As of 9/30/2018

Q4 2018

Spectrum Investor® Quarterly Newsletter

SPECTRUM℠ INVESTMENT ADVISORS

Economic Update

James F. Marshall
President

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Chief Investment Officer

The booming US economy has driven US stocks and treasury yields higher through September 30, 2018. The S&P 500 Index was up 7.71% for the quarter and 10.56% year-to-date (YTD). We are in unprecedented territory; not only did Wall Street hit an all time high during the summer of 2018, but we made history. We are now in the longest bull market ever, beating the October 1990 to January 2000 bull market of 10 years.

2018 has been more challenging for international stocks. The MSCI EAFE Index was down -1.43% year to date after rising 25% in 2017. Emerging markets are particularly weak, down -7.68% following a 37% gain last year (MSCI EM Index). Returns for US bonds are also negative this year due to rising interest rates. The Bloomberg Barclays US Aggregate Bond Index was down -1.6% through September.

Strong US Economy. In September, jobless claims fell to the lowest level since 1969, while wage growth rose to the highest level since 2009. Real GDP in the second quarter topped 4% for the first time since the third quarter 2014. This is in line with expectations that pro-growth initiatives by the Trump administration would provide at least a temporary boost to the economy and ideally lead to more sustainable long-term growth.

Inverted Yield Curve. An inverted yield curve has a track record of forecasting economic trouble ahead. Each of the past seven recessions were proceeded by such an inversion where the rate on two year treasuries exceeded the rate on 10-year treasuries. The chart below shows the spread between the two yields. **Whenever the line goes below zero, a recession has followed shortly after, as indicated by the gray shaded area.** With the Federal Reserve planning for another rate hike of 0.25% in December, it is possible we could see an inversion.

IN THIS ISSUE

UPCOMING EVENTS

Retirement Plan Investment Seminar

October 23, 2018

Co-Sponsored with the WICPA

Click here for more information and to register!

