As of 9/30/2019

Q4 2019 Spectrum Investor® Quarterly Newsletter

SPECTRUM℠ INVESTMENT ADVISORS

Economic Update

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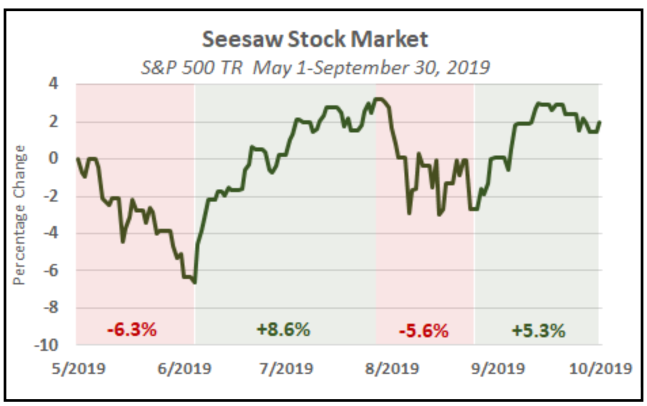
Time marches on as we enter the last quarter of this decade. The large cap S&P 500 stock index finished higher for the quarter by 1.7%, pushing the year-to-date total return up to 20.5%. Small cap stocks (Russell 2000) and international stocks (MSCI EAFE) were slightly down for the quarter, but both remain up over 10% year-to-date.

The majority of the move higher for stocks in 2019 has been the rebound off of the December 24, 2018 lows thanks to lower interest rates. Beyond that, it has been hard for stocks to press higher. Since late April 2019, the stock market has been caught in a seesaw pattern. Pulling stocks down: the US-China ongoing trade conflict and slowing global growth. Pushing stocks higher: the US consumer, corporate earnings and lower interest rates. The Federal Reserve cut interest rates for the first time this decade on July 31 and September 19 (both by 0.25%). The chart below serves as another reminder to stay the course and don't try to time the markets.



The strength of the US economy. The 300 million plus consumers in the US continue to be in a very strong position. Unemployment hit a 50-year low of 3.5% in September. Average hourly wages have grown over 3% in 2019, with inflation below 2%; that is a great recipe for consumer confidence. September retail sales were 4% higher versus a year ago. In the last 20 years, personal consumption has been more than two thirds of the US economy (US Census Bureau). The strong consumer is the key driver of US GDP growth, which is expected to hold around 2% into 2020.

Stalling but not falling. Other areas of the US economy are losing growth momentum, but they are still at very strong levels. Light vehicle sales in the US have held near 17 million units annually since 2015. Total annual construction spending has held above $1.25 trillion for three straight years, which is higher than peak levels during the housing boom of the mid 2000s. Housing prices are cooling a bit in spots, but still favorable in what is still considered a "very hot" market according to the Zillow Market Temperature, based on list-to-sale price, price cuts, and time on the market.

Slowing global growth. The International Monetary Fund (IMF) lowered their global GDP estimate to 3% for 2019. Not great, but still far from recession levels. The IMF places partial blame on the US-China trade conflict, causing a 0.8% cumulative hit to global GDP by 2020. The US has been insulated somewhat from trade issues because exports are just 8% of the economy. However, the pain that tariffs have inflicted elsewhere has ricocheted back to the US in the form of weaker global growth, which is weighing on US business investment and manufacturing. The ISM Manufacturing Purchasing Managers Index for the US dropped slightly below 50 in August and September, indicating contraction in the sector.

Central bank support. Federal Reserve Chair Powell said the Fed cut rates for a second time in 2019 "to keep the US economy strong in the face of some notable developments and to provide insurance against ongoing risks." The CME FedWatch Tool is showing the chance of a third cut on October 31 is over 75%. The Fed isn't alone. The Financial Times reported that 58% of global central banks cut interest rates in the third quarter.

Corporate earnings. John Lonski, Chief Economist at Moody's Capital Markets Research had a great reminder in his latest outlook: "Direction taken by earnings-sensitive securities will ultimately be determined by the outlook for profits." Corporate profits are still projected to be stronger in the back half of 2020, while holding ground through 2019.

