



THE FULL SPECTRUM

Spectrum Financial, Inc.

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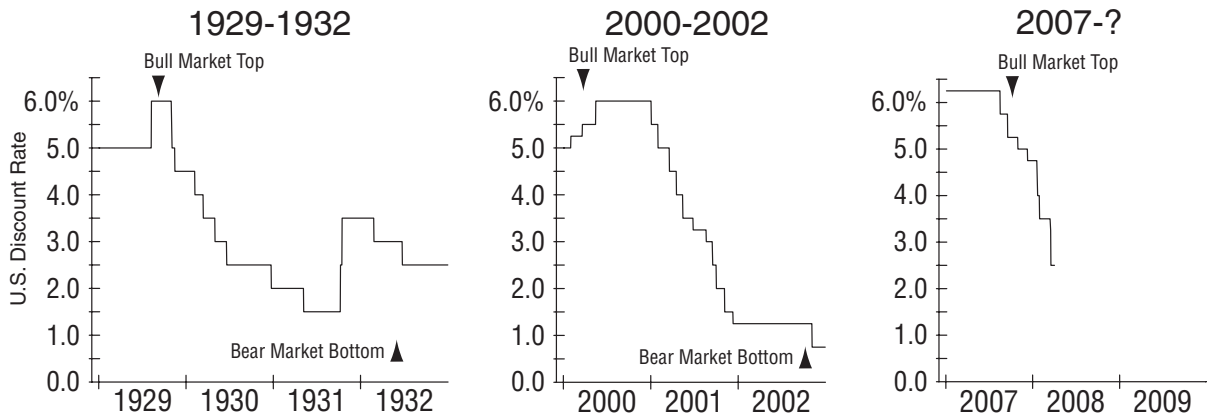
GENERAL MARKET COMMENTARY

The stock market personality for the first quarter could be considered manic-depressive with the S&P 500 Index down nearly 10%. The intraday volatility was the highest since the 1930's with the markets moving faster both up and down than any current investors can remember. Some say that it is due to the recent removal of the "uptick" rule, which now allows institutional investors to sell short any stock without waiting for an uptick, causing more of a "herd" mentality. The second quarter began with a notable rally. Investors were waiting for earnings reports to get clues on how long a recession may last. The mood has changed enough to allow a tradable rally, but the longer-term outlook remains questionable. Possibly, the massive interest rate cuts and stimulus package have been sufficient to make this bear market relatively mild—or maybe

not. Historically, stock markets do tend to bottom when the recession announcements are first reported.

Interest rates are really low, with two-year government rates below 2% for most of the first quarter, and 30-year home mortgages at around 5.5%. Higher risk jumbo mortgages were much higher at about 7.5%. If we are in fact ready for the economy to begin bottoming out, interest rates could begin to head higher quickly. When the Consumer Price Index inflation numbers start moving up to 8% or higher in a year or so, rates may jump. One of the most bullish indicators of the market is the word "recession" on the cover of Newsweek (Feb 2008) and Business Week (March 2008). However, there are only three instances in history when the Federal Reserve cut the Discount Rate 8 times, and the stock market was subsequently lower than when the Fed easing began: 1929-1932, 2000-2002, and today. Hopefully, this recovery will be different.

