

## GENERAL MARKET COMMENTARY

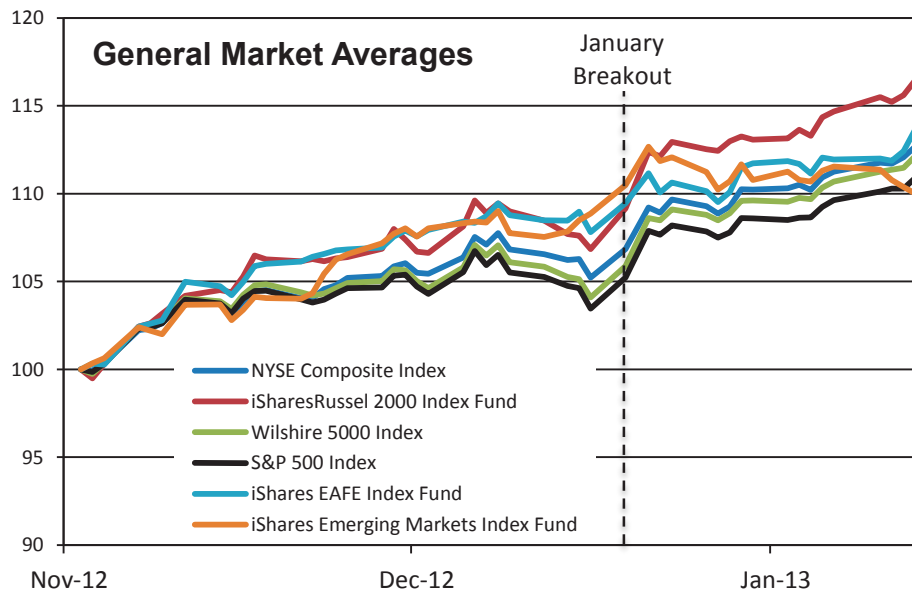
From the sell-off after the elections, the market has been heading higher without looking back except for a bit of tax-motivated selling in the last half of December. The chart below shows that all market averages broke out the first week of January and are all up double digits since November 2012. Why? It

seems that financial uncertainty issues have been removed one at a time, and investors hate uncertainty. The election was settled, the housing industry has bottomed, unemployment continues to drop, the fiscal cliff has been temporarily resolved, the Euro credit crisis seems to be controlled, and the Federal Reserve has made money

available at no cost to the financial community and has promised to continue for at least another year. People are starting to feel confident once again.

However, the past two years have been most difficult to make money in the market as growth seemed to slow to zero and the political climate was as cold as anyone could remember. As we enter 2013, we temporarily find ourselves safely on the other side of the fiscal cliff, but facing another imminent political showdown over raising the debt limit.

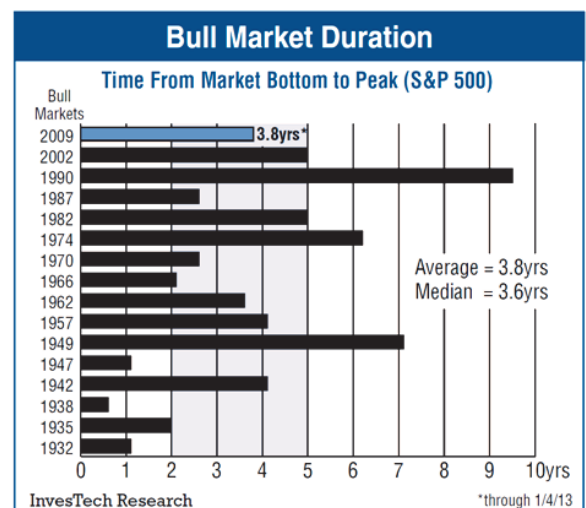
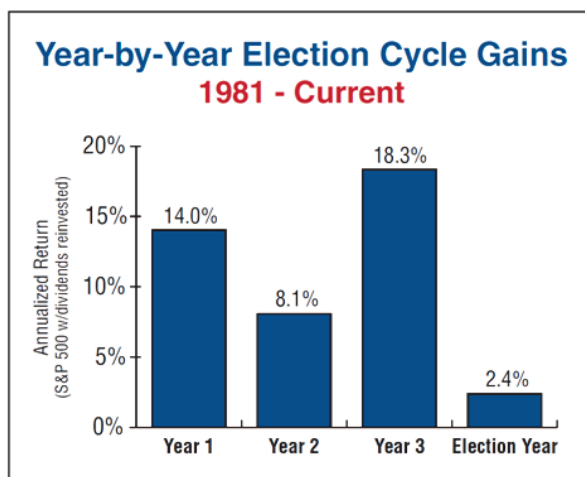
Monetary policy should be more important than politics as a determining factor of when the next bear market begins, and so far, there have been no signs of tighter monetary policy. Money should continue to come out of bonds and move into stocks as investors slowly develop confidence in continued economic recovery.