IN THIS ISSUE

UPCOMING EVENTS

Retirement Plan Investment Seminar
October 23, 2019

Bridgewood Resort Hotel
1000 Cameron Way
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IN THE NEWS

Spectrum was selected as the ***2019 Ozaukee Economic Development Medium Business of the Year*** *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 6. Our ADV Part 2A & 2B and our Privacy Notice can be found on our website

Quarterly Economic Update Continued

Brexit update. The UK is scheduled to depart the European Union on October 31, 2019. On October 19, the UK government rejected a potential deal for the fourth time and requested an extension for negotiations. Unlike prior extensions, this was met with resistance from both the EU and UK Prime Minister Boris Johnson. This will keep the pressure on for a potential deal or a no-deal Brexit by October 31. News in either direction may bring market volatility, however, it is expected an extension will be granted through January 2020. When Brexit finally does happen, it will not mean the end of negotiations. The UK will need to negotiate trade agreements with all of its trading partners, including the EU. Trade terms are not part of any Brexit agreement, it is specific to the transition out of the EU.

US-China update. After negotiations in Washington DC on October 10-11, President Trump announced a "Phase 1" agreement. The agreement was verbal in nature, with text and specifics to be finalized in time for President Trump and President Xi to sign in November. The two presidents will be at the Asia-Pacific Economic Cooperation summit in Chile November 16-17, 2019.

The US was set to impose further tariffs on Chinese goods on October 15 and December 15 this year. The October increases were not put in place, and if the agreement is signed in November, the December tariffs are expected to be canceled. The most recent tariffs to kick in began September 1, 2019.

Any formalized agreement would be welcomed news for global markets, particularly if it serves as a launching pad for further agreements. However, we have been in this position before and seen negotiations fall apart. The US and China had been progressing toward a deal in May, until China unexpectedly backed away, leading to retaliatory tariffs from both sides.

If a deal is struck, preliminary reports indicate that China will buy $40-$50 billion of US agriculture per year, making US farmers the largest initial beneficiary of the potential Phase 1 deal.

Total New Tariffs Collected by US Since 5/18-6/19	2018-2019 Authorized Total for US Farm Aid
$27.2 B	$28.0 B
2018 US Agriculture Exports to China	"Phase 1" US Agriculture Exports to China
$9.3 B	$40-50 B

Source: Wall Street Journal,8/7/19

So far this year, US imports from China are down 12.3% year-over-year, but imports from Vietnam are up 33.2%, up 20.2% from Taiwan, up 9.8% from South Korea, up 9.7% from India and up 6.3% from Mexico. Hopefully Congress will pass the new version of NAFTA by early 2020, facilitating strong trade ties with Canada and Mexico (Brian Wesbury, First Trust 9/19).

Germany. Caught in between Brexit and the US-China trade war, perhaps no country has been harder hit than Germany. The IMF projects German GDP to grow at just 0.5% in 2019. German passenger car production has dropped below levels of the financial crisis. IHS Markit Manufacturing PMIs are at 10-year lows and employment in the manufacturing sector in Germany has dropped for the seventh consecutive month (See chart on upper right).

Source: Yardeni Research, Verband der automobilindustrie

Political risks or just noise? On September 24, House Speaker Nancy Pelosi announced a formal impeachment inquiry. According to the Kiplinger Letter, while only a simple majority of the House of Representatives is required to impeach a president, removing a president from office requires two-thirds of the Senate to vote to convict. (Which is why Bill Clinton was impeached, but remained in office). Conviction would require 20 republican senators to break ranks with the president – an extremely high bar to clear.

Will impeachment talks affect the markets? If the two most recent impeachment investigations of a US President offer a guide, the answer is, probably not. In both cases, the economy, one dismal, one robust, steered the markets. The trade war, Federal Reserve, and prospects of a recession have a greater impact. However, impeachment could have a deterrent effect on the ability to negotiate with China (Yahoo Finance, 10/7/19).

In our latest call with JPMorgan's Chief Global Strategist Dr. David Kelly, he mentioned political risks with next year's election. If either Elizabeth Warren or Bernie Sanders are elected, they would likely want to raise corporate taxes from the current 21% back to 35%. At the current 21% corporate tax rate, the P/E Ratio of the S&P 500 is at 16.8 times earnings. If corporate taxes are raised to 35%, it would reduce corporate earnings and possibly have a negative short-term impact on stock prices. Dr. Kelly said Joe Biden's tax increase proposal is half that of either Warren or Sanders.