U.S. DISCOUNT RATE



Courtesy of InvesTech Research

PRESIDENTIAL CYCLE PATTERN



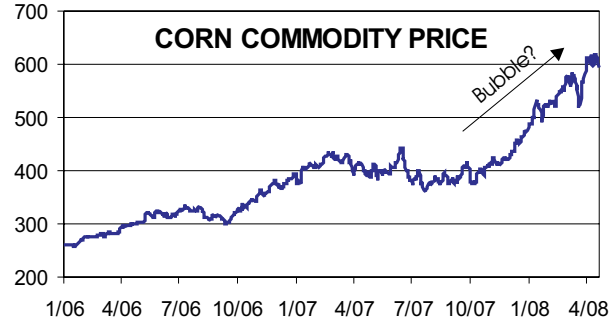
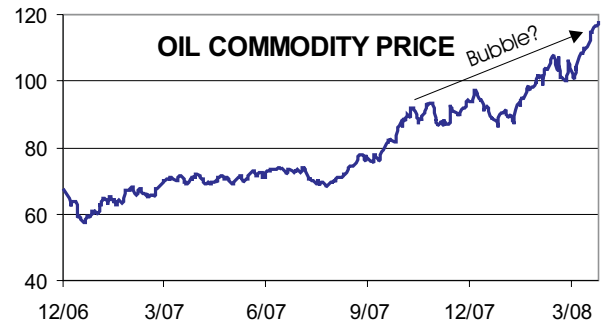
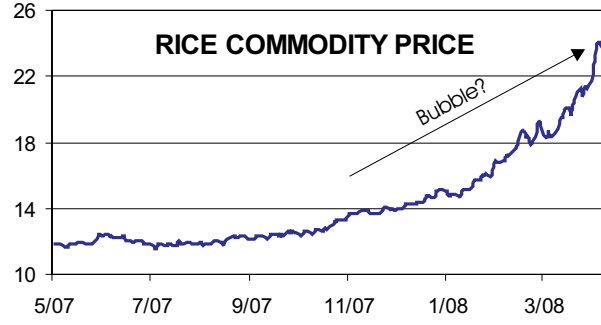
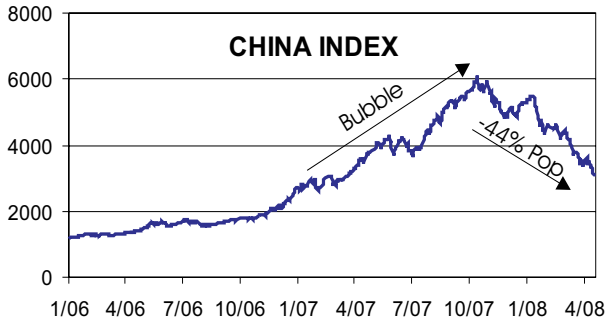
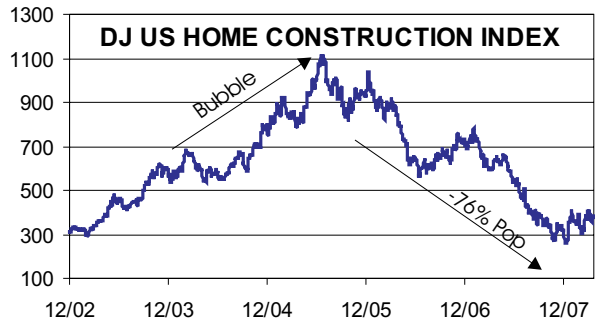
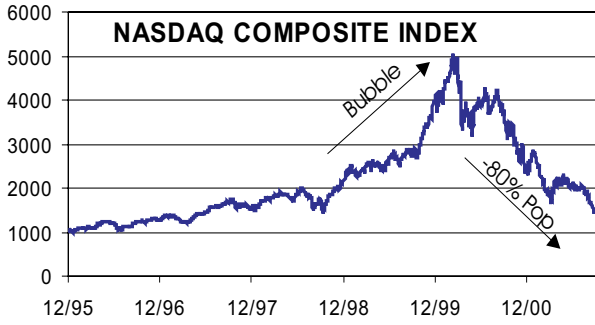
This chart illustrates an averaging of what the S&P 500 normally does in a presidential election year. It dropped more than normal for the month of January, but it rallies into mid-April, and sells off into mid-May. Looking ahead, it has normally shown a positive summer rally going into elections.

Courtesy of
The McClellan Market Report

COMMODITY SPECULATION

Recognizing excess speculation has always been a key to managing investment risk. The stock market bubble of 2000 merged into the real estate bubble of 2005. As you can see by the chart, the China bubble has popped. Now it seems

that hard assets (commodities) are having their turn. While demand has been increasing, the run up has not all been due to consumption, but speculation. While this seems to look like a “bubble”, sometimes bubbles can continue and get very large before they pop. Caution is advised.



HIGH YIELD BOND OPPORTUNITY

We want to remind investors of opportunities that present themselves occasionally in an investment cycle. After tracking and trading high yield bonds for nearly 30 years, we have found that they are somewhat predictable. Usually they yield only 3.5% more than government bonds, while occasionally, in periods of economic recession, they yield 8 or 10% more than government bonds. Last year, they presented little opportunity for gain with a yield of only 2.6% more than government bonds. Last month, their yield climbed to nearly 8% more than government bonds, showing an unusual buying opportunity that comes along about once each decade.

