SPECTRUM INVESTMENT ADVISORS

Upcoming Events:

Spectrum Investor®
Coffee House
Educational Series

Wednesday, Jan 23, 2013
Global Markets Review
Featuring Guest Speaker
Philip Camporeale
Executive Director, JPMorgan

Wednesday, May 8, 2013
A general overview of
Social Security & Medicare

Retirement Seminar
8th Annual

Wednesday, June 19, 2013
Co-Sponsored by Spectrum
and the WICPA
Country Springs Hotel
Waukesha, WI

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Quarterly Economic Update

James F. Marshall
President

Jonathan J. Marshall
Sr. Investment Analyst

Relief! The markets avoided the fiscal cliff fears with the S&P 500 finishing the year up 16% (Morningstar). All eleven investment indices (styles) represented by Spectrum's color-coded system were positive for the year with nine posting double-digit returns. The two with single-digit returns were natural resources (black) and bonds (aqua). In a surprisingly strong year for global stocks, it's not hard to spot the catalyst. It was European Central Bank (ECB) president, **Mario Draghi** who, on July 26, 2012, famously proclaimed, "whatever it takes to save Europe" (*Investment News*, 11/12).

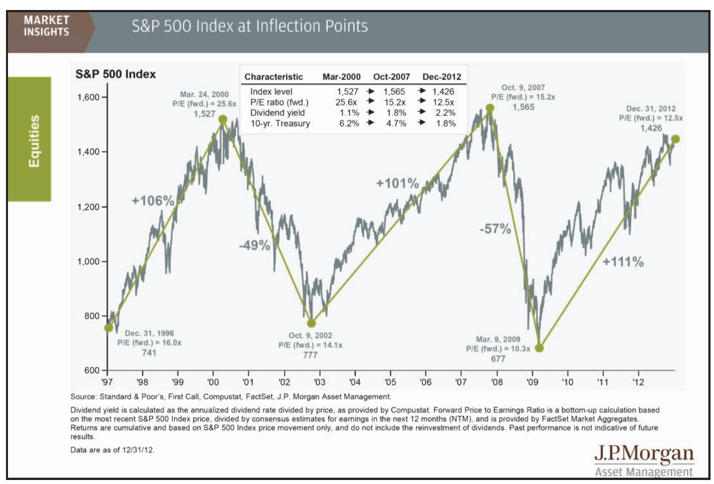
At the time, it looked like Greece would leave the Euro and that Italy and Spain might exit as well. Mr. Dragghi went where no ECB leader has ever gone before as the "lender of last resort." Since that announcement, the average global stock has climbed almost 20%. Following Mr. Dragghi's announcement in September, Fed Chairman **Ben Bernanke** took the unprecedented step of linking so-called quantitative easing, the buying of government bonds with money created out of thin air, to promising close to zero percent interest rates until unemployment falls to 6.5% or inflation exceeds a sustained 2.5%. The size of the Fed and ECB balance sheets each have roughly tripled since 2006. The likely outcome is inflation, once the slack from the labor market is removed. Inflating your way out of debt is a tactic as old as debt itself (*Historical Perspectives, 10/23/12*).

So why has there been so much simultaneous cooperation from the world's central banks? The answer is MIT (Massachusetts Institute of Technology). The current monetary strategy of the world central banks isn't found in standard textbooks. The world's central bankers are, in effect, conducting a high-stakes experiment, drawing in part of academic work by some of the men who studied and/or taught at MIT in the 1970s and 1980s. Since the financial crisis erupted in late 2007, the world's central banks have relied on each other for counsel by scheduling meetings in Basel, Switzerland every two months. Many of the world's most powerful central bankers launched their careers after earning their degrees from MIT in the late 1970s including Fed Chairman **Ben Bernanke** and ECB President **Mario Dragghi.** Bank of England governor, **Mervyn King**, taught briefly at MIT in the 1980s while sharing an office with Bernanke. Many economist emerged from MIT with the belief that governments could help to smooth out economic downturns. MIT became home to many economists who helped modernize the work of Depression-era economist **John Maynard Keynes**, whose views advocated a strong government, by stimulating growth (*WSJ*, 12/12/12).