Radisson Hotel
2040 Airport Drive
Green Bay, WI 54313

IN THE NEWS

Spectrum was selected as a

2018 Best Places to Work award winner

by the *Milwaukee Business Journal*

Please see important disclosures on page 5 of this newsletter

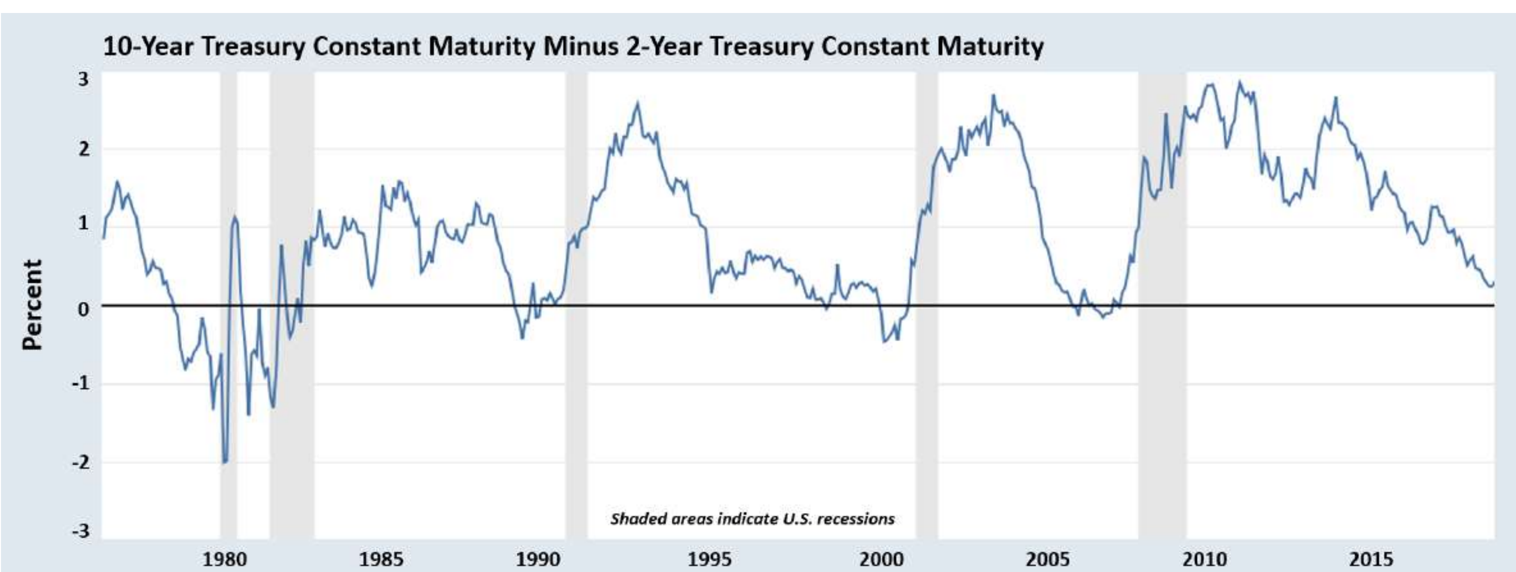
WEEKLY MARKET UPDATES

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

Our ADV Part 2A & 2B and our Privacy Policy can be found on our website

Historically, over the past five recessions, the lead time from the inversion to the onset of a recession averages nearly two years, according to **John Boyd,** editor at *Fidelity Monitor and Insight*. If long-term rates gradually rise with short-term rates, we could persist in an environment with a "flat", but not inverted yield curve. In 1994, the yield curve was down to 0.15% but didn't invert for another four more years in 1998.

Ten years after the financial crisis of 2008-2009. September 15, 2018 marked the 10th anniversary of the Lehman Brothers collapse and the financial crisis of 2008. Through a series of mis-steps, the US government encouraged irresponsible mortgage lending. It started with the Community Reinvestment Act of 1977 that encouraged higher risk mortgage lending to help finance consumer mortgages. The Federal Reserve lowered interest rates following the bursting of the dot-com



Source: Federal Reserve Bank of St. Louis

Quarterly Economic Update Continued

bubble to stimulate the economy and residential building in particular. This sparked an unsustainable real estate boom, which eventually collapsed in 2008-2009 (*Forecasts and Strategies*, 10/08). **Brian Jacobsen**, Chief Market Strategist for Wells Fargo and a two-time speaker at our Spectrum Investor® Coffee House Educational Series, explained that recessions come about because there is an excess that builds up which needs to be corrected. According to Jacobsen, "It's hard to pinpoint any economic excesses in the US right now."

The effects of the crisis are still very present. Ten years later, the US is the only major developed economy that has begun unwinding accommodative policies. The Federal Reserve has raised interest rates eight times since December 2015. Thirty year mortgage interest rates are now 4.9% up from a low of 3.31% in November 2012 (Yardini Research). The European Central Bank (ECB), is still a long way from its first increase. In Japan, interest rates are negative.

Consumer confidence. As the below chart illustrates, the latest reading of US consumer confidence is at its highest in 18 years, which should be a boost to this season's holiday sales. The consumer confidence index hit an all time high in early 2000, just before the 2000-2001 downturn. Consumer confidence typically reaches its peak, four to five months before the stock market peaks with a recession following an average, 12-18 months after that (*WSJ*, 10/8/18).

Consumer Confidence and the Stock Market

Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management. Peak is defined as the highest value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only, which excludes dividends. Past performance is not a reliable indicator of current and future results S&P 500 Index is a market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenue are based in the US. Guide to the Markets – U.S. Data as of 9/30/18.

Trade and geo-political risk. Despite high consumer confidence, investors fear an escalating US-China trade war and instability in Italy due to the populist movement. Italy's national debt is at 131% of GDP, the second highest level in the EU after Greece (see chart to the right), but unlike the banks in Greece, Italy's banks are "too big to fail" and would be difficult to save (*Time*, 10/18).

The new populist movement led by Deputy Prime Minister of Italy, Matteo Salvini, is in a show down with the European Union (EU) over its debt. It's a test of whether a populist government can successfully defy the rules that hold the EU and Europe together. The EU wants fiscal stability from Italy, while Italy wants to double down on its budget and raise its deficit. Potential trouble in Italy, Turkey or Argentina, along with the slowdown in China increases the appetite for safe-haven currencies, which could strengthen the dollar for a longer period making US stocks more attractive vs. international stocks. International stocks generally do better when the US dollar is weakening. **When interest rates rise in America, but no where else, the dollar strengthens** (*The Economist*, 10/13/18).

Trade talks with China show little progress. However, the good news is that the US, Canada and Mexico reached an agreement to update the North American Free Trade Agreement, the 1994 pact that governs more than $1.2 trillion worth of trade among three nations. The new deal, referred to USMCA, won't go into effect right away. Most of the key provisions don't start until 2020 because leaders from the three countries have to sign it and then Congress and the legislatures in Canada and Mexico have to approve it, which is expected to take months (*Washington Post*, 10/4).

