THE FULL SPECTRUM

Spectrum Financial, Inc.

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GENERAL MARKET COMMENTARY

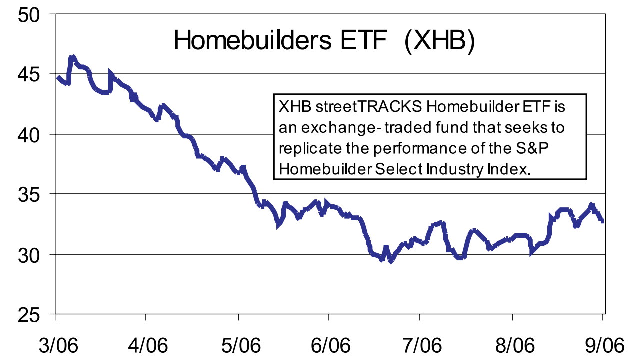
With market averages moving out to new highs, stocks seem to be voting for an economic "soft landing", and that means that the Federal Reserve could soon start easing interest rates. But is it typical for "soft landings" to occur at this juncture of the economic cycle? The table on the left shows that historically the odds of success are only two out of ten of the last Fed Tightening Cycles; not something we should overlook. Designing a plan of slow growth and maintaining interest rates is like walking a tightrope looking behind you—possible, but potentially dangerous. To get this scenario, the inflation rate must decline, consumers must continue purchasing goods, and the real estate market must not collapse, pushing us into recession. One leading indicator to watch is the homebuilders index, which currently looks like it has bottomed and is heading upward (see chart below). A breakdown of this indicator along with High Yield Bonds could signal a coming recession.

Fed Tightening Cycles*

	Recession	Soft Landing
1955-57	✓	
1958-60	✓	
1963-66		✓
1967-70	✓	
1973-74	✓	
1977-80	✓	
1980-81	✓	
1987-90	✓	
1994-95		✓
1999-01	✓	
2004- ?		

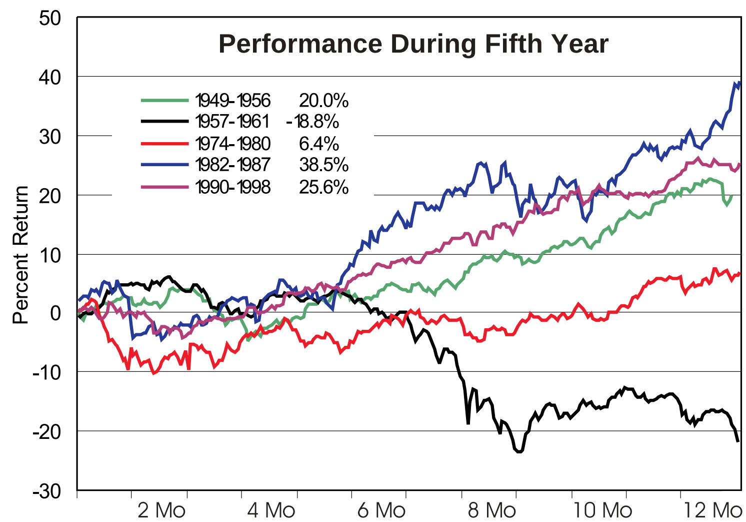
*2 or more consecutive rate hikes

Courtesy InvesTech Research



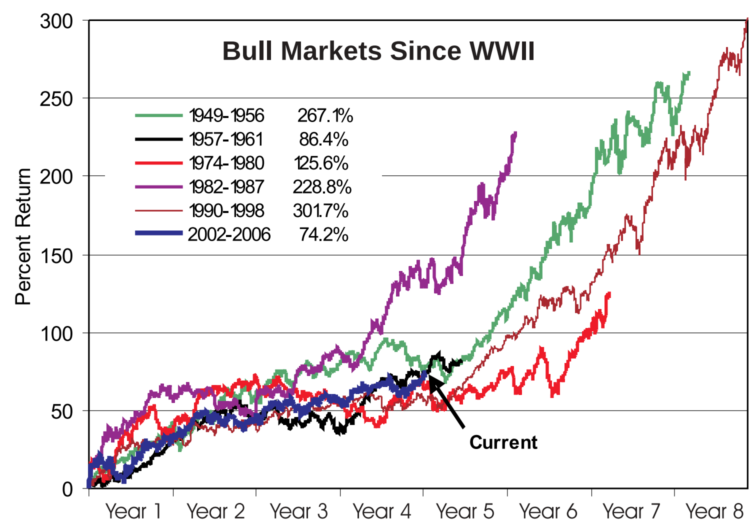
POST BULL MARKET TRIVIA

This is the 4th anniversary of the low point in the 2000-02 bear market. Since then, the total return of the S&P 500 is up 87% or 16.9% per year. Keep in mind the average annualized return of the S&P 500 for the past 70+ years has been about 11% per year, including bear markets. The best performing bull market for the S&P 500 in the past 70 years lasted 9 ½ years from 1990 to 2000 and gained 417%, averaging about 17% per year. How long will this bull market last? The table and charts show the five bull markets since World War II, including a focus on the fifth year of their respective bull markets. Only one did not make it to the sixth year (1957 - 61), whereas the other four went up an additional 36.5% to 158.5% before peaking. (Charts courtesy of Birinyi Associates)