Other central bankers who either studied or taught at MIT are **Stanley Fischer**, governor of the Bank of Israel and MIT professor from 1973-1994, **Jeremy Stein**, Federal Reserve Governor who received a PhD from MIT in 1986, **Duvvuri Subbarao**, governor of the Central Bank of Chile, 1990 MIT PhD, **Philip Lowe**, deputy governor of the Reserve Bank of Australia and over ten others (*In Fed We Trust,* David Wessel).

A big secret of the central bank cooperation, according to **Mervyn King**, is that "you can just pick up a phone and have an agreement on something very quickly in a crisis." Ben Bernanke, an economic star who received his PhD in 1979 from MIT, wrote a dissertation called "Essays on the Great Depression", explaining why businesses held back in the 1930s because of conservative monetary policies of the Federal Reserve.

If the world central bankers are correct, they will help the world economy avoid a prolonged stagnation and repeat of the central bankers mistakes in the 1930s. **Since 2007, central banks have flooded the world's financial system with more than $11 trillion. Today, the total balance sheet of the world's central banks combined is close to $18 trillion; up from approximately $7 trillion in 2007** (*WSJ*, 12/12/12). If they are wrong, they could kindle the flames of inflation or sew the seeds of another financial crisis. Will history decide if they did too little or too much? "We don't know because it is still a work in progress," said **Kenneth Rogoff**, an economics professor at Harvard and co-author of the book, *This Time is Different,* which examines financial crises over eight centuries.



A concern is that with the world central banks boosting global stock markets by easing credit costs, it is allowing national governments, unfortunately, to postpone difficult political decisions to fix such problems as swelling budget deficits, etc. This is the equivalent of kicking the can down the road, which cannot go on forever (*Economist,* 1/5/13).

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Wealth Management

What To Expect In 2013

Brian E. White, CFP®
Wealth Manager

Happy New Year! As a late Christmas present, our federal government patched together a compromise to avoid the fiscal cliff we discussed in the last newsletter. In traditional last-minute fashion, a deal was cobbled together to lock in some of the 2001 (Bush-era) tax cuts. However, we only have two months before a decision needs to be made on the debt ceiling and the spending cuts scheduled to take place. When that time comes, be prepared for more volatility and uncertainty in the markets. Like the U.S. Congress, we'll talk about that topic when the time comes. For now, let's look at the changes resulting from the fiscal cliff deal as well as the new tax and income related items for 2013:

Tax rates for top earners have been raised. The top marginal income tax rate of 35% for 2012 was raised to 39.6% in 2013 for households with $450,000 in taxable income and individuals with $400,000. That same income threshold will also see an increase in long-term capital gains and dividend rates increase from 15% to 20%.

The Net Investment Income Tax is new. An additional 3.8% surtax on net investment income goes into effect on January 1, 2013. This is as a result of the Health Care and Education Reconciliation act of 2010 (also known as Obamacare). This additional tax applies to households with modified adjusted gross income of $250,000 and individuals at $200,000. We suggest visiting www.irs.gov or speaking with an accountant to learn more about what the Net Investment Income Tax is and how it may affect you.

Estate tax rates have increased. In 2012, the top tax rate on estates was 35% for anything over the $5 million estate and gift-tax exemption. This year, the top rate goes to 40% while the $5 million exemption stays the same. The exemption amount is indexed for inflation, so the actual amount is $5.25 million for 2013.

Social Security payroll tax is back to 6.2%. After a two-year hiatus where we all enjoyed a 4.2% Social Security payroll tax rate, it is back up to 6.2%. Unfortunately, this will impact the most individuals and will impact them immediately. Many people took advantage of the tax break in 2011 and put the extra 2% into their 401(k). If you were one of those individuals, see if you can maintain the same contribution amount into your 401(k). Your take-home pay may be lower, but you'll be closer to meeting your retirement goals in the future.