General Government Gross Debt (Percent of GDP)

	12/31/17	9/30/18
Japan	237.6	238.2
Greece	181.8	188.1
Italy	131.8	130.3
Portugal	125.7	120.8
United States	105.2	106.1
France	96.8	96.7
Canada	89.7	87.3
United Kingdom	87.5	87.4
Germany	63.9	59.8
Mexico	54.3	53.8
China	47	50.1

Source: International Monetary Fund

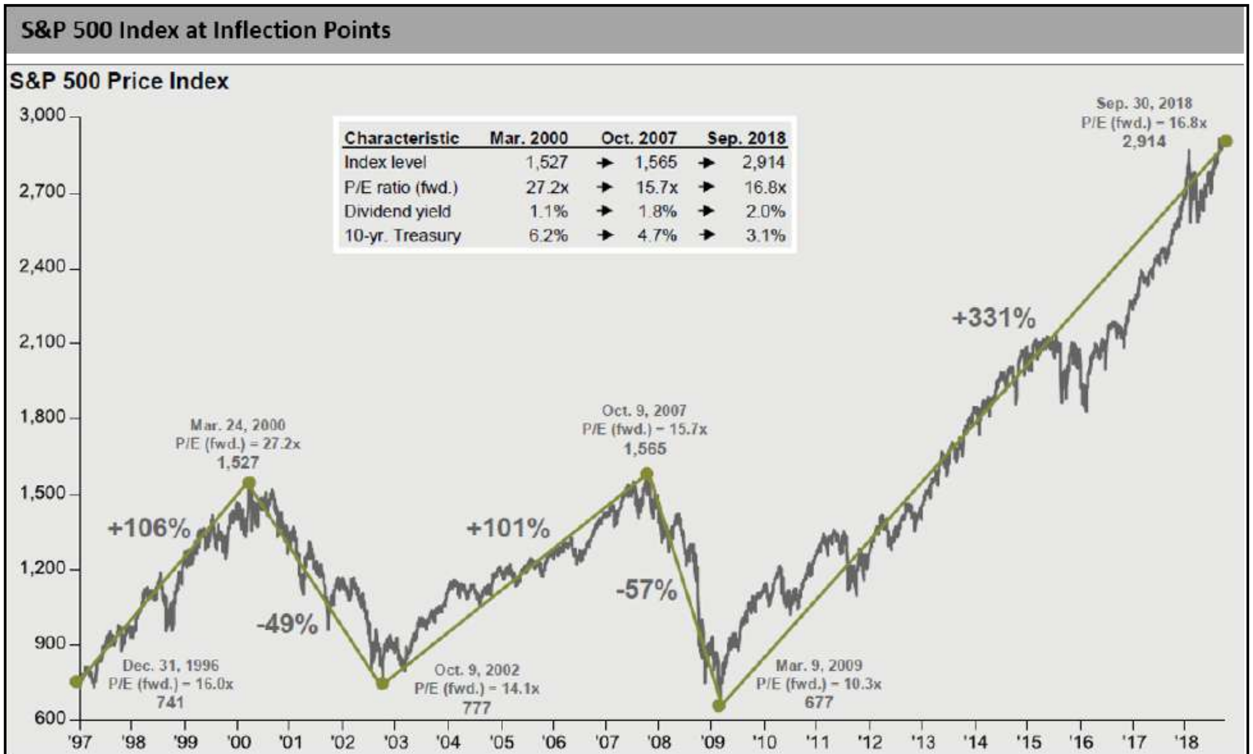
Mid-term elections. According to **John Lynch**, Chief Investment Strategist at LPL Financial, we are entering a favorable seasonal period. Over the four-year presidential cycle, the current quarter and the next two quarters have historically been good quarters for the market. The average gain off midterm election lows has been over 20% and has seldom been down in the 12 months following the midterm election, even if the election results in gridlock (*Weekly Market Commentary*, 10/15). Stocks were coming off one of the least volatile third quarters in many decades. The mid-October slide means that the S&P 500 has endured three pullbacks of 5%-10% this year, which is in line with the long-term average, and volatility ahead of elections is not unusual. Pullbacks are a normal part of investing and can be an opportunity to buy, but don't overdo it.

