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Spectrum Investor® Newsletter

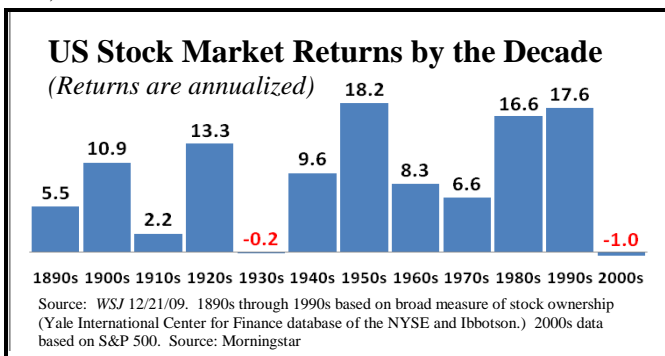
4th Quarter | 2009

Quarterly Economic Update

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Enclosed are your investment returns for the 4th quarter, 2009. For the first time since the 1930s, US equities finished the decade with a negative total return. The S&P 500 Stock Index finished the decade with a total return of -0.95% even after rising 26.46% in 2009, its best calendar year since 2003 (Morningstar 12/31/09). US equities have never suffered back-to-back losses in calendar decades (see chart below). Past performance is not necessarily an indication of future results. According to Vanguard, a positive for improving market conditions is that the S&P 500 is now trading at 14.5 times earnings. The long-term average is 15. This compares to the peak in 2000, where the S&P 500 reached a PE ratio of over 30.

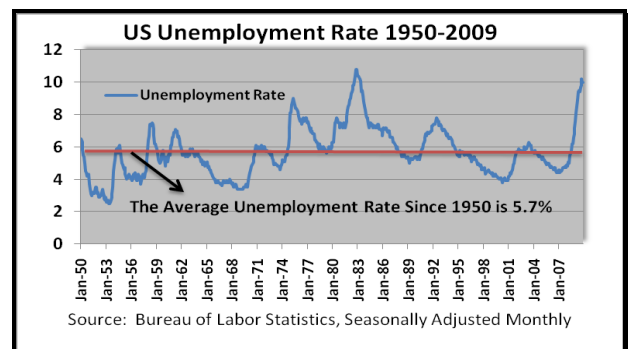


At Spectrum, we agree with *Time Magazine's* selection of Ben Bernanke as Person of the Year for 2009 (1/4/10). He was one of the most important players in guiding the world's most important economy away from major economic difficulty. His creative leadership helped ensure that 2009 was a period of weak recovery that we could call a **Great Recession** rather than another depression.

Bernanke and other scholars of the 1930s Great Depression saw the decision of the Hoover administration to tighten belts and balance budgets as a tragic mistake. Instead of lending freely, the 1930s Fed let one third of the nation's banks fail. Instead of lowering rates and expanding the money supply to spur the economy, they raised rates and tightened money, obsessing over inflation and dollar strength. Instead, Bernanke saw that aggressive government action backed by government money was needed to reverse the downturn by restoring confidence and reviving demand.

Bernanke took heat for substituting public for private debt, but it worked because most private markets are functioning again. All but one of the 19 major financial institutions subjected to the financial stress tests have received decent bills of health with taxpayers on track to profit from TARP's unpopular bailouts. For example, Bank of America in December 2009, was healthy enough to repay \$45 billion in TARP aid (*Time Magazine* 1/4/10).

Going forward, Mohamed El-Erian, CEO of PIMCO suggests that unemployment (currently at 10.0%) could take six years or more to recover to its historical norms of 5-6% (see chart below). Remember unemployment is a lagging indicator of economic activity. The near-term effect of the unemployment picture is that the Federal Reserve will likely continue to hold down interest rates. Although the dollar has strengthened, the long-term collateral damage of a low interest rate policy is that the dollar will remain weakened (*Investment News* 11/16/09). For US investors, a weakening dollar historically boosts returns on foreign shares (*WSJ* 1/6/10).



According to Bill Gross, manager of the world's largest mutual fund, PIMCO Total Return, the United States is in the process of deleveraging as a result of years of extreme leverage. He looks at profits remaining around 4-5% instead of the prior levels of 8-9%, resulting in long-term returns on Wall Street in the 5-6% range, half of what it was during the 80s and 90s (*Investment News* 12/7/09).

If there is a long-term trend to watch in the next decade, it has to be the massive spending by China on its infrastructure where they are projected to build 30,000 miles of roads in the next 10 years. This will most likely put pressure on the price of natural resources worldwide (*BusinessWeek* 7/1/09). Should you wish to read more on the growing economies of China and India, we suggest the book *Two Billion Cars*, by Sperling & Gordon.

