



# SPECTRUM

## INVESTMENT ADVISORS

Spectrum Investor® Newsletter

2nd Quarter | 2010

### Quarterly Economic Update

**James F. Marshall**  
President

**Jonathan J. Marshall**  
Investment Analyst

Enclosed are your investment returns for the 2<sup>nd</sup> quarter, 2010 along with our privacy notice. Total return for the S&P 500 Index was down 11.43% during the quarter, snapping a four quarter winning streak. Year to date, the S&P 500 has lost 6.65% through June 30 (*Morningstar*, 6/30/10). Despite the slow start to the stock market, corporate earnings are expected to be strong in the second half of 2010. Thompson Reuters reports analysts expect S&P 500 companies to have over 25% growth in earnings for each of the final two quarters (*USA Today*, 7/12/10). As earnings are reported, markets will have a close eye on corporate forecasts for future earnings beyond 2010.

This past quarter was certainly eventful for Spectrum. On May 1, 2010 we attended the **Berkshire Hathaway Annual Shareholder Meeting** for the 4<sup>th</sup> consecutive year. A special review of the meeting is available on our website ([www.spectruminvestor.com](http://www.spectruminvestor.com)) under the Investment Resources section. The Quest Center in Omaha, Nebraska once again had nearly 40,000 in attendance and featured a five hour question and answer session with **Warren Buffett** and his partner **Charlie Munger**. A key question asked of Warren Buffett concerned an allocation strategy in this economy. He replied that scared investors rarely make money in the market. He said to select an asset allocation where you are no longer scared, regardless of what tomorrow morning's news brings. The only time to truly be scared of the market is when no one else is (such as late 1999).

This is why we provide a handout with seven model portfolios ranging from 25% stocks to 95% stocks to accommodate various levels of risk tolerance. **In this volatile market, when you are vacillating between one model or another, err on the side of caution.** As **Ben Graham** states in his book, *The Intelligent Investor*, (Warren Buffett's favorite book), if you don't know what else to do, select an asset allocation of 50% stocks and 50% bonds. In the long run, Mr. Buffett stated that equities will outperform cash or bonds over the next 10-20 years, which is a good reason to maintain a balanced portfolio with some stock exposure depending on your risk tolerance. At Spectrum, the majority of our investors are currently around 60% stocks, 40% bonds, including fixed income, intermediate-term bond funds, inflation-protected funds and global bond funds along with balanced (moderate allocation) funds to reduce an investor's risk, in combination with a diversified portfolio of stock funds.

The second major event was our **5<sup>th</sup> Annual Retirement Plan Investment Seminar** on June 23, 2010. The seminar was once again co-sponsored with the Wisconsin Institute of CPAs and for the second year in a row, we had over 300 attendees register for the event. Highlights of the meeting include **Matt Flanary**, an ERISA attorney from the Buelow Vetter Law Firm, commenting on pending legislature to provide greater transparency regarding 401(k) fee

disclosure. He also mentioned that despite the average 401(k) providing 20 investment options, the average investor fails to diversify and only invests in three or four funds. This is another case where our models can help investors increase diversification by demonstrating how to allocate among 10-12 funds.

We were also fortunate to have **Bruce Johnstone** from Fidelity Investments speak at this year's seminar. Mr. Johnstone managed the Fidelity Equity Income fund for 19 years and is on the Board of Dean's Advisors at Harvard Business School. He received a rating of 3.92 out of a possible 4.0 from seminar attendees. Mr. Johnstone always mentions three pillars of investing that support the market: **earnings, liquidity and valuations**. He stated that the strengths in our current economy are cyclical (3-5 years) while the weaknesses are more secular (14-16 years). He believes Europe's choices for recovery are austerity (cost cutting), printing money (Euros) to inflate out of trouble, or default, saying that German and French banks will need to come to the rescue of Europe. On a positive note, Johnstone said, "Don't sell the US economy short as a nation. We are historically very resilient. It may take some time, but we are going to come out of this."