According to **Dr. David Kelly**, Chief Market Strategist for JPMorgan, the average investor will be overextended in stocks when the market is peaking, but under extended when the market hits a trough. Dr. Kelly suggests investing in a **balanced portfolio** that is not overextended on risk so you can make hay when the sun shines, but are also prepared for tougher times ahead as interest rates continue to rise. **According to Dr. Kelly, the early October market decline is not a signal to sell, but a reminder to rebalance**. Dr. Kelly does not see significant inflation, such as wage pressures, taking off. He also does not think the Fed is tightening too fast. Historically, in a tightening cycle, the Fed raises interest rates by an average of 2.5% per year. Assuming a rate hike in December, the Fed will have only raised rates 1% in 2018. Inflation is not a big threat. The big threat, however, is asset bubbles such as tech stocks in 2000 or real estate in 2007/2008.

According to Bloomberg News, two thirds of business economists polled by the National Association of Business Economics expect a recession to begin by the end of 2020. However, most expect the next recession to be mild (10/18).

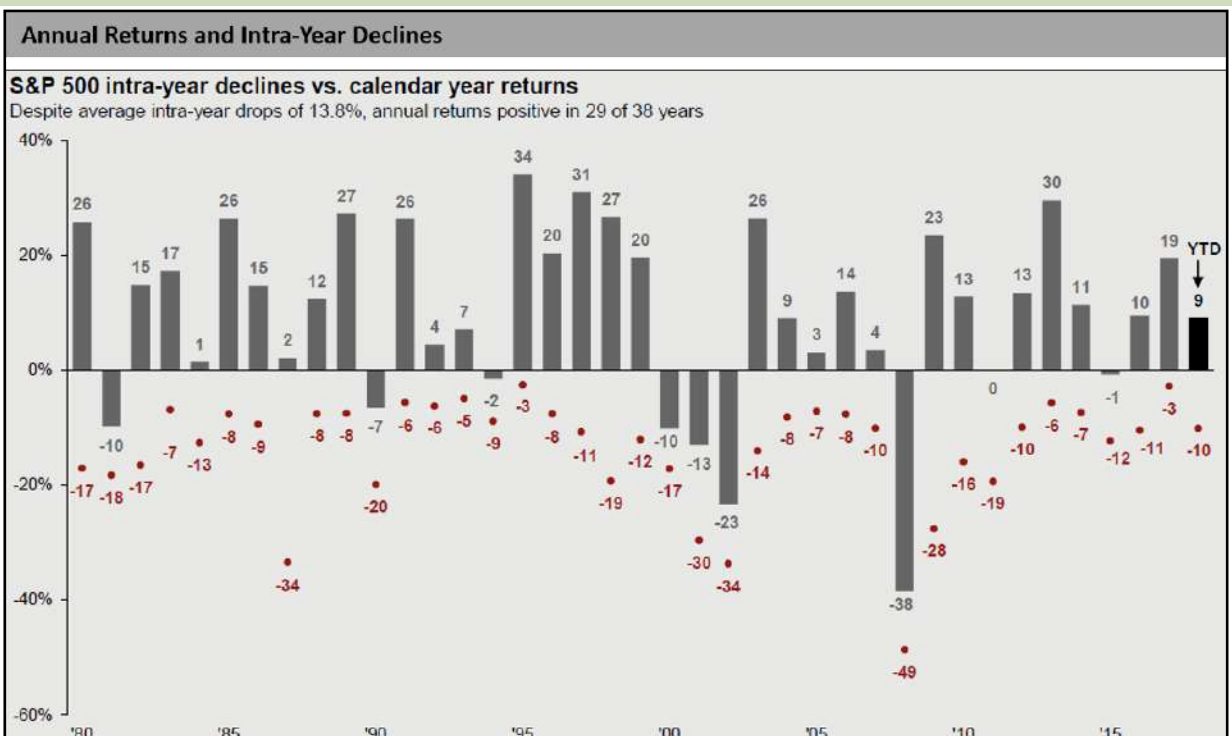
As we have recommended in our previous newsletters, any investor within 15 years of retirement and in more than 60% stocks should revisit their investment portfolio. For more on the markets, visit our website at www.spectruminvestor.com and click on Resources & Links.