What to do? **If you haven't already, refinance your mortgage before interest rates start trending up**, as they most likely will later in 2010. Be sure to maintain a well diversified, balanced portfolio and do not chase returns. For example, if you invested all your money in Microsoft, the largest stock of the S&P 500 in late 1999, you would be down 35% for the entire next decade. This compares to the average balanced fund, which gained a cumulative total of 75% in the last 10 years. A balanced fund is typically 60% stocks and 40% bonds (*USA Today* 1/5/10). We include balanced funds in all of our model portfolios. Remember to stay diversified and rebalance annually or, at a minimum, once every three years. Keep investing and stay the course.

We hope you enjoy the new format of our newsletter designed by our editor, Angie Franzone. This newsletter can also be found on our website. The Spectrum Investor® Update with performance of the colors can be found on the next page. We appreciate your business and wish the best to you and your organizations in the new decade.

In Other Words

Emotional Investing

Angie Franzone

Newsletter Editor

Let's face it, newsletters can be dull, especially when they're focused on stock market analyses, economic overviews and everything you pay somebody else to worry about. However, there's something to be said for possessing general knowledge and a certain level of understanding about your own investments. That's where this column comes in. Part of the problem is that the explanation is usually too long and drawn out to pay attention to and often, too technical. If you've ever found yourself responding to one of these explanations with, "so, in other words what you're trying to say is..." then this is the column for you. Its purpose is to take the technical and mundane aspects of your 401(k) and explain them in an interesting and relatable manner. After the tumultuous year we've just experienced, what better way to begin than with emotional investing?

Emotion is an important part of what makes us human. Without emotion I imagine we'd be like robots, always using logic and never acting on our feelings. However, emotion is also what makes us panic when it comes to our money, especially when that money is invested in the stock market. According to an article written by The Principal Financial Group entitled *Rebuilding 401(k) Retirement Savings: Three Stages of Rebuilding*:

"After witnessing the impact of double-digit negative returns on balances, participants may not see the point of participating in their employer's 401(k) plan anymore. These participants may use the market value losses as an excuse to stop contributing or to lower their contribution level."

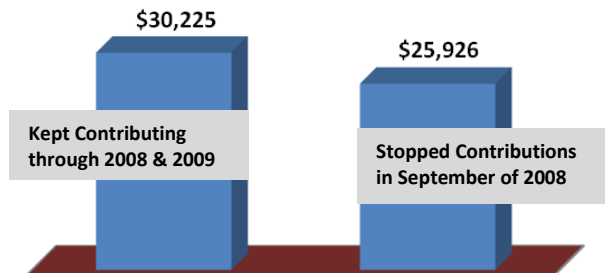
The article goes on to say, "Younger plan participants are the most vulnerable to this self-defeating thinking and could potentially see the greatest damage from a decision to reduce or withdraw from plan participation/investing for retirement" (July 2009).

The reason for this is because younger investors have a greater amount of time to invest their money and therefore can withstand market fluctuations better since they are in it for the long haul. However, even for older investors, completely discontinuing participation in your 401(k) plan when the market goes down and getting back in when the market recovers, can potentially cause more trouble than riding it out because you will be selling low and buying high, thus losing out on all of the upside in the market. A drop in returns produces a drop in investors' confidence, but it doesn't have to be that way. Let's look at things using an example that we can all relate to; the supermarket checkout line.

We've all been there, you enter the store saying to yourself, "I'll just run in and run out." You grab the few items you need and head to the checkout line only to see that even the "express" lanes and not so time saving, "self checkout" lanes have substantial lines. You walk past each line quickly, scanning over people's carts to determine which one will get you through fastest and finally commit to one that you feel confident will move quicker than the others. As you shift your weight from side to side, impatiently tapping your

Don't Stop Contributing

With a \$25,000 balance, an investor in a 60/40 allocation who stopped making monthly \$250 contributions during the correction of September, 2008 and never re-started would have about \$4,000 less in the 401(k) at the end of 2009.



Calculated using Morningstar Workstation with the Barclays Capital Aggregate Bond Index and the S&P 500 Index for a 60/40 Stock to Bond allocation. Past performance is no guarantee of future results.

toes and accepting the fact that you could be there awhile, you notice a checkout line a couple of lanes over that appears to be moving right along. You smile at how much more aware you are than everyone else and make the decision to get out of your line and hop into the other one. As you get closer and closer to the front, things appear to be going well until the person right before you begins to check out and you realize that they have about a million coupons, they're paying by check, which the register won't seem to scan at the moment, and they accidentally got the skim milk instead of the 1%, so they'll "be right back". With a heavy sigh you look over at the line you previously occupied and grind your teeth as you watch the person who was standing behind you walk out the door. The moral of this story is that staying put when things don't appear to be going as planned may be less risky and yield better results in the end, than getting out and starting all over.