Without a doubt, both our seminar and the Berkshire meeting examined the global debt concerns we face today. The book *This Time It's Different*, found that on average, a country's national debt increases by 86% during the three years following a major banking crisis. This is based on studying 66 countries over the past eight centuries. The book also found that inflation typically follows rapid debt expansion. The more money the world's central banks print and feed the markets, the more it fans the future of inflation. Higher inflation (above 3%) is good for stocks in the short-term, but not in the long-term. The current core inflation rate is under 1%, the lowest level since 1961 (*Historical Perspectives*, 7/12/10).

The European issues, particularly in Greece, have helped push oil prices lower globally and have also lowered interest rates with the flight to quality in US Treasuries. This is good news for home buyers since it has pushed 30-year fixed rate mortgages to 4.6% on 6/24/10, down from 5.42% one year ago (Freddie Mac's Primary Mortgage Market Survey, 6/24/10). At our seminar, Bruce Johnstone said, "This is the last time we will see 5% or less 30-year mortgage rates in our lifetimes." Investor's flight to quality has raised the value of the US dollar, which favors bonds and small/mid cap stocks and puts pressure on international stocks. Stay diversified. Past performance is not necessarily an indication of future results.

We close this newsletter as we closed our seminar, with upbeat motivational speaker, **Steve Gilliland**, whose topic (and new book) was *Making a Difference*. He challenged the audience to reflect on five people who have made a difference in your life. If you can name five, "pay it forward" and make a positive difference in someone else's life. If you do, it will be a better world. For all those that drove a great distance to attend our annual seminar, thank you. We will co-host next year's seminar around the same time, the third week of June, at the same location. For a copy of this newsletter and our ADV Part II, please visit our website at [www.spectruminvestor.com](http://www.spectruminvestor.com).

We appreciate your business.

## Wealth Management

### Variable Annuities

**Brian E. White, CFP®**  
Wealth Manager

Before we get into variable annuities, here's a quick update on last quarter's column about Roth IRA conversions and the state of Wisconsin. On March 15, 2010, Governor Doyle signed legislation to allow residents of all income levels to convert their traditional IRAs to Roth IRAs. This is great news for anyone in Wisconsin who is interested in a Roth Conversion. Remember, it's very important to speak with your tax advisor or accountant about executing any Roth IRA Conversions.

When you read the words "variable annuity" (VA), what kind of reaction do you have? Do you groan? Do you wonder if you have one? Are you confused? At some point in your life, someone has probably told you about an annuity or tried to sell you one. According to a survey from the Life Insurance and Market Research Association (LIMRA), variable annuity sales in 2009 totaled roughly \$127 billion. That's actually down from 2007 and 2008, where the sales were \$184 and \$156 billion, respectively. It sure seems like a VA is a popular place to throw some money, **but is it right for you?**

An annuity is defined as a contract between you and an insurance company under which you make a lump sum payment or a series of payments. In return, the insurer agrees to make periodic payments to you beginning immediately or at some future date.

**There are two types of annuities – fixed and variable.** Fixed annuities generally have a fixed interest rate on the money you've invested and they're guaranteed by the insurance company. Variable annuities put the choice of investments in the hands of the individual (or advisor), so the return is based on the performance of those subaccounts. Investment options for a variable annuity are typically subaccounts that invest in stocks, bonds, money market instruments or a combination of vehicles, with the intent to grow the assets in the accumulation phase faster than a fixed annuity. If that's the case, the payout of those funds when annuitized may be higher than a fixed annuity. Again, it sounds like a popular destination for a person's hard earned savings.

**Why are VAs so popular?** In the last 10-15 years, insurance companies have added lots of bells and whistles (called riders) to their variable annuity products. Phrases like 'Guaranteed Minimum Withdrawal Benefit Rider' and 'Highest Monthly Value Rider' fill the brochures of these variable annuities. They all seem to have a unique and fascinating type of guarantee on your income or withdrawal benefits. After years in a stock market that performed like 2008, people may feel a little more comfortable investing in subaccounts when an insurance company offers guaranteed benefit riders. As you can imagine, these riders aren't free.

**One of the major arguments against variable annuities is the overall cost.** The combination of mortality & expense fees, death benefits, guaranteed minimum withdrawal or income benefits and administration costs can be 2-3% and that doesn't include the management fees of the underlying subaccounts. In addition, the broker selling them often receives a front end commission of up to 7% and a possible ongoing annual trail of 1%.