S&P 500 Index at Inflection Points: The S&P 500 is up 331% since early 2009. Pay particular attention to the comparison of the dividend yield in the S&P 500 versus the interest rate on the 10-year treasury. In 2000 & 2007, as interest rates went over 4.5%, the market flowed to bonds versus stocks. We are getting closer to an inflection point, as the dividend yield on the S&P 500 is now at 2.0% versus the interest rate on the 10-year treasury at 3.1%. On June 30, 2018, the dividend yield was 2.1% versus the 10-year treasury at 2.9%.



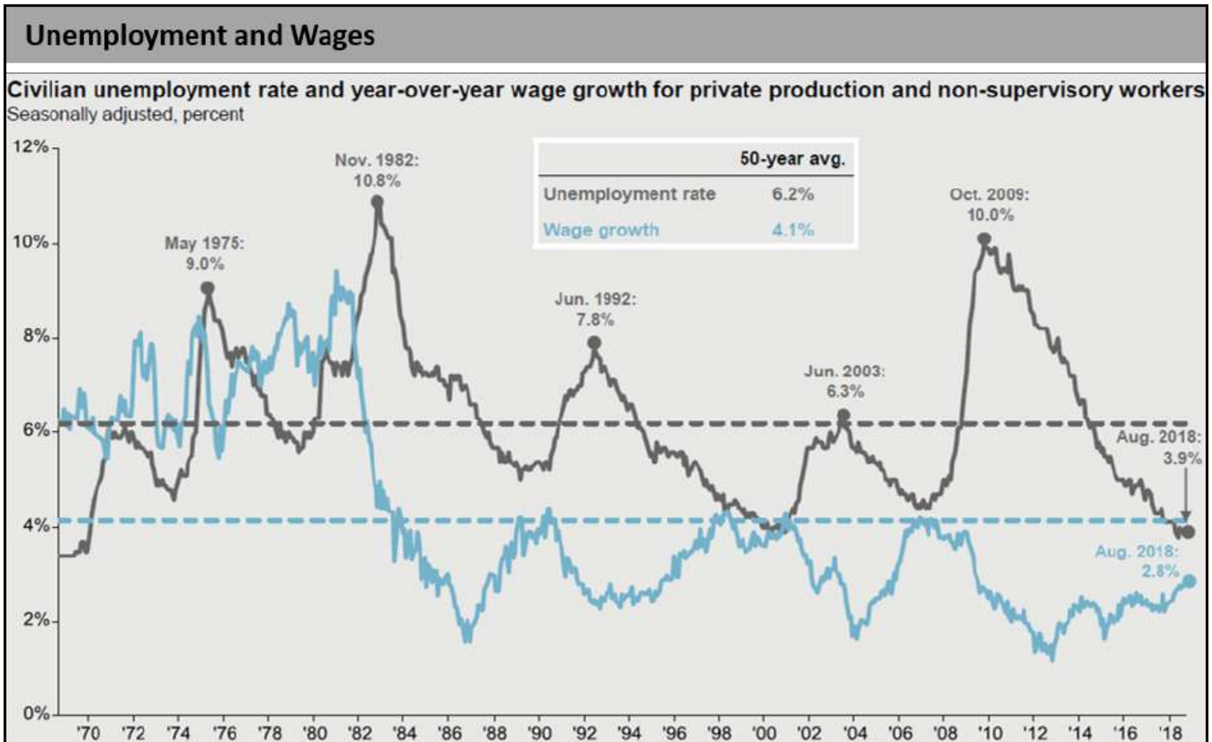
Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, JPMorgan Asset Management. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price to earnings ratio is a bottom-up calculation based 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. S&P 500 Index is a market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenue are based in the US. Guide to the Markets – U.S. Data as of 9/30/18.

Annual Returns and Intra-Year: Even though the average intra-year drop (red) is 13.8% , the annual returns have been positive 29 of 38 years, or 76.3% of the time. In 2018, we have had three 5%-10% declines, which is historically normal, and yet the S&P is still up 10.56% year to date. Studying this chart helps to make the average investor less emotional about investing.



Source: FactSet, Standard & Poor's, J.P. Morgan 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 1980-2017, over which time period the average annual return was 8.8%. See benchmark disclosures on page 5 of this newsletter. S&P 500 Index is a market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenue are based in the US. Guide to the Markets – U.S. Data as of 9/30/18.

Unemployment and Wages: As the below chart indicates, when unemployment and wage growth come close to intersecting, the Fed has to put the pedal to the medal and raise interest rates multiple times. We are getting closer to that point, with unemployment at 3.9% and wage growth at 2.8%. Dr. David Kelly, Chief Global Strategist at JPMorgan, said that by late next year, the unemployment rate could fall close to 3%, which means companies will need to raise wages to attract new employees, having an inflationary effect long-term, impacting the market.

