



SPECTRUM

INVESTMENT ADVISORS

Quarterly Economic Update

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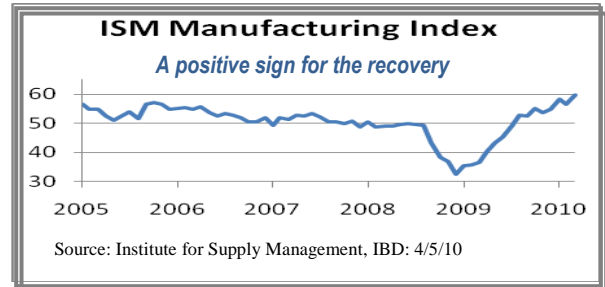
Enclosed are your investment returns for the 1st quarter, 2010. Stocks are coming off their best first quarter performance in a dozen years with the S&P 500 Index up 4.9% for the first quarter 2010. It is the fourth consecutive positive quarter, the market's best streak since 2007 based on the broad Wilshire 5000 Index. The stock market extended its rally during the first quarter, battling back from a steep 8% sell off from mid January to early February. Corporate earnings, again, came in stronger than expected (*USA Today* 4/1/10).

As the second quarter gets underway, stocks face perhaps their biggest hurdle of the year with the Fed inching forward with plans to end and ultimately reverse its unprecedented easing of credit (*WSJ* 4/1/10). By buying \$1.25 trillion of mortgages, the Fed absorbed a flood of assets that otherwise would have needed buyers. Investors (the herd effect) poured a record \$375.4 billion into bond mutual funds in 2009, while pulling out \$8.7 billion from stock funds, according to data compiled by the Investment Company Institute (3/3/10).

On the international front, the Euro troubles could boost prospects for US stocks for two reasons. First, the weak Euro complicates an already bleak economic recovery in Europe. Second, the stronger dollar gives the Federal Reserve more room to maneuver. A strong dollar helps limit imported inflation and also reduces the need for the Fed to raise short-term interest rates in order to protect the value of the US currency. If the Fed is sitting back, that reduces the prospect of a big correction in US Stocks (*WSJ.com* 2/21/10).

During periods of a stronger dollar, small cap and mid cap stocks typically outperform large cap stocks. Large cap stocks generally outperform during periods of a weaker dollar due to their strength in international sales. According to Whitney George, portfolio manager for the Royce Funds, small cap/mid cap companies (light orange/light blue) historically do better in more difficult economic environments and also during the early stages of economic recoveries. Larger companies do better in robust environments like the mid to late 90s (red) (*Smart Money* 4/2010).

Another positive for the recovery is that manufacturing activity stepped up in the US and worldwide as auto sales leapt. The Institute of Supply Management's Manufacturing Index rose 3.1% last month to 59.6, the eighth straight gain and the highest level since July 2004. Factory gauges for China & Europe also climbed as the global economic recovery gathers pace (*IBD* 4/5/10). The significance of the improvement in the manufacturing sector is that manufacturing jobs both pay more and create more jobs than service sector jobs. A strong manufacturing base also supplies the innovation necessary to boost productivity, wage growth & consumer purchasing power (*Barrons* 3/22/10).



Nobel Prize-winner, Milton Friedman, one of the finest economists this country has ever produced, wrote a book entitled *Money Mischief*, which is a great read. Milton mentions that from 1960-1990 the US had increased monetary growth five times. Each time the increase in monetary growth was followed by expansion and later by inflation. He mentions it takes years, not months, for inflation to develop and it takes years for inflation to be cured.

Mr. Friedman mentions that in the past century in the US, UK, and other Western countries, roughly six to nine months have elapsed on average before increased monetary growth has worked its way through the economy and produced increased economic growth and employment. Another 12 to 18 months typically elapse before increased monetary growth has affected price appreciation, where inflation begins to heat up. Based on the money supply rapidly increasing in mid 2009, according to Milton Friedman's book, approximately two years out from that point would likely result in inflation rearing its head by mid 2011 and into 2012 unless Washington quickly takes decisive steps to reverse deficit spending. Historically, the early stages of interest rate increases due to inflationary pressures has been a favorable period for stocks (*Safe Money* 4/2010). However, high inflation generally produces a negative environment for both stocks and bonds long-term. Past performance is not necessarily an indication of future results.