What does history tell us about the effects of the 4-year election cycle? Since 1981, the chart below left illustrates that the year following the election year is the second most profitable year of the 4-year election cycle with gains averaging 14% for the year. In addition, we have a January-effect wind at our back. Positive Januarys

tend to have good years, and this has been the best January for stocks since 1989.

The chart below right shows the historical duration of bull markets. By historical standards, the current bull market is no longer youthful. Since it currently is 3.8 years old, it is exactly the "average" bull market length so far, and there are no triggering events on the horizon at the present time. But, expecting this market to last another two or three years would be stretching historical probability.



## RELATIVE STRENGTH CURRENTLY BULLISH

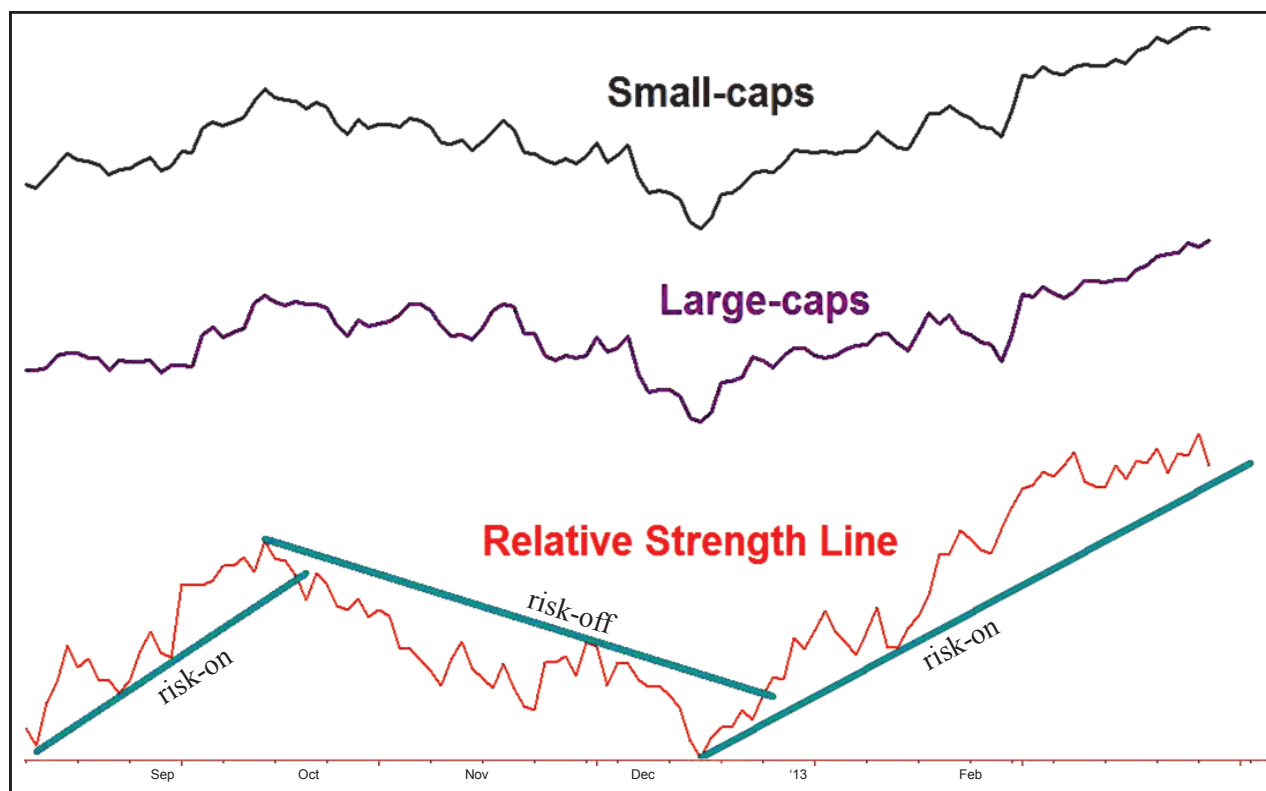
There has been a growing tendency in recent years for the stock market to display herd mentality, rising and falling as investors turn bullish or bearish. Another way this has manifested itself is through groups of stocks with shared characteristics. Two terms that have been popularized are the “risk-on trade” and “risk-off trade”. The risk-on term refers to the herd mentality of rushing into the traditionally faster or higher risk stocks (risk-on), while shunning or selling the traditionally defensive or slower-moving stocks (risk-off). The risk-off trade would be the opposite in which the higher risk stocks are sold and are assumed to be put into the slower-moving stocks.