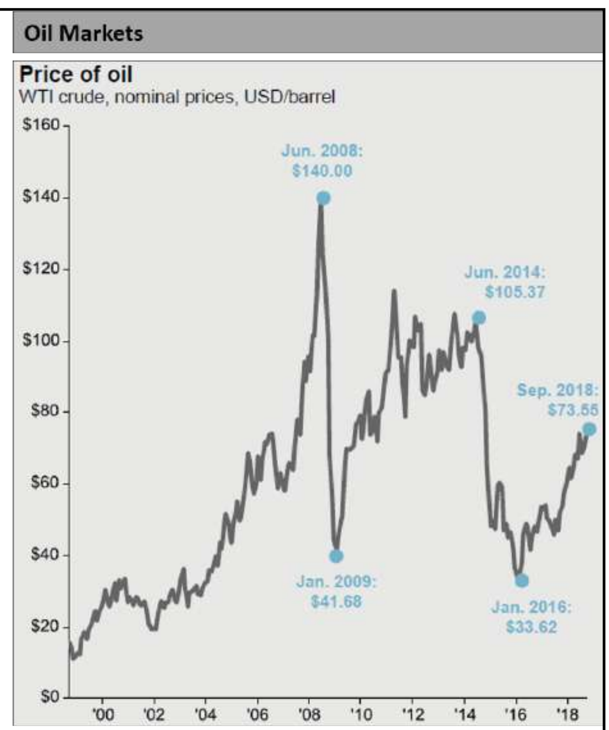


Source: BLS, FactSet, JPMorgan Asset Management. Guide to the Markets – U.S. Data as of 9/30/18.

Currency and International Equity Returns: Currency valuations historically flow in 5 to 7 year cycles. Under normal conditions after 5.5 years of the strengthening dollar, it should begin to weaken. However, relative to China, Japan and Europe, the US is the only major economy raising interest rates. When the US raises interest rates and no one else does, the dollar strengthens, which is why we are currently under weighting international stocks. Historically, when the dollar weakens, international stocks preform better.

Oil Markets: Oil has increased from $33.62 in January 2016 to $73.55 in September 2018. Increasing oil prices tends to increase inflation.

Source: FactSet, JPMorgan Asset Management, Federal Reserve. Currencies in the nominal major trade-weighted U.S. dollar index are: Australian dollar, British Pound, Canadian dollar, euro, Japanese yen, Swedish krona and Swiss franc. Past performance is not a reliable indicator of current and future results. Guide to the Markets – U.S. Data are as of 9/30/18.



Source: FactSet, JPMorgan Asset Management. WTI crude prices are monthly averages in USD using continuous contract NYM prices. Guide to the Markets – U.S. Data are as of 9/30/18.

In Other Words

The Power of Working Longer

Angie Franzone | Newsletter Editor

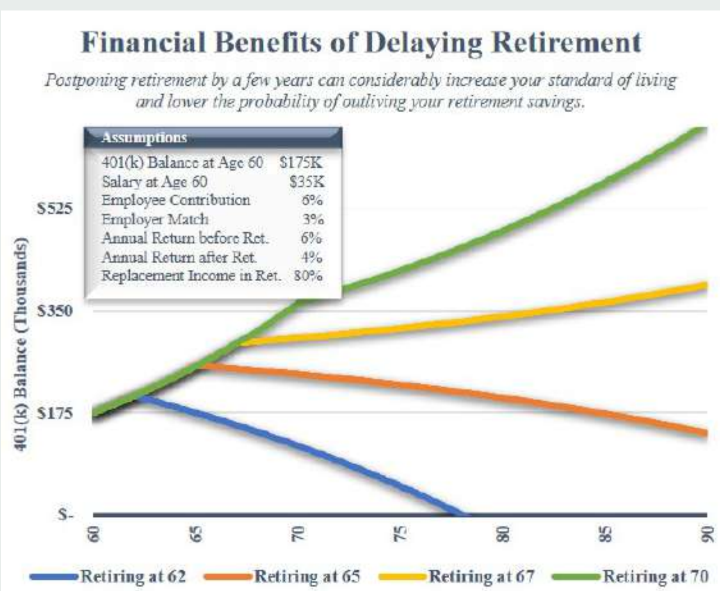
I realize that the idea of delaying retirement doesn't sound too appealing on the surface, especially if you've been at it for 30+ years. But what if I told you that working just a few years longer than you planned can mean the difference between living comfortably in retirement and possibly running out of money? Now that I've got your attention, let's take a closer look.