In summary, we continue to encourage the average investor to remain in balanced portfolios with a well diversified menu of investment options. We also suggest periodically rebalancing at a minimum of once every three years. If you want to rebalance automatically (annually) you can do so on your provider's website. For assistance please contact our office at www.spectruminvestor.com or call (800) 242-4735. Keep investing and stay the course. We appreciate your business.

How Often Should I Rebalance My Portfolio?

60/40 Allocation 1990 to 2008	Annualized Return**	Bear Market Loss 2000-2002	Bear Market Loss 11/07-12-08
No Rebalancing	7.64%	-22.8%	-27.6%
Annual Rebalancing	8.16%	-13.3%	-21.8%
*10% Rebalancing	8.38%	-11.8%	-23.7%
100% Stocks	7.75%	-37.6%	-40.0%

***Rebalance when your target allocation is 10% out of alignment At 10% you would have rebalanced 5 times since 1990.**

(May 1-1997, Jan 1-2000, Sep 1-2001, Oct 1-2002, Dec 1-2006)

**Combination of Lehman Bros Aggregate Bond Index (40% original allocation) and S&P 500 Stock Index (60% original allocation).

Source: John Waggoner @USA Today.com 11/21/02, Morningstar 2008

In Other Words

Emotional Investing Part II:
From the Supermarket to the Stock Market

Angie Franzone

Newsletter Editor

Last quarter we discussed emotional investing utilizing the supermarket checkout line as a way to explain why you should stay put when things are looking grim. Perhaps after reading that column you said to yourself, what if I didn't stay put? What if I had the urge to make a move and just couldn't bear the idea of waiting it out for even one more minute? Remember that you eventually need to find another line to get back into, otherwise all you'll be left with is a hungry family and spoiled food. This time around we'll take the abstract idea of emotional investing and transform it into something concrete using three scenarios depicted by the corresponding chart.

In each case, the participant had finally reached \$100,000 in their 401(k) by August 31, 2008 only to see it drop down to almost \$80,000 over the next six months. Although already in a moderate, balanced portfolio of 50% stocks and 50% bonds, a drop like that is **the true risk tolerance test**. Let's look at three possible investor scenarios:

Investor A on the right shows that the best case scenario would have been to hold on and stick to a long-term asset allocation. However, in extreme conditions, emotions turn that concept into something easier said than done.

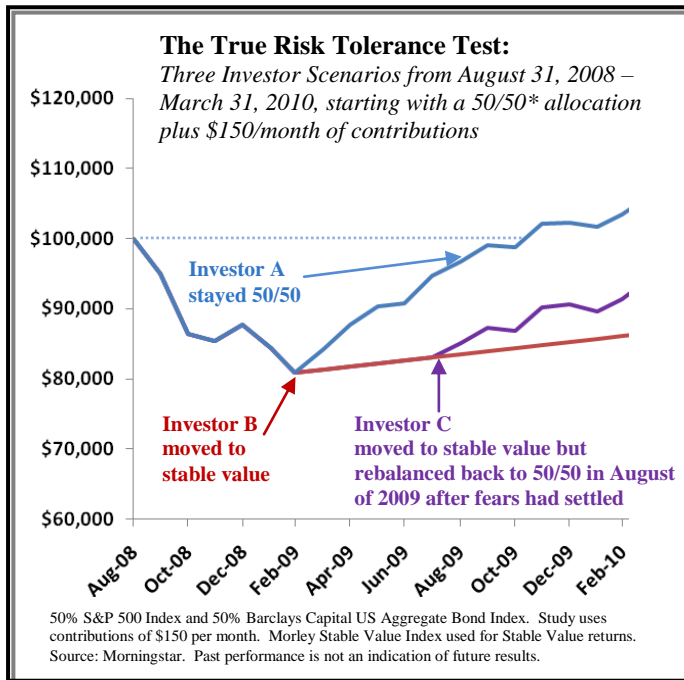
Investor B couldn't take the risk any longer and got out of the market, moving everything to the stable value fund. While this move may have provided some peace of mind, the trouble is, that was just when the stock market was about to rally back. As of 3/31/10, Investor B remained 100% allocated to the stable value, missing any benefit from the stock market rally.

