SPECTRUM℠
INVESTMENT ADVISORS

4th Quarter | 2016

As of 9/30/2016

Good News!

Spectrum was 1 of 5 finalists for the 2016 PlanSponsor Retirement PlanAdviser Large Team of the Year

Please see important disclosures on final page of newsletter

Upcoming Events:

Spectrum® Investor Coffee House Educational Series

Tuesday, October 18, 2016

Featuring Gu
LeRoy Butler
Retired Gree

THANK
To all who attended our

11th Annual Retirement Plan Investment Seminar

On June 22, 2016
In Waukesha, WI

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Quarterly Economic Update

James F. Marshall
President

Jonathan J. Marshall
Chief Investment Officer

US stocks wrapped up their best quarter of the year with help from the banking sector, whose shares have started to recover in recent months. The S&P 500 gained 3.3% in the third quarter, 2016 and is up 7.84% year-to-date. There are possible rough spots ahead, including the uncertainty over when the Fed will raise interest rates, and concerns about the Deutsche Bank AG's thin capital cushion. The Deutsche Bank developments were a reminder that the financial crisis still haunts the banking sector (*WSJ*, 10/1/16).

The S&P 500 Index rebounded from the turbulence created by the surprise UK Brexit vote in June, to settle in an unusually tight range. The index went for two months without a move of 1% or more and the 10-year US Treasury traded in the tightest monthly range since 2006. The summer calm was largely a "wait-and-see" situation with markets expecting that Brexit would force the world's central banks to extend "lower for longer" accommodating policies (*Bloomberg,* 8/22/16). The 10-year US Treasury yield hit a record low on July 7 at 1.36% and by mid-August the S&P 500 Index, Nasdaq and DJIA all hit all-time highs. Stock market volatility returned in September as the European Central Bank (ECB) and Federal Reserve gave markets a reality check (*WSJ*, 9/9/16). Ten-year Treasury yields have risen to 1.77% as of 10/12/16. With the Fed signaling it wants to raise rates by the end of the year, it would be the first rate hike in 2016, when the original target called for four rate increases during the year.

The third quarter 2016 could mark the sixth consecutive quarter of falling earnings for the S&P 500 Index, however, the index is up four straight quarters and 13 of the past 15 quarters (FactSet). You have to go back to the mid-1990s to find the last time we saw that. Historically, the best quarter of the year is upon us. Going back to 1950, the final three months of the year are up an average of 4.1% and higher nearly 79% of the time. In general, the first and fourth quarters are the two strongest, with the second and third quarters tending to be weaker. As they say in the business, **"markets generally do better in the winter months"**. October, however, has a reputation as one of the most volatile months, going back to 1938. According to **Burt White**, Chief Investment Officer at LPL Financial, 24.6% of the days in October since 1950 closed up or down at least 1%, the highest of any month. Recently, October has been stronger, but November and December are also historically strong months for stocks.

The fourth quarter of election years has been lower three of the past four cycles, with a huge drop of 22.6% in 2008 mixed in. In the election years, from 1952-1996, all fourth quarters were higher (*LPL Weekly Market Commentary*, 10/3/16). If we take a closer look at the past four election cycles, 2000 and 2008 were in the midst of, or just ahead of recessions, so that played into the weakness in those years. In all election years since 1950, the fourth quarter had an average gain of 1.9%. According to **Mark Skousen**, editor of *Forecasts & Strategies*, in 19 of the past 22 elections, if the stock market was up in the three months before the November election, the incumbent party won.

The upcoming Federal Reserve policy meetings will also drive the markets in the fourth quarter. It is unlikely the Fed will raise rates at their November 2nd meeting, just before the election. We could, however, see a rate hike at their December 14th meeting, assuming the markets do not receive significant negative news.

According to **Dr. David Kelly**, Chief Market Strategist from JPMorgan, with the unemployment rate below 5%, mortgage rates below 4%, gas prices below $3, inflation below 2% and one recession in the last 15 years, consumers ought to be feeling much better about the economy than they are. He said one possible explanation is that fewer people are getting their news through local television, and more through social media and national news channels, which have a tendency to sensationalize news events, particularly negative news. The positive to the pessimism is, it has kept a lid on stock market valuations.

The good news is, there is a likelihood that the earnings recession may be ending in the fourth quarter of 2016, assuming the market doesn't have any surprises. Oil prices have recently approached $50 a barrel, recovering from $26.21 a barrel on February 11, 2016. Higher oil prices should help earnings on energy companies, which should improve year-over-year earnings estimates. This, along with the potentially weakening US dollar, backed up by economic growth, could produce a small increase in S&P 500 earnings in the fourth quarter 2016. The bottom line is, stay balanced, stay diversified and stay the course.

The Fiduciary Rule

At our June 22, 2016 Retirement Plan Investment Seminar co-sponsored by the WICPA, we had ERISA Attorney **Bradford Campbell** from the DrinkerBiddle Law Firm in Washington D.C. speak on the new Fiduciary Rule; effective April 10, 2017. Bradford is the former head of the Employee Benefits Security Administration for the Department of Labor (DOL).

The Fiduciary Rule is a culmination of a seven year effort by the DOL to eliminate conflicted investment advice for employee benefit plans, including IRA rollovers. The Fiduciary Rule will benefit the consumer with greater transparency on investment fees, which includes requiring greater disclosure when entering into an arrangement.

Over the past 10 years, Spectrum has been transitioning to fee based advisory services. Anticipating the Fiduciary Rule going into effect, Spectrum terminated its relationship with its broker dealer on September 30, 2015. We no longer receive commission on any investment product. We act as a level fee fiduciary on our investment services, which includes 401(k) and individual wealth management.

As 401(k) participants retire, often our first piece of advice is to remain in the 401(k) plan as expenses are typically lower than IRA expenses. However, if participants have a desire for consolidation or investment flexibility with an IRA, Spectrum offers investment portfolios on a level fee, no commission basis, which can include variable annuities, where appropriate, for retirement income planning. In comparison to a fee only variable annuity, the typical front-end commission on a $250,000 variable annuity is in the $7,500-$10,000 range with potential surrender charges, plus 1% annual trails (*InvestmentNews,* 9/30/16, *Forbes,* 7/2012*)*. The Fiduciary Rule is long overdue.