According to the National Bureau of Economic Research, working a few extra years has a much bigger impact on boosting retirement income for older workers than increasing retirement plan contributions during their last decade of work. There are several reasons why working longer can help boost your retirement income. For every month you delay retirement, you increase the amount you're able to save in your retirement plan. Since you're still working, you don't need to use the assets in your retirement plan, which allows them more time to grow. Also, the longer you work, the later you claim Social Security, resulting in a higher monthly payment.

You can take Social Security benefits as early as age 62, but they are reduced by 25% to 30% compared to claiming at full retirement age, which is currently 66, soon to be 67. If you wait until 70 to claim Social Security, which is the maximum age you can claim, benefits increase by 8% per year for every year beyond full retirement age.

If we take a look at the chart below, based on our assumptions, a 60 year old with an annual salary of $35,000, a retirement plan balance of $175,000, who is contributing 6% and receiving a match would run out of money by age 78 if he or she retired at age 62, the earliest social security benefits can be claimed.

Compare that with waiting three more years to retire at 65, and that same individual would not run out of money until age 90. At age 67, the retirement account balance actually begins to grow instead of go down because of the additional years of contributions and growth and the need to withdraw less due to the increased Social Security benefit.



For illustrative purposes only. Does not reflect any particular model or investment. The hypothetical calculations were based on the assumptions above and social security benefit estimates. Actual 401(k) balances may be materially different for each participant.

The working-longer effect is strongest for those with the lowest incomes. The reason for this is that those with lower incomes receive a higher percentage of their retirement earnings from Social Security, and claiming Social Security later results in a higher monthly benefit, therefore they can withdrawal less from their retirement plans and rely more on their Social Security benefits.

A general rule of thumb is that you will need to replace 80% of your income in retirement, known as the wage replacement ratio. While generalizing is not a good practice in the world of finances, the 80% wage replacement ratio does provide you with a place to start when planning for retirement. If your retirement plan balance is not reflective of your salary, you can run out of money before even hitting the 10-year mark, which is a scary thing to think about.

$175k balance, retiring at 65 with 80% replacement income will run out at age:		
104	**82**	**74**
Based on $35k salary	*Based on $50k salary*	*Based on $75k salary*

For example, the individual in the table to the right who made $75,000 per year but only had a plan balance of $175,000 by retirement, would have a $60,000 income need per year to maintain the standard of living he was used to during his working years. Since he retired at age 65, he did not reach full retirement age and therefore received a reduced benefit, causing him to have to rely on his retirement plan savings more, which was not as healthy as it should have been for someone making his salary.

In addition to the fact that if you're willing and able to delay retirement by even a few years, the impact on your retirement income could be substantial, a study published in the Journal of Economic Perspectives shows a correlation between retirement and a decline in cognition. The authors of the study conclude that, "on average, retirement causes a decrease in a person's cognitive ability relative to staying in the labor force" (*Mental Retirement*, 2/10).

There are, of course, reasons why you may not be able to delay retirement and those range anywhere from simple unhappiness in your work, to more complicated reasons like failing health or lack of opportunity to continue working. That is why it's important to do all you can to prepare for retirement, including increasing contributions, taking advantage of the company match, diversifying your portfolio, refraining from taking out loans, and if possible, taking advantage of the power of working longer.

Spectrum Wealth Management

Senior$afe Act of 2017

Brian White, CFP® | Wealth Manager

Back in 2017, Senators Susan Collins and Claire McCaskill introduced the Senior$afe Act of 2017, which was signed into law in May of this year. In its most basic form, the law is designed to enlist the help of banks, investment advisers, brokers and credit unions in the fight against financial abuse of older adults. These financial institutions can train their employees to spot potential fraud and are able to report to law enforcement without the fear of being sued.

As an investment adviser, Spectrum is an important component in the Senior$afe Act. We are actively educating our employees to keep an eye out for any financial scams aimed at seniors. We are also staying alert to the possibility of diminished capacity of our clients. Diminished capacity, from diseases like Alzheimer's, can lead to poor financial decisions and ultimately a loss of money.