Here's some information that may help you stay put. If you are contributing to your company's 401(k) plan you are utilizing a technique called **dollar cost averaging**. Investors use dollar cost averaging to invest a specific amount of money over regular periodic intervals, such as monthly or quarterly. This allows you to buy more shares when prices are low and less shares when prices are high, reducing the risk that you will have invested all of your money when the market is at its top, or most expensive. This form of investing may not guarantee a positive return in a declining market, but over time it will help to reduce your average cost. **While dollar cost averaging may not give you that warm, fuzzy feeling when your returns are in the negative, it should help quiet that emotional part of your brain that wants to scream out "sell!" when it's really time to buy.**

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.

Invest In Your Health

"Healthy Foods" That Aren't So Healthy

David Meinz, MS, RD, FADA, CSP

America's Personal Health Humorist

Things aren't always as good as they appear in the American supermarket and restaurant. Here are several food items that don't always deserve their healthy reputation:

1. **Yogurt.** Yes plain yogurt is a great, high-calcium food but it tastes like sour milk, and that's because it is sour milk. So the food manufacturers add "fruit on the bottom", which is really more like fruit preserves or jelly, than real fruit. That additive gives you a food that now often has 5-10 teaspoons of sugar per serving. What I do is buy one large container of plain non-fat yogurt and mix it with one large container of non-fat vanilla yogurt. That cuts the sugar per serving significantly from the "fruit added" kind but still gives you a product that tastes good.

2. **Fish.** Yes, fish is a great food for your health, but not fast food fish. Not only is it deep fried but, as a result, can contain those bad trans fats. A fast food fish sandwich is usually made of cod, which doesn't contain hardly any of those good omega-3 fats that fish is famous for. A McDonald's Filet-O-Fish sandwich contains around 16 grams of fat. Their regular hamburger only contains 9. You could almost have two hamburgers. By the way, commercially made tuna fish salad is a dietitian's nightmare. If you make it at home you can hopefully go easy with a lower-fat mayonnaise, but when it's made for you it's usually full-fat mayonnaise. In addition, a typical restaurant tuna sandwich has 700 calories and 43 grams of fat. Ouch!

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"This simplifies things! Each serving contains 10 grams of 'stuff that will kill you' and 15 grams of 'stuff that won't kill you'."

3. **Muffins.** Now, it's true that if you make muffins at home, control the amount of sugar and fat and use whole grain flour they can be good for you. But commercially made muffins somehow got a health food reputation they don't deserve. What are muffins? White flour, sugar, and fat. What are donuts? White flour, sugar, and fat. Muffins just have more. Have you seen the size of some of these muffins you can buy? They're huge! And they usually cost a lot more than a donut. Bottom line? Muffins are donuts for rich people.

4. **Olive Oil and Canola Oil.** Yes those are the oils you should be using. They're low in saturated fat and high in the good monounsaturates. And, of course, since they come from plants they have no cholesterol but remember, when it comes to calories, fat is fat. You can gain weight on any fat, whether it's lard or olive oil. The difference is that lard will clog your arteries up, and olive oil won't. All fat has the same number of calories per unit volume of food, the problem is that a lot of people think they can start frying everything in olive and canola oil since they're healthy oils. But that misses the point that Americans still are eating too much fat. **The average American eats about 82 grams of fat a day. A better target is around 50 grams for adults, both men and women.** Yes, use olive oil and canola oil, but that doesn't give you license to eat unlimited amounts.

5. **Juice.** Drinking juice is NOT the same as eating the fruit or vegetable. First of all, the fiber--one of the benefits of eating whole foods--is lost. The processing of the fruit into its juice may cause the loss of some nutrient content as well. Many commercially available "fruit drinks" are not much more than soda without the bubbles. They're high in sugar or corn syrup, flavors, and contain very little, if any, real juice. Yes, drinking a "100% real juice" beverage is better than getting no fruit or vegetables at all, but better yet is to eat the whole food. I've found that people don't like to commit to a whole apple or orange, however, if it's sliced up, they are more likely to be eaten.

6. **Turkey Burger.** When you're eating out, this seems like it would be the natural choice over a greasy hamburger. It turns out a typical restaurant turkey burger has 850 calories and a whopping 50 grams of fat. Why? Turkey is indeed a very low fat meat. So low, in fact, that they add the skin back so that you can make a burger or loaf out of it. Without the fat back in from the skin, it tends to just fall apart. Then there's the mayo, and probably some cheese to top your turkey burger off. When you go shopping, what you want to buy is ground turkey *breast*, not ground turkey. You'll be happiest with it if you crumble it up like in tacos, chili, or added to spaghetti. One serving of ground turkey has 11 grams of fat; one serving of ground turkey breast, only 3 grams.



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.