Investor C shows a participant who also gave in to emotion and moved 100% to the stable value at the end of February, 2009. As time went by, the market began a recovery and the fear began to calm. At some point the participant felt "perhaps I've overreacted, now what?" After revisiting the account through a one-on-one meeting with an advisor in August of 2009, the participant ultimately decided that 50% stocks and 50% bonds was the appropriate risk level and rebalanced back to that allocation.

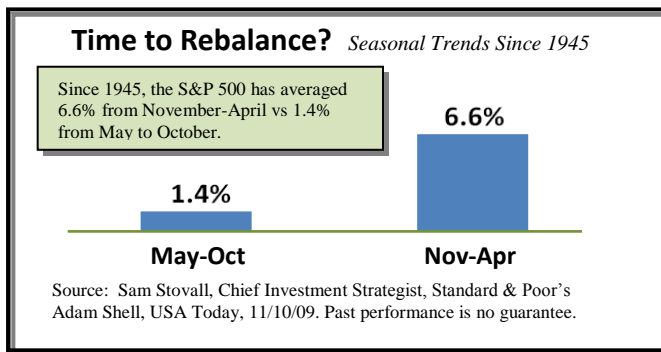
While these examples are hypothetical, they help illustrate the consequences of letting your emotions take over. Taking your emotions out of investing seems almost impossible, but it really is your smartest option when it comes to your assets. By putting your emotions aside you can help reduce the risk of overreacting to a surprise in the market.

The late Peter L. Bernstein, a highly regarded money manager, historian and expert on risk, stated that as investors we need to understand that **we do not know the future** (*Money Magazine* 2004). This idea is an important one to understand because it is the reason for diversification and having a balanced portfolio of stocks and bonds. Diversification may reduce some risks of investing, but does not ensure against market losses.

Understanding this concept may help you avoid becoming the participant who got out of the market and never got back in. After all, it points out that good surprises can happen too. As Bernstein goes on to say, diversification is "not only...a survival strategy, but...an aggressive strategy, because the next windfall might come from a surprising place" (*Money Magazine* 2004).



The reason you put your money in a spectrum of different funds, also known as diversifying, is because some of your investments may do well, while others may not. The investments that do well will start taking up more room in your portfolio, eventually causing you to have to rebalance. Rebalancing is the process of restoring your portfolio to its original mix. Historically, late April and Early May are generally good times to rebalance your portfolio, with November 1 through April 30 being a stronger period than May 1 through October 31 (*The New York Times* 4/07). Past performance is not necessarily an indication of future results.



IRS Indexed Limits for 2010		
Item	2009 Limit	2010 Limit
401(k) 403(b) & 457 Employee Deferral Limit	\$16,500	\$16,500
Catch-up Contribution	\$5,500	\$5,500

Source: Standard Retirement Services, Inc.

How Sweet It Is

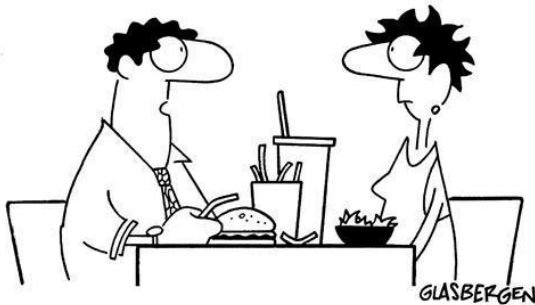
The All-Natural Sweetener You've Been Waiting For

David Meinz, MS, RD, FADA, CSP

America's Personal Health Humorist

There's a brand new all-natural sugar substitute now available in your supermarket. And it's getting here just in the nick of time. Even with all the artificial sweeteners that have been around for decades, **Americans still eat an average of 22 teaspoons of added sugar every day. That's 352 extra calories just from sugar. Every day. The American Heart Association recommends that women should limit their sugar intake to six teaspoons and men just nine. That's a lot less than 22 teaspoons.** By the way, that's not just teaspoons of sugar you get out of the sugar bowl; it's the sugar that you get in soda, candy, cakes, cookies, fruit drinks, ice cream, yogurt with fruit on the bottom, and everything else we eat that tickles our sweet tooth. **Keep in mind that each 20 oz plastic bottle of Pepsi or Coke has about 17 teaspoons of sugar in it. Yes, 17 teaspoons.**

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"One day a week, I allow myself to eat anything I want. The rest of the week, I still eat anything I want, but it's not allowed."