What about our nation's trillion-dollar annual deficits? Greg Valliere, Chief US Policy Strategist for AGF Investments and Dr. Kelly both concur that our nation's trillion-dollar deficits are not an immediate threat to our economy. Paying interest on that debt is not an issue, as long as interest rates stay low and we continue to have some inflation, which means we will be paying off our debt with cheaper dollars.

The US yield curve continues to flash warning signs about the economy. When the 2-year treasury yield exceeds the 10-year yield, a recession has often followed within two years. We had a brief inversion where the 2-year was above the 10-year yield in August. It didn't hold long enough to be viewed as a credible signal, but the gap between the two remains narrow at around 0.15%.

Risk tolerance reminder. In many ways, we are in the same place we have been for the last several quarters. Trade negotiations are ongoing, global growth is slowing. The biggest difference from 12 months ago is interest rates. We've seen two cuts in the US already and the 10-year treasury has dropped from over 3% to 1.7%. Remember that market timing is typically unsuccessful. Rather, stay allocated in a portfolio that fits your time horizon. For those over 50 with more than 60 percent in equities, be sure that allocation fits your risk tolerance.

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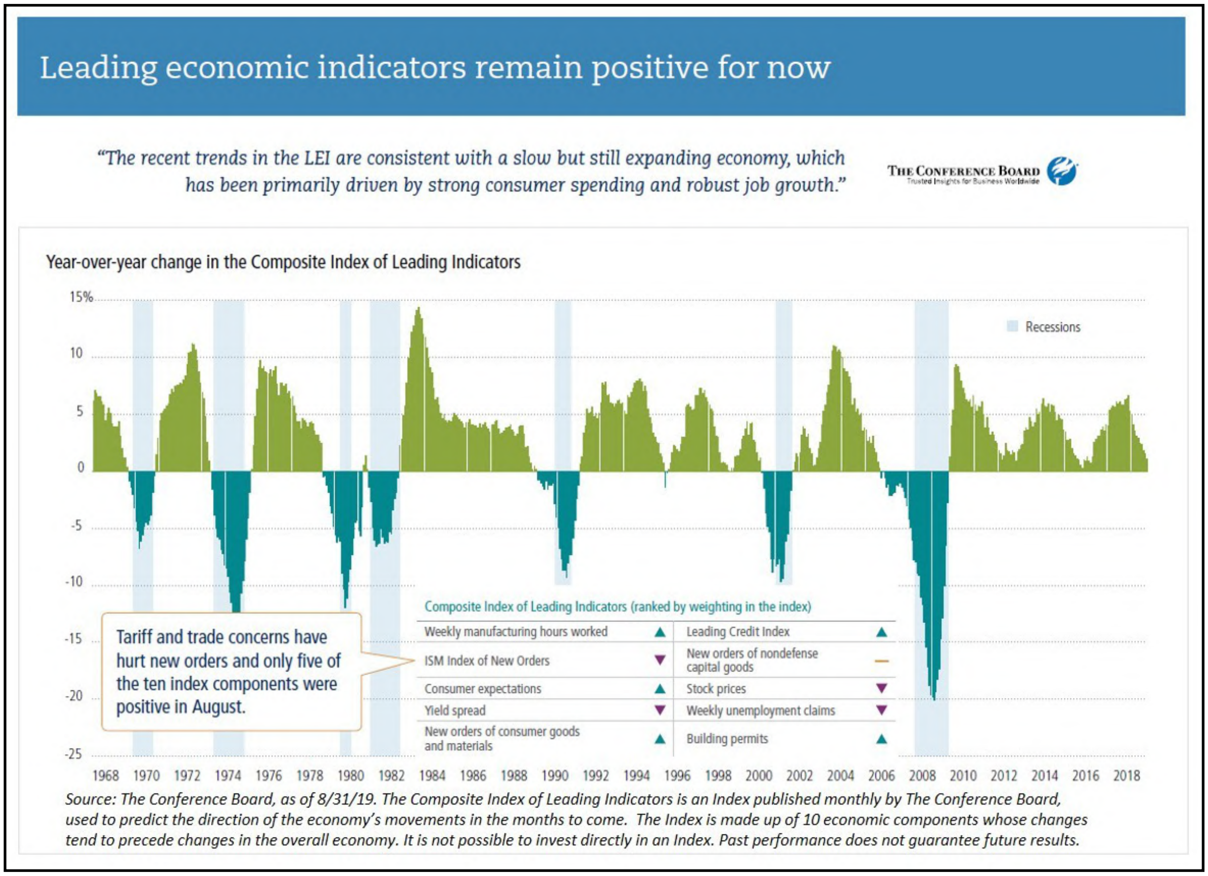
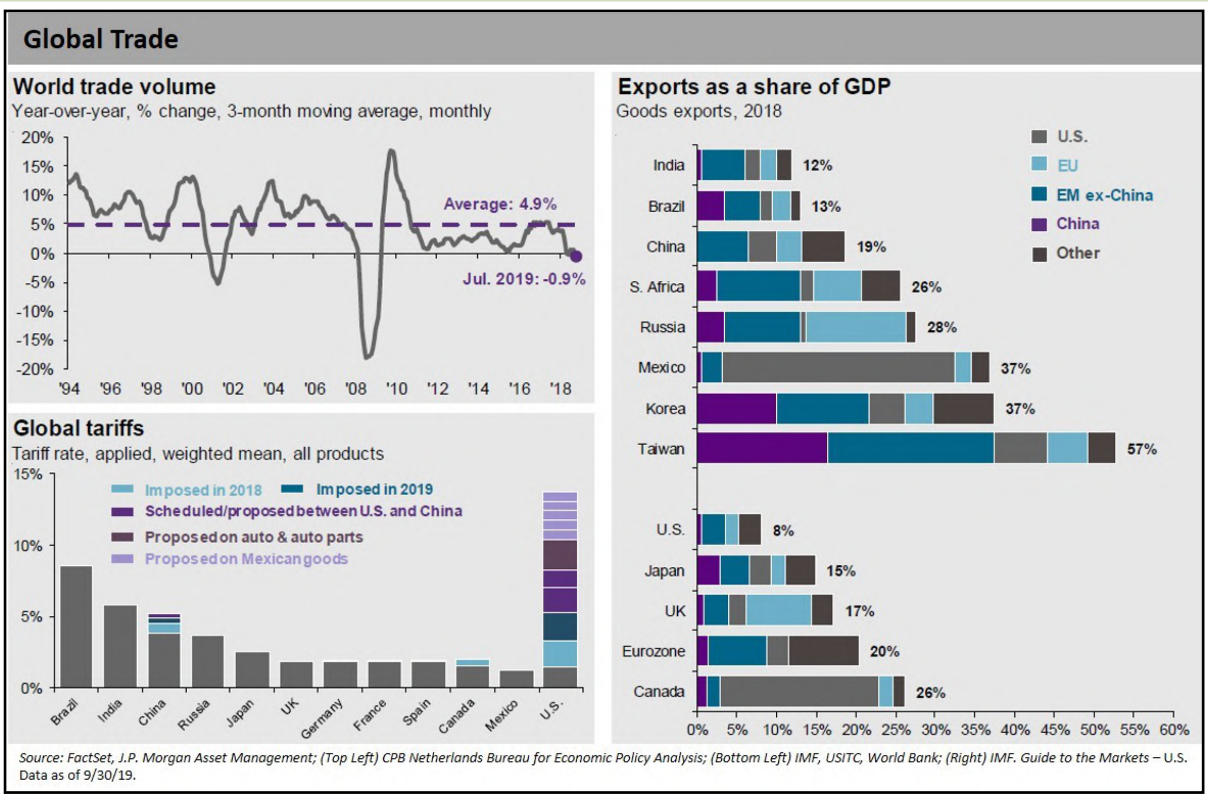
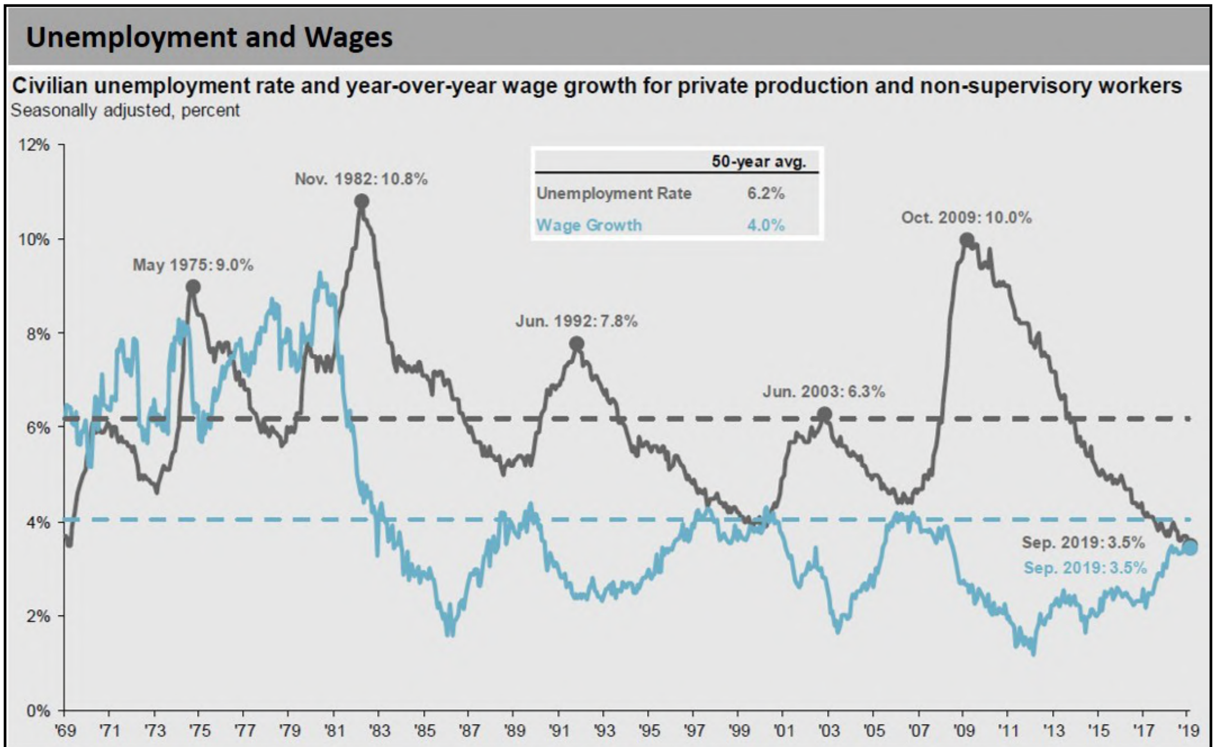
Leading Economic Indicators (LEI): The LEI chart below provides insight into the underlying drivers of US economic activity. The LEI reading turned negative (turquoise declining bars) prior to each of the past seven economic recessions (shown by the light blue shaded areas). While recent readings remain positive (green bars), the year-over-year trend has been heading downward in recent months, suggesting US economic growth may continue to slow further as 2019 progresses.