S&P 500 Performance (%)

Date	Entire Bull Market	First 4 Years	5th Year	4th Year to Peak
1949-56	267.1	75.8	20.0	108.8
1957-61	86.4	75.7	-18.8	6.1
1974-80	125.6	65.3	6.4	36.5
1982-87	228.8	135.0	38.5	39.9
1990-98	301.7	55.4	25.6	158.5
2002-06	74.2	74.2		
Average	**201.9**	**81.4**	**14.4**	**70.0**

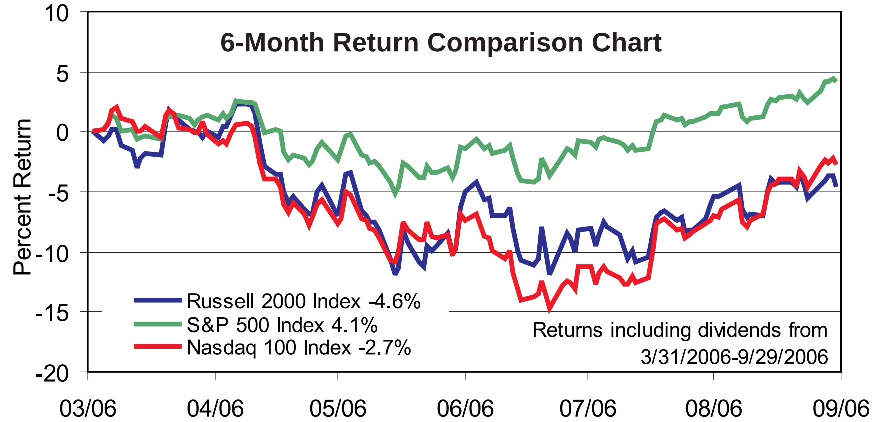


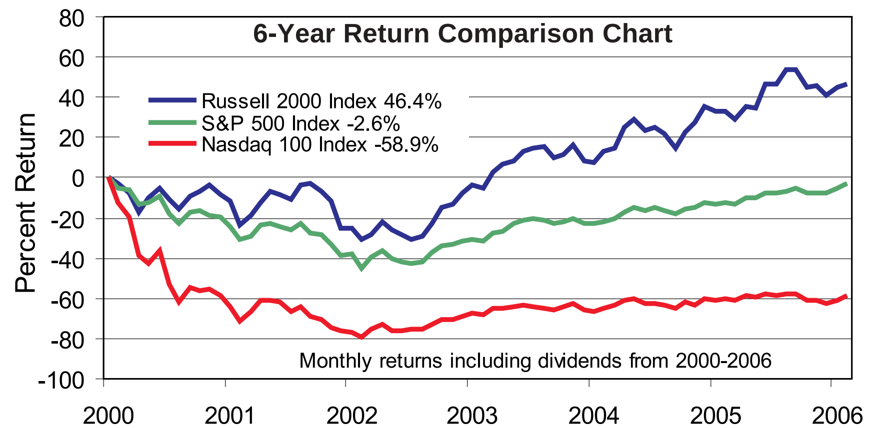
MARKET DIVERGENCE

Stocks usually move together in the same direction, but the past 6 months have shown a major divergence which can be seen in the top chart.

The Russell 2000 Index of small cap stocks is down over 5% for the past 6 months, while the S&P 500 Index is up over 3%, indicating money moving from small companies into larger companies.

The bottom chart illustrates total performance since the market top in 2000 of the three major groups of U.S. stocks – the S&P 500 largest companies, the NASDAQ 100 largest OTC companies (mostly technology companies), and the Russell 2000 small company index. An equally weighted investment in each of these three indices six years ago would result in a loss of 3% on the S&P 500, a loss of 59% on the NASDAQ 100, and a gain of 46% on the Russell 2000, for an average total return over the past 6 years of -7%.