But now we've got the new sugar alternative called **stevia**. This is not an artificial sweetener like saccharin or Equal, or even Splenda. This natural sweetener comes from a South American shrub of the Chrysanthemum family called sweetleaf or sugarleaf. Stevia has been used for years in China and Brazil without any health risks and it's the number one sweetener in Japan. It's now been approved in Australia and New Zealand, as well. Until recently though, it was only available in the US categorized as a food supplement usually found in the health food section of your supermarket. It's available as a powder, liquid, or tablets. Some of you may have actually been using that form for some time already.

Stevia has virtually no calories, doesn't raise blood sugar levels, and doesn't promote tooth decay. In fact, research at Purdue showed that stevia inhibited the development of plaque on teeth. So, unlike many other sweeteners, it may be good for oral health. It's also heat stable and can be used in cooking but it doesn't caramelize like sugar when used in baking. Since stevia is a natural product, it doesn't require a patent. As a result, there wasn't much money to be made in promoting it. Until now.

Stevia has recently been granted what it called GRAS status (Generally Recognized As Safe) by the Food and Drug Administration. This means that any natural ingredient that hasn't had any reported negative effects is deemed safe and doesn't need any further testing. **Stevia has also been approved by the World Health Organization.** The two components found in the stevia plant that are responsible for its sweet taste are called rebaudioside A (or Reb A), and stevioside.

Reb A is now going to be used by Coke and Pepsi as an all-natural, no calorie sweetener. It's also available now in your grocery store as a table-top product called Truvia and PureVia. Look for it in the sugar section. These purified extracts from the stevia plant found in Truvia and PureVia are different from what you've been able to get up to this point in the health food section, which are products made from the *whole-leaf* stevia plant. Some people say that the stevia made from the whole plant has a slight licorice taste to it. The new extracts don't have that.

As of this point, stevia still has not been approved in Canada and in the European Union. For many years, it wasn't allowed in the US as a food additive because some earlier studies had questioned its safety. Fortunately, the purified extracts of stevia, which are now available as Truvia and PureVia, haven't shown any problems. But, as with anything in the field of nutrition, there are some that still are cautious about its safety, primarily if it begins to be added to lots and lots of products and people start consuming larger quantities of it. But for now, if you want a truly "all natural" alternative sweetener, stevia and its extracts are about as close as you can get.

Here's a word to the wise. Remember, lots of products in the supermarket that use sugar substitutes also don't have much in the way of nutrition. Almost by definition, lots of junk foods use sugar substitutes. You don't need artificial sweeteners in real food like fruits, vegetables, whole grains, lean proteins, or dairy. My hope is that you're not eating a lot of sugar alternatives, simply because you're mostly eating real food, not food products. Remember, if everything tastes sweet, really sweet, then the natural sweetness of real foods loses some of its desirability. There is a natural sweetness to a carrot, but it can't hold a candle to the sweetness of carrot cake. If a lot of what you eat everyday tastes sweet, because of sugar or sugar substitutes, then regular, nutritious foods seem rather bland by comparison. That's the problem. **So, my advice is that you go easy on foods that use sugar substitutes of any kind; whether they're natural or not.** As I always say, "Eat closer to the way the food grows." But if it's necessary for you to use a sugar substitute, then it looks like stevia is your best, most natural option.



Nutritionist **David Meinz** of

www.SpeakingOnHealth.com, speaks to groups around the US and Canada on the relationship between personal health and professional productivity. He is also the author of the book *Survival of the Fittest*. David was the featured speaker at the 2009

Retirement Plan Seminar co-sponsored by Spectrum Investment Advisors and the Wisconsin Institute of CPAs. You can join him on his first ever "Ship Shape Cruise" to Alaska in August 2010. For details go to www.alaska-health-cruise.com.