The traditionally faster-moving stocks have been those of smaller companies, as they tend to be more sensitive to the booms and busts of the economic cycle. The traditionally slower-moving stocks tend to be the larger companies, which are more liquid and easier to sell if the economy stalls.

The trends of herd mentality can be more easily seen in this comparison chart of the two groups. The red indicator in the lower pane of the chart is known as the Relative Strength Line. It does not forecast direction, per se, but does show the user when one group is performing better than the other, even if both groups are rising or if both groups are declining. The Relative Strength Line in the example rises when the small-caps (Russell 2000 Index) is out-performing the large-caps (Russell 1000 Index). That represents the “risk-on” trade and is more commonly associated with a more bullish market environment.

This technique is not limited to comparisons of the small-caps to large-caps. Rather, numerous other combinations can be assessed, including those in other investment asset classes such as bonds and alternatives. This is an example of a technique that Spectrum Financial Inc. uses to help navigate the investment process.

Since mid-November, we have been in a “risk-on” market. That seems to be changing, now that January is over.



**PERSONAL PERSPECTIVE** by Ralph Doudera

**Love Does**, a current best seller by author Bob Goff, gets practical with the mushy word “love”. In 31 chapters, he illustrates how love takes action. I must admit that trying to live on the spontaneous heart level, and living my life “outside the box” has become an adventure from my normal cerebral analytical behavior. I have decided that the word “heart” will become my focus word this year. His life stories will surprise and shock readers into taking action, as we begin to look at ways of expressing love.

Studying what many consider to be the “Love Chapter” in 1 Corinthians 13, I have been studying it and attempting to apply it to my relationships. Here is what “I love you” means to me:

*<sup>4</sup> Love suffers long and is kind;*

I will not give up on our relationship,  
and I will treat you with honor as a precious friend.

*love does not envy;*

I will recognize our differences and accept your strengths to be as important as my own.

*love does not parade itself, is not puffed up;*

I will exhibit a humble attitude and accept and value your opinion as different but equally important.

*<sup>5</sup> does not behave rudely,*

I will speak to you gently and with respect and will refuse to engage when I am angry.

*does not seek its own,*

I will listen to you and not speak until I understand

what you are saying.

I will not always have to have my own way of doing things even if I believe it may be better.

*is not provoked,*

I will attempt to not be drawn into a controversial conversation.

*thinks no evil;*

I will not judge you or your motives.

*<sup>6</sup> does not rejoice in iniquity, but rejoices in the truth;*

I will always look for the best and not feel justified when you are hurting.

*<sup>7</sup> bears all things, believes all things, hopes all things, endures all things.*

I will not be offended by the things you say which may not be true about me. I will trust God to provide grace for an abundant life, and not remember past offenses.

*<sup>8</sup> Love never fails. (NKJV)*

I will continue pursuing love in our relationship as Christ loved his Church and gave his life for her.

Try attempting spontaneous acts of kindness and be surprised by the results. Pay someone’s toll. Slip some cash into someone’s pocket. Tell someone you love them. Give hugs. Listen to your spouse and attempt to understand them even though you think they are wrong. Make them feel valued. Listen, and don’t talk so much. We don’t learn much when we talk. Volunteer to do something new. Forgive someone. And remember — love is a verb.

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*“Steady plodding brings prosperity; hasty speculation brings poverty” (Proverbs 21:5, LB)*

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