Like all investments and insurance products offered to the general public, variable annuities make sense for a **portion** of the population. The death benefits and guarantees can be invaluable for

some people, but may not make sense for others. There are many factors that go into the decision making process for a variable annuity.

To help you decide whether an annuity makes sense for you, we suggest two steps. First, read about them. Second, contact us to see if a variable annuity is a suitable investment for you. The majority of our clients **do not** hold a variable annuity that we have sold or taken over as broker of record for. However, as stated previously, a variable annuity **does** make sense for some people.

*Variable annuities are long-term investment vehicles subject to market risks. Early withdrawal may result in tax liability, penalties and/or contingent deferred sales charges. Riders are available at an additional cost. Please ensure that you read the prospectus carefully to evaluate the investment objectives, risks and charges and expenses of the variable annuity and the underlying investment options before investing. Guarantees are based on the claims paying ability of the issuing company. Past performance is not indicative of future results. A prospectus, and if available, a summary prospectus, may be obtained by contacting Spectrum Investment Advisors at 800-242-4735.*

*Also, any tax-related advice provided by Spectrum Investment Advisors, Inc. is ancillary to its investment advisory services. We truly appreciate your business and look forward to helping each and every client meet their financial goals. Please contact us if you have any questions.*

#### Contact Spectrum Wealth Management if you:

- Have assets outside of your 401(k) and would like a review or 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
  - Need a fee-based approach to investment advice
- 800-242-4735 | [bwhite@spectruminvestor.com](mailto:bwhite@spectruminvestor.com)**  
**[www.spectruminvestor.com](http://www.spectruminvestor.com)**

#### Spectrum Investor® Update 6/30/10

Category	Average	2nd Qtr	1 Year	3 Year
Intermediate-Term Bond		2.71	13.11	6.03
Moderate Allocation		-6.63	12.89	-4.62
Large Cap Value		-11.78	13.64	-11.56
Large Cap Blend		-11.57	13.43	-9.93
Large Cap Growth		-12.11	12.41	-8.11
Mid Cap Value		-10.10	23.76	-9.39
Mid Cap Blend		-10.18	21.26	-8.86
Mid Cap Growth		-9.61	19.58	-7.94
Small Cap Value		-9.35	25.88	-8.66
Small Cap Blend		-9.62	21.97	-9.04
Small Cap Growth		-9.14	19.07	-8.73
Foreign Large Blend		-13.38	7.05	-13.04
Real Estate		-3.93	51.59	-9.91
Natural Resources		-13.87	9.83	-8.51

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

<b>DOW: 9,774</b>	<b>10 Yr T-Note: 2.94%</b>
<b>NASDAQ: 2109</b>	<b>Inflation Rate: 2.0% (5/2010)</b>
<b>S&amp;P 500: 1030</b>	<b>Unemployment Rate: 9.5%</b>
<b>Barrel of Oil: \$75.63</b>	Source: <a href="http://www.bls.gov">www.bls.gov</a> (6/10)
	Source: <i>USA Today</i> 7/1/10

## In Other Words

To Risk or Not to Risk?

**Angie Franzone**

Newsletter Editor

If someone asked you the question, “What is risk?” how would you answer? Would you go with a version of the fairly obvious and dictionary friendly definition, “the chance of injury, damage, or loss”? It’s a straightforward and accurate definition and it does answer the question in a general sense, but when it comes to investments, the answer can get a bit more complicated. The risk you’re taking with investments is that the actual return will be different than the expected return, particularly when it results in a negative return.

Why would anyone put money into an investment that loses money? Well, an investment that may lose might end up providing higher returns than one that can be achieved without risk. **Risk vs. reward** is an important concept to consider when thinking about your investments. The greater the amount of risk you’re willing to take on, the greater your potential return may be. Of course, with that risk, there is also a greater chance of losing money. Hey, no one said taking risks was easy, if it were it wouldn’t be called risk!

When developing a portfolio of investments not only should you think about how much risk you *feel* you are comfortable with (whether you’re risk averse or risk tolerant) but how much risk you can *actually* take financially. Take into account things such as **job security** – will you always have a 401(k) to contribute to?