The positive points to this new agreement reached by Congress include:

- Permanent expansion of the expanded adoption and dependent care credits.
- A two-year extension of the $250 deduction for teachers' classroom expansions.
- A two-year extension of the charitable donation of IRA assets for people 70 ½ or older.

Other notable changes to 2013 include:

- The annual exclusion amount for gifts goes from $13,000 to $14,000 for 2013.
- Annual 401(k) contribution limits rise to $17,500 for 2013. Catch-up contribution limits remain at $5,500 for those over 50 years old.
- Roth and Traditional IRA contribution limits are $5,500 for 2013. Catch-up contributions are limited to $1,000.

These changes in taxes have given us all an opportunity to re-evaluate our current budgets and financial plans. Consider the impact of each of the changes and do some of your own research on how it may affect you. Thanks to the Internet, there are plenty of available resources covering all of the changes for 2013. We would be happy to answer any questions about the new changes. **However, the employees of Spectrum Investment Advisors are not tax or estate planning professionals.** Depending on your situation, it may be beneficial to speak with a Certified Public Accountant (CPA) to see how these changes affect your take-home pay and your overall financial picture.

Spectrum Investor® Update 12/31/12

Category Average	4th Qtr	1 Year	3 Year
Intermediate-Term Bond	0.76	7.01	6.96
Moderate Allocation	1.13	11.72	7.70
Large Cap Value	0.98	14.57	9.02
Large Cap Blend	0.49	14.96	9.05
Large Cap Growth	-0.64	15.34	9.30
Mid Cap Value	3.35	16.60	10.77
Mid Cap Blend	3.38	16.15	10.83
Mid Cap Growth	1.18	14.07	11.08
Small Cap Value	3.75	16.00	11.04
Small Cap Blend	2.54	15.46	11.88
Small Cap Growth	-0.03	13.15	11.74
Foreign Large Blend	6.50	18.29	3.89
Real Estate	2.32	17.60	17.29
Natural Resources	0.00	4.34	3.33

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

Contact Spectrum Wealth Management if you:

- **Have assets outside of your 401(k) and would like a review or a second opinion**
- **Are considering an annuity or other type of alternative investment and need assistance**
- **Are within three years of retirement and aren't sure where to begin**
- **Have investments in numerous locations and need help consolidating them**

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DOW: 13,104	**10 Yr T-Note: 1.76%**
NASDAQ: 3019	**Inflation Rate: 1.8%** (11/2012)
S&P 500: 1426	**Unemployment Rate: 7.8%** (12/2012)
Barrel of Oil: $91.82	Source: Morningstar

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.

In Other Words

A New Year's Resolution You Can Stick To

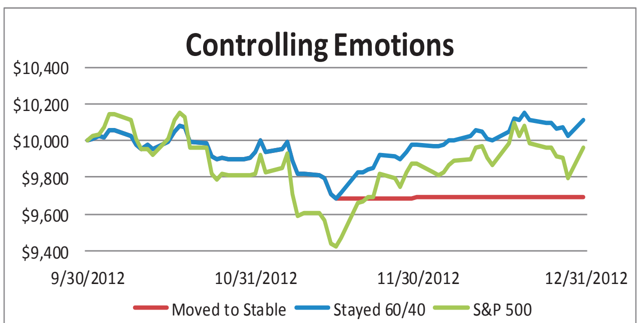
Angie Franzone
Newsletter Editor

Eating healthier, spending less, exercising more. These are new year's resolutions we've all tried and have most likely forgotten about a couple months into the new year. If you're looking for something different to try this year, I've got just the thing. **Stop investing emotionally!** Easier said than done, right? Well, not really actually.