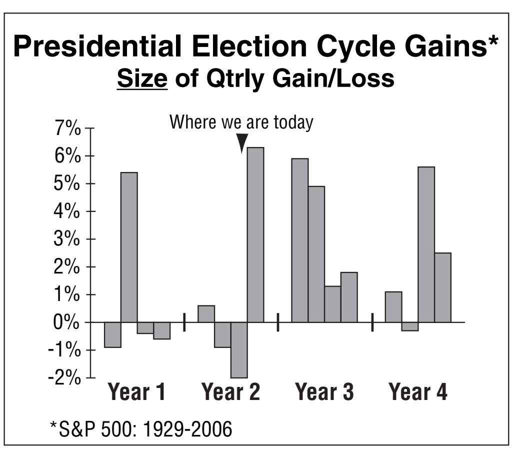


PRESIDENTIAL ELECTION CYCLE

While the current bull market is celebrating its 4-year anniversary, it should also be noted what history has shown us about the Presidential Election Cycle. Newly elected presidents usually try to get any unpleasant economic decisions made early in the four year term so that the economy and stock markets are doing well for the next election. The strongest 3-quarter period of the 4-year Presidential Cycle is now here. If history is any precedent, the final quarter of 2006 could have a return averaging 6.3%, while the next three quarters could average a sizable 18.1%.

The primary reason for this is that by the end of the fourth quarter, economic growth could slow down enough that the Federal Reserve could start easing interest rates again. More Discount Rate cuts have been made during this 3-quarter period than any other 3-quarter period of the Presidential Cycle.

The key for this scenario is inflation. If it continues accelerating, all bets are off, since the Fed may have to raise rates to keep it in check. Right now things look favorable.



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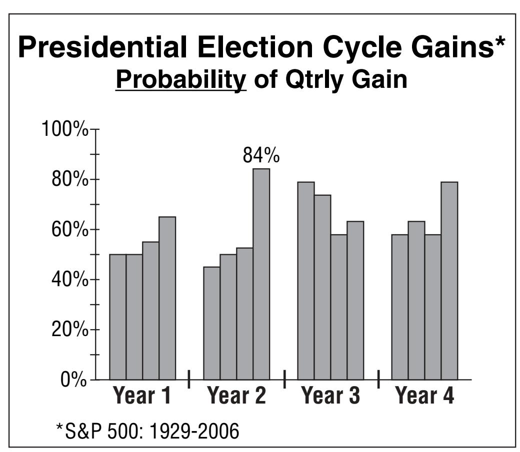

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PERSONAL PERSPECTIVE *by* Ralph Doudera

This past week amid the gloom of nuclear tests, wars, and political scandal, was also other news that is worthy of mention, namely the award of the 2006 Nobel Peace Prize to Muhammad Yunus, founder of Grameen Bank. Founded in 1976, it began to make small loans, sometimes as little as $50, to poor entrepreneurs in some of the world's poorest countries. The Nobel Committee also observed "Micro-credit has proved to be an important liberating force in societies where women in particular have had to struggle against repressive social and economic conditions… Every single individual on earth has both the potential and the right to live a decent life... Yunus has shown that even the poorest of the poor can work to bring about their own development."

A week prior to this announcement was the memorial service of Al Whittaker, the co-founder of Opportunity International, an organization which worked hand in hand founding the Grameen Bank. Before starting Opportunity, Al was a business executive and President of Bristol Meyers Corporation. Hearing a missionary speak on using business tools to alleviate poverty, his wife said to him "...you should talk to that man. How much longer do you want to spend your life making rich people richer, anyway?" Agreeing with her, he decided to give up a business career of making money for himself and others to begin Opportunity International.

At his memorial service last week, Al's son, Don, told a story about how his father learned at an early age the meaning of stewardship.

One Sunday morning Al left home with 15 cents in his pocket for the offering. Along the way he stopped off at a candy shop and figured that he could buy five cents worth of candy and still have ten cents for the offering. As he left the store he put the bag of candy in the pocket of his jacket so that he could easily reach in and take some out without anyone in church noticing. As he walked under a tree, a bird sitting on a branch above dropped a well aimed deposit that fell directly into the bag. He never ate that candy, but was able to share with his children that they should not take anything that belonged to God.

Al died a week before hearing of the Nobel award, but there are hundreds of thousands of poor families who are benefiting from his life's work. Opportunity International is not a *hand out, but a hand up* to a better opportunity. You can visit their website www.opportunity.org to view a 2-minute video to see how they are making a difference, not with weapons or handouts but with an opportunity to give the working poor a chance.

"Good will come to those who are generous and lend freely, who conduct their affairs with justice. Surely they will never be shaken. They will be remembered forever." (Psalm 112:5-6)

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

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