**Retirement age** – how long will you need to work to pay the bills in retirement? And **outside assets** – will you rely solely on your 401(k) in retirement or do you have supplemental income in the form of personal savings or other investments?

A risk tolerance quiz is a good place to start when determining your level of aggressiveness, but talking with an advisor is also very important because they may ask you questions about your investment goals that you forgot to take into consideration. In addition, as with any investment decision, there is an emotional component to it that a licensed advisor can help keep manageable.

In the book, *Live It Up without Outliving Your Money!*, author Paul Merriman states, “Most people say they are pleased with past investments because they made money, not because their investments had low risk. People are not pleased by past investments that either lost money or made much less than they ‘should have.’ **The most accurate indicator of your actual risk tolerance is probably what you will do in the face of adversity**” (*Kiplinger’s Financial Book Summaries*, 9/09).

Merriman’s statement is exactly what we talked about in last quarter’s column and was depicted through a chart, which showed how three different investors reacted in the face of adversity when there was a significant drop in the market. The point was to illustrate what can happen when you let your emotions do the investing instead of your head. We have brought back the chart from last quarter to see what has happened since then.

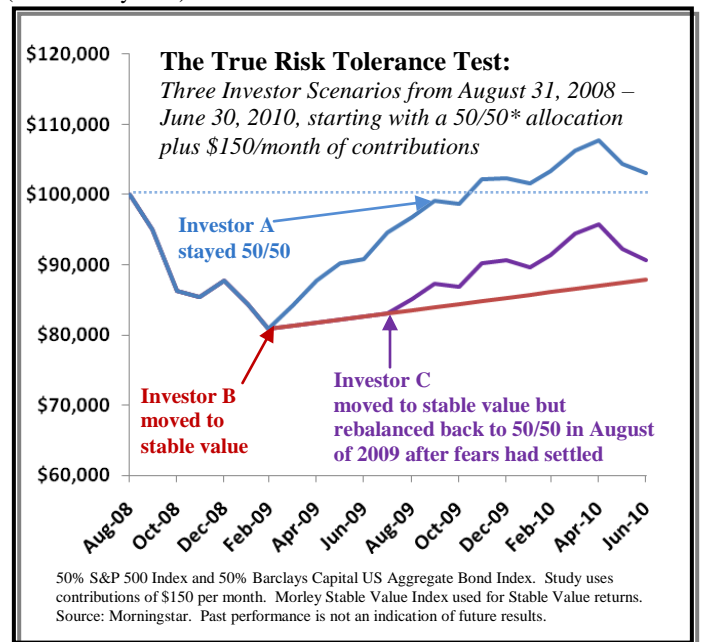
Remember, all three investors started with a moderate 50/50 allocation, which means 50% stocks, 50% bonds. After a nice recovery in the previous four quarters, you can see the balances for hypothetical investors A and C have dropped in the second quarter of 2010. Why? The stock market took a negative turn in the second

quarter, and so the portfolios went down in value. As you can see, Investor A, the investor who stayed put with the original allocation, is still in the best position. This speaks to Warren Buffett’s quote Jim and Jon used on the first page of this newsletter. Warren said to choose an allocation where you are no longer scared of the risks, and stick with that allocation through all the ups and downs. As the chart indicates, substantial moves in and out of the market can have a negative impact on your portfolio.

There is, of course, good reason to lessen the amount of risk you take over time. The closer you get to retirement, the more conservative your portfolio should become, but when you’ve got 10, 20, or 30 years to invest, take advantage of the time by allowing your money to work for you by maintaining stock funds in a balanced portfolio. Don’t let downturns or market corrections frighten you away from investing. Ups and downs are normal and should be expected. According to Jason Zweig, a personal finance columnist for the *Wall Street Journal*, “If something is easy to recall, we think it happens more often than it does” (CNNMoney.com). This is true for both remarkable upswings in the market as well as memorable downturns and in Zweig’s opinion; it is a form of self-sabotage.

Overall, risk vs. return is a difficult concept to come to terms with when it comes to your money, but it is also an important one to embrace if you want to avoid the big mistakes when investing.