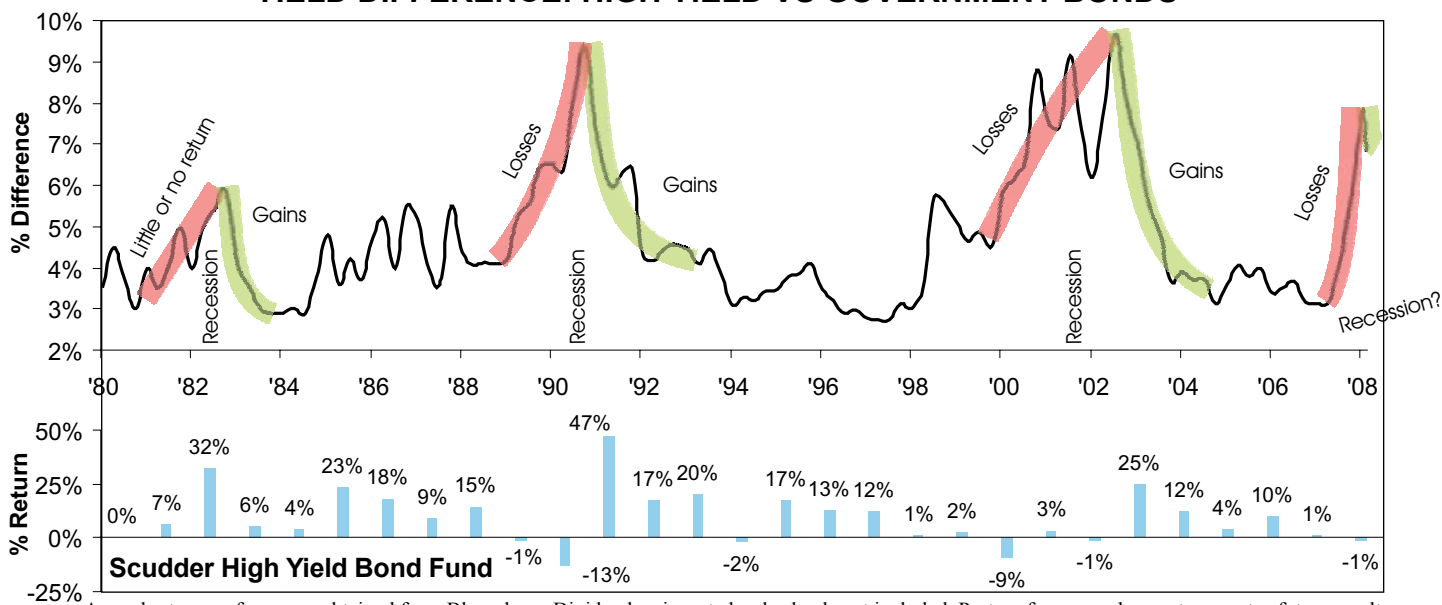
This “yield spread” is shown in the chart below. When the

yield spread is increasing as it did from the fall of 2007 to March of 2008, investors can lose money. When the yield spread is decreasing, as it has been recently, good profits can be realized with much less risk than buying stocks.

Review the annual return on the chart below for the Scudder High Yield Bond Fund since 1981 when the yield spread peaks and begins to return to normal.

Spectrum is introducing its newest high yield strategy – Dynamic High Yield. This is ideal for taking advantage of the current high yield opportunity without trading restrictions or redemption penalties. The strategy builds on Spectrum’s long-term success of trading high yield bonds. Call your representative to see if this strategy is appropriate for your portfolio.

YIELD DIFFERENCE: HIGH YIELD VS GOVERNMENT BONDS



Annual return performance obtained from Bloomberg. Dividends reinvested, sales loads not included. Past performance does not guarantee future results.

PERSONAL PERSPECTIVE by Ralph Doudera

Since I do a great deal of international travel, I am always grateful when I come back home. When my passport is examined and the agent says “welcome home” I often choke up upon my return. The freedoms and opportunities which we currently enjoy are available in very few places in this world. I don’t take them for granted.

Our founding fathers acknowledged the existence of a Supreme Being, establishing the source of moral authority in our legal system. John Jay, the first Chief Justice of the Supreme Court said, *Natural law was given by the Sovereign of the universe to all mankind, nature is a rule of conduct... established by the Creator...denominated in Scripture...*

President Truman stated that our greatness was due to our legal system: *The fundamental basis of our Bill of Rights comes from the teachings we get from Exodus and*

St. Matthew, from Isaiah and St. Paul.... If we don't have a proper fundamental moral background, we will finally end up with a totalitarian government which does not believe in rights for anybody except the State!

Ben Stein’s recently released movie, *Expelled: No Intelligence Allowed*, continues this theme showing how atheistic concepts are causing advocates of creationism to be victims of discrimination by the scientific community, which has widely rejected even the idea of the possibility of intelligent design. How egocentric and closed minded.

A sign in Auschwitz quoting Hitler’s goals reminds us of what can happen with a legal system without a moral basis for government: *I freed Germany from the stupid and degrading fallacies of conscience and morality...*

I don’t ever want to forget that education, business, and especially religion without morality can be dangerous.

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

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