Global Trade: Higher tariffs and uncertainty surrounding trade, especially between the US and China, are putting downward pressure on global trade volumes. Global growth may slow further if no deal is reached and the proposed tariffs are actually imposed. Countries whose economies have been hit hard by trade tensions are the four export powerhouses: Germany, Japan, Korea, and Taiwan as exports represent a large share of their countries' GDP (shown on the right chart below).

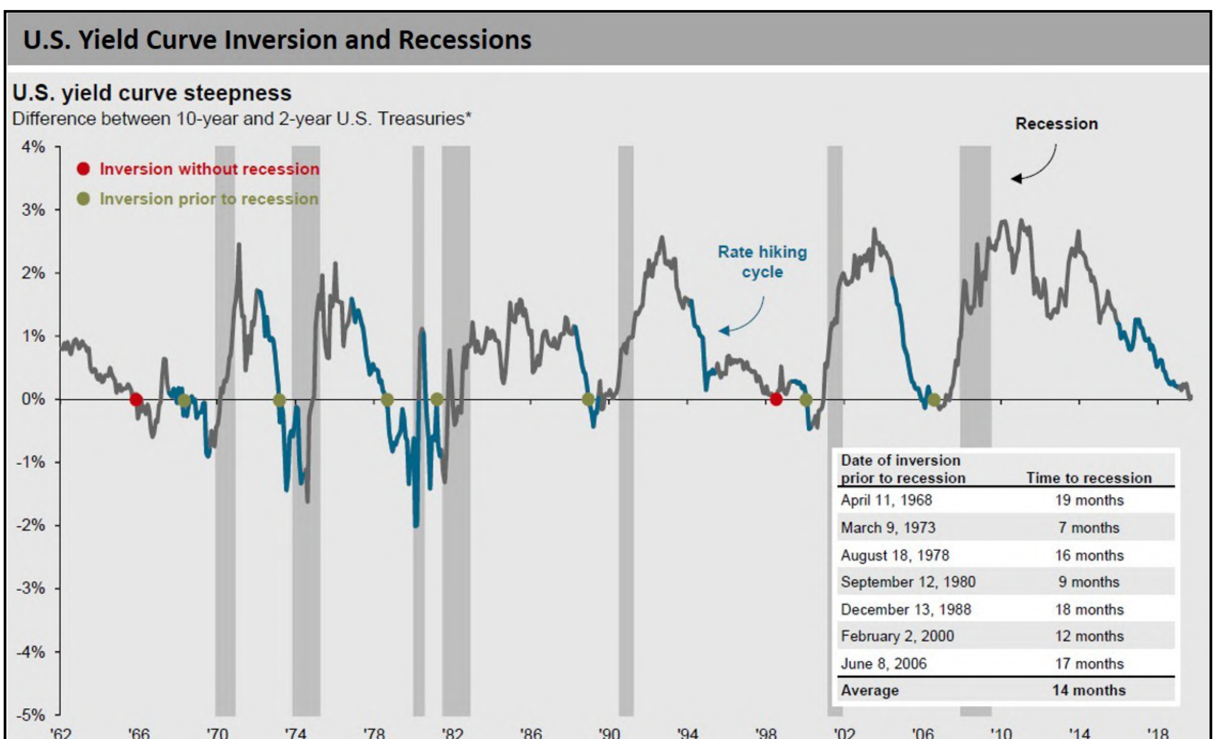


Unemployment and Wages: Late cycle signals persist in the US as average hourly wages continue to grow and the unemployment rate now stands at 3.5%, its lowest level in nearly 50 years. The strong labor market has played an important role in keeping the expansion going as it has supported consumer spending, which represents around two-thirds of the US economy.



Source: BLS, FactSet, JPMorgan Asset Management. Guide to the Markets – U.S. Data as of 9/30/19.

Inverted Yield Curve: Since 1960, 2-year treasury yields have exceeded 10-year yields prior to every recession. The 2-10 year US treasury yield briefly tipped into inversion in August, but it did not hold long enough to be a credible signal of an imminent recession. While there are reasons to believe that the yield curve is distorted after years of Central Bank intervention, it is yet another sign that we are late into the economic cycle.



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 9/30/19.

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In Other Words
Emotional Investing

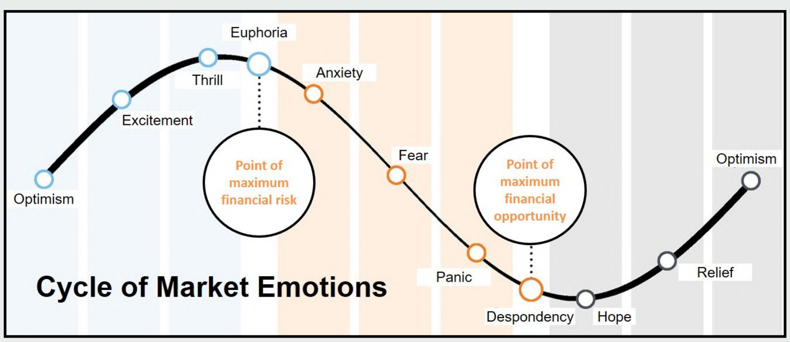
Angie Franzone | Newsletter Editor

In looking back over your life, has making long-term decisions based on momentary emotions ever worked out well? For example, tattooing the name of someone you've just met on your body, only to break up with them a week later, or channeling your bad day at work into a long, expletive-filled Facebook post about how you hate your job that can be screenshotted and saved for all of eternity. Now, that is not to say that making decisions based on emotions can never have a positive outcome, I mean, where would we all be if the person who invented chocolate covered bacon had been thinking rationally? However, when it comes to saving for retirement, the less emotion involved, the better.