Zweig summarizes the idea very nicely by explaining that risk does not only reside in the market but inside ourselves as well, “In the way we misinterpret information and fool ourselves into thinking we know more than we do or overreact to the market’s swings” (CNNMoney.com).



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.

## There's Something Fishy Going On

**David Meinz, MS, RD, FADA, CSP**

America's Personal Health Humorist

The good fats you find in seafood, called the omega 3s, help lower your blood triglycerides, improve immunity, and treat inflammatory diseases. They have also been found to reduce blood clotting, prevent abnormal heart rhythms, and promote the development of eye and brain cells. Additionally, they may help older people's brains work better and also help treat rheumatoid arthritis and other autoimmune conditions. If you're an average American you probably need to eat more of them! The best source of the omega 3 fats is fatty fish such as salmon, halibut, mackerel, sardines and some types of tuna. Other foods include walnuts, flax, flaxseed oil, or canola oil.

The American Heart Association recommends at least two, 3-ounce servings of fish each week with an emphasis on fatty fish, like salmon. The recommendation also states that cooking techniques should include grilling, baking, or broiling instead of frying.

Copyright 2001 by Randy Glasbergen.  
www.glasbergen.com



**“My job is giving me migraines, high blood pressure, chest pains, and bleeding ulcers. I’d quit, but I like their health plan.”**

Healthy people should get around two grams a week of the healthy omega 3 fats. You can get this from two small servings of fatty fish. Those that already have heart disease can benefit from taking in one gram a day of the omega 3 fats. If you have high blood triglyceride levels, the recommendation is 2-4 g per day. About 3 g a day may help reduce the pain and swelling of rheumatoid arthritis.

By the way, while cod liver oil does contain the good omega 3 fats, it's also too easy to potentially take in too much of the vitamins A and D that come along with it. So, we don't recommend it for your omega 3s.

Now in addition to fish, there are other foods that have omega 3 fats. Grocery stores now sell special eggs which are higher in omega 3s compared to regular eggs. You may have seen “Eggland's Best.” This is made possible by feeding the hens flax seed or fish oil to raise the omega 3 content of the eggs produced. Nevertheless, fish is still a much, much better source of the omega 3s. For example, these special eggs contain 50-150 mg of omega 3 fats compared to 1,800-3,700 mg from salmon. And of course, eggs still contain cholesterol and some saturated fat.

**This is important. There are three different main types of omega 3s: two come from seafood and one comes from plants.** Fatty fish, such as salmon are the best sources of two of those omega 3s, EPA and DHA. These are the fats that help reduce blood clots, inflammation, heart rhythm problems, high blood pressure, and high triglycerides. On the other hand, you get a different kind of omega 3 from plants. Called ALA, the best dietary sources of this plant omega 3 are walnuts, flax seeds, greens, and canola oil.

Unfortunately, humans can convert only between five and ten percent of this ALA into the better EPA and DHA. On the other hand, fish are able to convert ALA as found in algae and other sea plants into EPA and DHA much more efficiently than humans can. So, fish can make the healthy omega 3s much better than humans are able to.

**A word of warning. Be aware that a product that says it has omega 3s in it may, in fact, contain just the ALA version of omega 3 and not the better EPA and DHA. Only foods that contain the EPA or DHA can claim heart benefits.** While there is no official recommendation for the good omega 3 fats, evidence shows that as little as 500 mg of EPA and DHA and as little as 1500 mg of ALA may be very good for your health.

By the way, there is some research that indicates that ALA may have benefits of its own. A study at Harvard University on 77,000 female nurses found that those with the highest intake of ALA had a 46% lower risk of sudden cardiac death than those consuming the least amount.

**The bottom line? You want to get most of your good omega 3's from seafood sources, not plant sources.** It's hard for you as a human to turn the omega 3s found in plants into the protective form you really want. But the seafood omega 3s are already in the form you need for good health. Don't be so impressed with all the products in the grocery store that claim they contain the healthy omega 3s. They won't hurt you but they probably won't do you much good either. Concentrate on eating more fish.



Nutritionist **David Meinz** of [www.SpeakingOnHealth.com](http://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](http://www.alaska-health-cruise.com).