Emotional investing is a lot like emotional eating. Eating that second piece of cake or third helping of mashed potatoes may seem like a good idea at the time, but when you leave the dinner table, what are you left with? An upset stomach, feelings of guilt and maybe even some extra weight. Buying when stocks are rising and selling when they're plummeting may comfort you in the moment but won't do you any favors in the end; and just like with overeating, you know you shouldn't be doing it, but you just can't stop yourself. In a survey conducted by Ledbury Research in 2011, nearly half of the 2000 affluent investors that were surveyed around the world said that they needed more self-control, with men more likely to say they engage in market timing than women, 41% vs. 36% (*NYT*, 6/11). Overtrading is a recognizable problem with an attainable solution.

"The fundamental problem with frequent trading is that very few people can consistently outsmart the market—at least not while playing by the rules" (*NYT*, 6/11). Instead of buying high and selling low, talk with a financial advisor and get your assets into a balanced portfolio where you can feel comfortable when the market goes on another roller coaster ride. If you are already in a balanced portfolio, stay there and instead of frequently tweaking your investments, rebalance when your investments get too far out of line. Historically, late April and early May are generally good times to rebalance your portfolio.

A study by the mutual fund research company, Dalbar, found that over the last 20 years through December 2010, the average stock investor had annualized returns of 3.8%, compared with 9.1% for the S&P 500 Index" (*NYT*, 6/11). In other words, the average person would have been better off investing in an index and holding it for 20 years than reacting compulsively to every high and low in the market.



Source: Morningstar. Cannot invest directly in an index. Past performance is not an indication of future results. 60/40 allocation is indicated in colored chart to the right. 4-year Treasury Interest Rate Swap used to indicate "stable" return.

The most recent example of how staying calm, instead of reacting emotionally to sharp changes in the market is better for you in the long-run, occurred after the presidential election. There was a great deal of uncertainty about what would happen after the election and this uncertainty may have led you to move all your assets to stable value. As the above chart indicates, however, this would not have been your best move. One week after the election, on November 15, 2012, the market took a dive. If you would have kept your emotions in check and stayed in a balanced 60/40 portfolio, not only would you have made back what you lost for the quarter, but you would have finished up 1.13%.

A good test of whether you can keep your new year's resolution or not is the looming congressional debt ceiling battle. According to the Bipartisan Policy Center, a Washington-based think tank, within the next two months, congress must address the issue of raising the debt ceiling. Based on what we've seen in the past with the last debt ceiling debate and fiscal cliff deal, it's likely to be a long drawn-out process that comes down to the last minute and makes for a tumultuous couple months in the stock market.

As we said in the last newsletter, **be proactive, not reactive.** If you're unsure of how you're invested, the moment you're done reading this newsletter call your financial advisor and find out! In uncertain times like these your best bet is to be as diversified as possible across a wide variety of investment categories. If you have a balanced portfolio you can concentrate more on those other pesky new year's resolutions and take comfort in knowing that you've done what's best for your investments and, in turn, your mental health!