The two most common emotions associated with investing are fear and greed. By recognizing that you have these feelings, you can take steps to keep them in check. Take Warren Buffett for example, in response to volatile market fluctuations in 2016, Buffett said that buy and hold was still the best strategy. He advised that, "As long as you are invested appropriately for your goals, stay away from your investment portfolio."

Our fear of losing money and desire for higher returns can create anxiety, which pushes us into acting prematurely because we are afraid of staying too long in a declining market, or being left out of a rising one. It's called loss aversion theory, which states that people feel the pain of losing money more than the joy of gaining money. In essence, it's better to not lose $5, than it is to find $5.

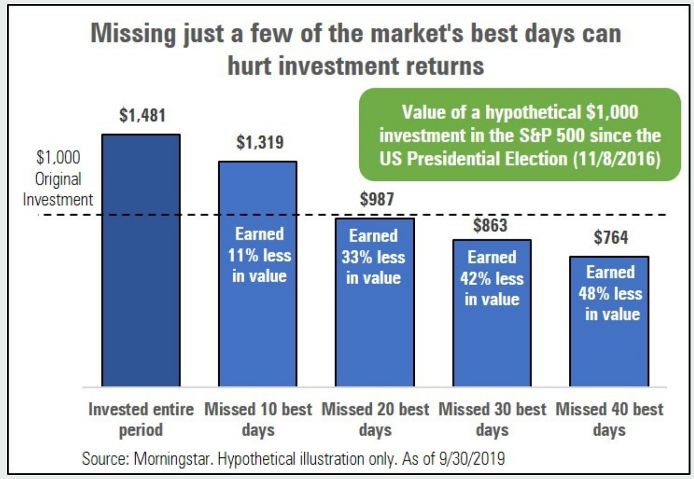
One of Buffett's classic lines is, "Be fearful when others are greedy and greedy when others are fearful." As you can see in the Cycle of Market Emotions illustration, that is the exact opposite reaction that most of us have during market volatility, effectively buying high and selling low.



The chart in the upper right column illustrates just how those emotional reactions to loss can have a negative affect on your long-term investments.

Missing out on just a few trading days can take a toll on your returns. A hypothetical investment of $1,000 in the S&P 500 made on election day in 2016 would have grown $481 by 9/30/19. However, if an investor missed just the 40 best trading days during that period, due to acting on momentary emotions, he or she would have ended up with 48% less in value.

Because market declines are part of investing and none of us has a crystal ball that can tell us when those declines will happen, we must rely on having a plan that helps us sleep at night and that we're comfortable with enough to stick to. To maintain confidence in your plan you should have a diversified portfolio at a risk level that is



appropriate for your time horizon and investment goals. If you are unsure what your risk level should be, or haven't reviewed your portfolio in awhile, the advisers at Spectrum are here to help.

Keep in mind, it is natural and normal to feel nervous during times of market volatility, but it's how you react to such periods that can mean the difference between being a successful investor and falling short of your goals. The next time the market is experiencing wild fluctuations, turn off the news, log off social media, and go grab yourself some chocolate covered bacon.

Spectrum Investor® Update

Morningstar Category Averages	3rd Qtr	1 Year	3 Year
Intermediate-Core Bond	1.99%	9.34%	2.58%
Allocation 50%-70% Equity	0.94%	3.60%	7.17%
Large Cap Value	1.53%	1.96%	9.42%
Large Cap Blend	1.44%	2.95%	11.66%
Large Cap Growth	-0.44%	1.93%	14.71%
Mid Cap Value	0.45%	-2.13%	7.04%
Mid Cap Blend	-0.15%	-1.63%	8.32%
Mid Cap Growth	-1.79%	1.21%	13.12%
Small Cap Value	-0.58%	-9.39%	4.91%
Small Cap Blend	-1.30%	-7.74%	7.17%
Small Cap Growth	-4.19%	-7.49%	11.53%
Foreign Large Blend	-1.27%	-2.05%	5.54%
Real Estate	6.91%	17.46%	7.24%
Natural Resources	-5.48%	-12.76%	2.12%

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: 26,917 **10 Yr T-Note: 1.68%**
NASDAQ: 7,999 **Inflation Rate: 1.7%**
S&P 500: 2,977 **Unemployment Rate: 3.5%**

Data as of 9/30/19 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.