According to AARP, older Americans have accumulated wealth of $18 trillion in assets, this makes them a prime target for financial fraud. In fact, AARP's Public Policy Institute did a study in 2016 and found that 1 in 5 older Americans were victims of some sort of financial exploitation each year to the tune of $3 billion. The Senior$afe Act aims to reduce that amount of fraud by encouraging financial institutions to identify and act on potential fraud.

For those of you with elderly parents and relatives, there may come a day when you need to help monitor their finances. This could be something as simple as knowing the name of a banking institution that grandma works with, or as in-depth as managing daily cash needs for mom and dad.

Spectrum team members are doing our best to watch for potential issues and it's equally important for you to do the same for your friends and family members. If you're helping to manage the daily cash needs of your elderly relatives, you have a serious responsibility to your relatives and friends. You'll also be the first to notice any suspicious activities. Here are some ways to do that:

Computer/Internet Security. We can all joke about the email from a Nigerian prince or the long-lost Latvian uncle who wants to give you $2.5 million. Still, millions of emails go out asking recipients to "update" or "verify" their personal information. The emails can look legitimate with IRS or Medicare logos, but are actually used to steal personal information and file fraudulent tax returns. Having a good spam filter can eliminate most of those emails from reaching vulnerable seniors.

An up-to-date anti-virus software can also help to keep an individual's computer secure. Malware and viruses can reveal email passwords, which can lead to unauthorized activity in accounts. We have had several unusual emails from clients asking for us to send them money. These are cases when the client's email has been hacked. We verbally verify all client requests for money in an effort to eliminate fraudulent requests.

Too good to be true? As you monitor your elderly relatives' and friends' financial situations, be sure to ask one simple question: Is it too good to be true? If Great-Uncle John comes to you and tells you that he's going to invest some money in a fund that is completely liquid with a 9% annual return (guaranteed), ask more questions. How did Uncle John hear about this investment? Who is the sales rep? Where is the money coming from? Who is the check made payable to?

All investments and investment opportunities fall on the risk/reward scale. **There are no exceptions.** When you invest in a money market or bank CD, risk is low and so is return potential. An investment in a small, publicly-traded technology firm is high risk and has the potential for high returns. Venture capital and private placements are even more high risk and high reward. That may sound like Investing 101, but we often forget about the basics when a shiny new investment opportunity (and slick salesman) comes along. Combine that with an elderly person's diminished capacity and loneliness, and the perfect storm for a financial scam is born.

Keep in mind that some investments may not be appropriate for older individuals, even if they aren't part of an illegal scam. Investing in a product with limited liquidity may or may not be appropriate for someone in their 80s or 90s. This is especially true for assets with short-term needs, such as the proceeds from a sale of a home to be used to pay for assisted living costs.

Resources are available online at aarp.org (AARP) and ncoa.org (National Council on Aging). We encourage you to take a minute to explore this further, especially if you're involved in the financial situation of an older friend or relative. If you have any questions about this, please contact us.

IRS Indexed Limits for 2018:

401(k), 403(b), 457 Plan Deferral Limit is $18,500.

Catch-up Contribution limit is $6,000. Source: www.irs.gov

Spectrum Investor® Update

Morningstar Category Averages	3rd Qtr	1 Year	3 Year
Intermediate-Term Bond	0.18%	**-1.07%**	**1.65%**
Allocation 50%-70% Equity	3.26%	6.87%	8.87%
Large Cap Value	5.50%	10.84%	13.47%
Large Cap Blend	6.70%	15.39%	15.18%
Large Cap Growth	**7.55%**	23.22%	17.67%
Mid Cap Value	3.07%	8.96%	12.60%
Mid Cap Blend	3.95%	11.66%	12.75%
Mid Cap Growth	6.53%	20.33%	15.84%
Small Cap Value	1.03%	8.37%	13.74%
Small Cap Blend	2.78%	12.03%	14.67%
Small Cap Growth	7.02%	**24.40%**	**18.36%**
Foreign Large Blend	0.79%	1.51%	8.74%
Real Estate	0.60%	3.42%	7.17%
Natural Resources	**-0.33%**	5.88%	13.41%

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 on page 5.

DOW: 26,458 | **10 Yr T-Note: 3.05%**

NASDAQ: 8,046 | **Inflation Rate: 2.3%** (9/2018)

S&P 500: 2,914 | **Unemployment Rate: 3.7%** (9/2018)

Barrel of Oil: $73.25 | Source: Yahoo Finance, bls.gov, eia.gov

Data as of 9/30/18 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 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. 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,

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.