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

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

15 Yr	10 Yr	5 Yr	3 Yr	1 Yr		Index Definition
Mid Cap 9.14%	Nat. Res. 12.79%	Bonds 5.95%	Real Est. 17.94%	Sm. Value 18.05%		Small Value: Russell 2000 Value TR
Real Est. 9.02%	Real Est. 11.48%	60/40 5.30%	Mid Cap 13.63%	Mid Cap 17.88%		Mid Cap Blend: S&P MidCap 400 TR
Nat. Res. 7.82%	Mid Cap 10.53%	Mid Cap 5.15%	Sm. Growth 12.82%	Lg. Value 17.68%		Large Value: S&P 500 Value TR
60/40 7.49%	Sm. Growth 9.80%	Real Est. 5.08%	Sm. Blend 12.25%	Intl. 17.32%		International: MSCI EAFE NR
Sm. Value 7.19%	Sm. Blend 9.72%	Sm. Blend 3.55%	Sm. Value 11.57%	Real Est. 17.12%		Real Estate: DJ US Select REIT Index TR
Bonds 5.96%	Sm. Value 9.50%	Sm. Value 3.55%	Lg. Growth 11.33%	Sm. Blend 16.35%		Small Blend: Russell 2000 TR
Sm. Blend 5.89%	60/40 8.89%	Sm. Growth 3.49%	Lg. Blend 10.87%	Lg. Blend 16.00%		Large Blend: S&P 500 TR
Lg. Blend 4.47%	Intl. 8.22%	Lg. Growth 3.39%	Lg. Value 10.47%	Lg. Growth 14.61%		Large Growth: S&P 500 Growth TR
Intl. 4.38%	Lg. Blend 7.10%	Lg. Blend 1.66%	60/40 9.48%	Sm. Growth 14.59%		Small Growth: Russell 2000 Growth TR
Lg. Value 4.37%	Lg. Value 7.09%	Lg. Value -0.14%	Bonds 6.19%	60/40 10.56%		60/40: 60% Diversified Stocks/40% Bonds
Lg. Growth 4.26%	Lg. Growth 7.04%	Nat. Res. -1.51%	Nat. Res. 5.46%	Bonds 4.21%		Int.-Term Bonds: Bar-Cap Aggregate Bond
Sm. Growth 4.04%	Bonds 5.18%	Intl. -3.69%	Intl. 3.56%	Nat. Res. 2.20%		Natural Res: S&P North Am. Nat. Resources TR

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 Apr 1.

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The bottom line is, the world's central banks are in uncharted waters and it remains to be seen how it will all play out once they decide to reverse their positions as the world economy improves.

For now, 'enjoy the ride'. **Don't fight the Fed, but don't fall in love with it either by investing too aggressively**, especially since the major indices are hitting 4-5 year highs (see chart). For the average investor, stay in a balanced position by diversifying more than ever with a slight tilt toward larger (dividend paying) multi-national companies. And, as we have said in the past, with inflation likely on the horizon, buy a house if you don't already own one and **refinance again**.

IRS Indexed Limits for 2013 are as follows:
401(k), 403(b), 457(b) Plan Deferral Limit is $17,500
Catch-up Contribution limit is $5,500.
Source: Principal Financial Group

Invest In Your Health

How to Have More (Healthy) Birthdays

David Meinz, MS, RD, FADA, CSP

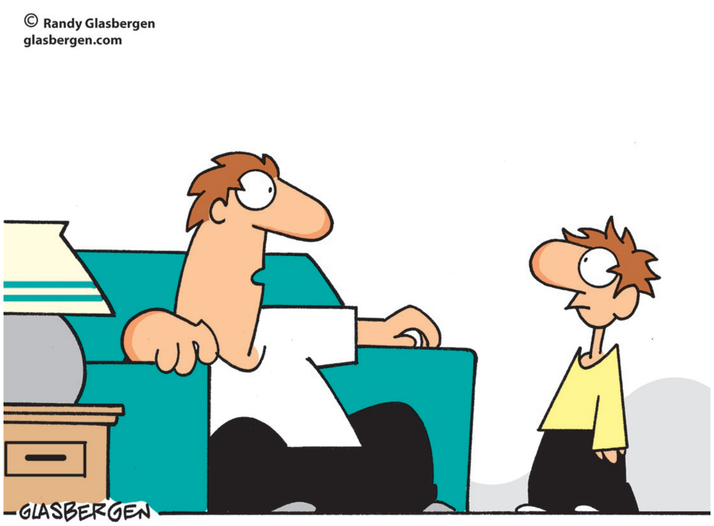
America's Personal Health Humorist

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 an educated woman. Researchers have recently discovered that a woman's education level is a stronger factor in her husband's longevity than is the man's own level of education. 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 (or maybe it just seems longer!). 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.



"Someday, son, you'll be old enough to do anything you like. But by then you'll be too tired to like anything."

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 exercising, 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 potato chips. That means an orange, not orange juice. T hat 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 less processed food help prevent many of the major killers of Americans, you'll also, separately, probably be contributing to a longer, better *quality* life at the same time.

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