACCUMULATED EXERCISE FIVE DAYS A WEEK. Remember, older people who are more physically fit not only live longer, but more importantly, they live healthier, better quality lives. You may have heard that people who do serious exercise only gain a year or two of extra life. That doesn't sound like much, but keep in mind that's an average. On an individual basis, the increase in lifespan could potentially be as much as 10 to 20 extra years. And that makes it worth putting exercise into your life. Regular physical activity can also help you maintain a healthy body weight; another important factor for longevity.

5. EAT NUTRIENT DENSE FOODS. Not calorically dense foods. When you eat foods closer to the way they grow, they tend to have more nutrition and less calories than more processed foods. We've known for several decades that laboratory animals that are given all the nutrients they need but with about 30% fewer calories than average tend to live a much longer and much healthier life span. There's good reason to believe this is true in humans as well. You can decrease your calorie intake without being hungry all the time if you eat foods that are nutrient dense. That means a potato, not a potato chip. That means an orange, not orange juice. That means lean meat, not a big juicy steak. Foods that are closer to the way they grow also tend to have more fiber in them. When you eat foods that are not calorically dense you still get a lot of food and you also get to fill up. Not only does eating good-quality, more natural food help prevent many of the major killers of Americans, you'll also, separately, probably be contributing to a longer life at the same time.

Remember, a good goal is to die young… as late as possible!

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

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

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