Spectrum Wealth Management

Time to Give

Brian White, CFP® | Wealth Manager

As we transition into October and the season of fall, many of us look forward to Halloween. Children view this as a glorious opportunity to accumulate their annual supply of processed sugar within a window of about an hour. Adults are freely distributing treats to mini-ballerinas, pint-sized super-heroes and not-so-scary-monsters after an adorable "Twick or tweet" is uttered at the urging of the parents. Those same parents will then have a sample of the candy (Dad tax) before bringing it to work and distributing the calories among co-workers. This is the start of the downhill holiday trajectory for diets.

The idea of handing out treats quickly moves from candy bars to currency. In less than two months, the holiday season begins. You could also say that the giving season begins during the same time. In fact, the largest month for charitable giving is December. According to Giving USA's 2018 Annual Report on Philanthropy, total giving to charitable organizations was $410 billion in 2017. That's 2.1% of GDP! For some people with adult children, they start to consider also giving to the next generations. These decisions are often driven by income tax situations.

Charitable Giving. The Tax Cuts and Jobs Act of 2017 made some big changes to the tax laws when it became effective in 2018. One of the more notable changes was the increase in the standard deduction. For 2019, that amount is $12,200 for individuals and $24,400 for married filing jointly. Estimates from the Urban-Brookings Tax Policy Center say that about 90% of households will file using the standard deduction. In 2016, it was about 60% of households. There was initially concern that charitable giving would go down because of this, but the statistic in the previous paragraph show that this isn't the case.

In our March 31, 2019 newsletter, we talked about the qualified charitable distribution (QCD) from IRA accounts. Be sure to visit our website to read about that in more detail. This is a very valuable tool, especially with the increase in the standard deduction for federal income taxes. Individuals who are over 70 ½ are able to contribute directly to a qualified charity from their IRA. This helps to satisfy their required minimum distribution (RMD) without counting toward their taxable income. For example, if Sally Smith has a RMD of $25,000 for 2019, she needs to take $25,000 from her traditional IRA account and count it as taxable income. If she regularly contributes $5,000 to the local animal shelter, Sally can utilize the QCD and have the donation sent directly to the shelter. This lowers her taxable income by $5,000, regardless of how many itemized deductions she has.

In addition to cash donations, most charities will accept stock donations. If you have an individual stock with significant capital gains, consider a donation of that stock to the charity in favor of a cash donation. For example, Sally Smith wants to donate $3,000 to a local youth camp. Let's say she has $3,000 in Apple stock that was purchased at a cost of $500. Sally can either sell the stock and gift the proceeds OR gift the stock directly. By selling the stock, she would be on the hook for taxes on $2,500 in capital gains. At 15% capital gains rate, she would owe $375 at income tax filing tax time. By gifting the stock directly to the youth camp, she is still able to donate $3,000 without paying any capital gains taxes on the stock.

One aspect of giving that we didn't previously worry about was personal data protection. Online/mobile giving rates are up almost 3 times the rate of overall giving. Giving through an app or a website is almost too easy, because we don't question the security of the data that is streaming through the Internet. With that being said, be sure to find out if the charitable organization you donate to has a Donor Privacy Policy. This is in addition to the Privacy Policy and explicitly tells donors when or how they will use the data associated with your visit to the website. It's strongly encouraged that you only donate online to organizations that have an up-to-date Donor Privacy Policy.

Whether it's a $5 donation to the red Salvation Army bucket, a $500 gift to the Humane Society or a $5,000 gift to a grandchild, we need to be thoughtful of how (and how much) we execute that donation. We also need to think about the impact of the gift upon the donee. While giving is a personal decision, Spectrum would be happy to help you make a good choice. We would also encourage you to speak with your tax and estate planning professionals.

The "race to zero" for the brokerage industry

Effective October 3, 2019, TD Ameritrade, Spectrum's Wealth Management custodian, lowered their online stock trading commissions from $6.95 per trade to $0, matching competitor Charles Schwab who also lowered their online trading commission from $4.95 to $0 on October 1, 2019.

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