THE FULL SPECTRUM

Spectrum Financial Inc.

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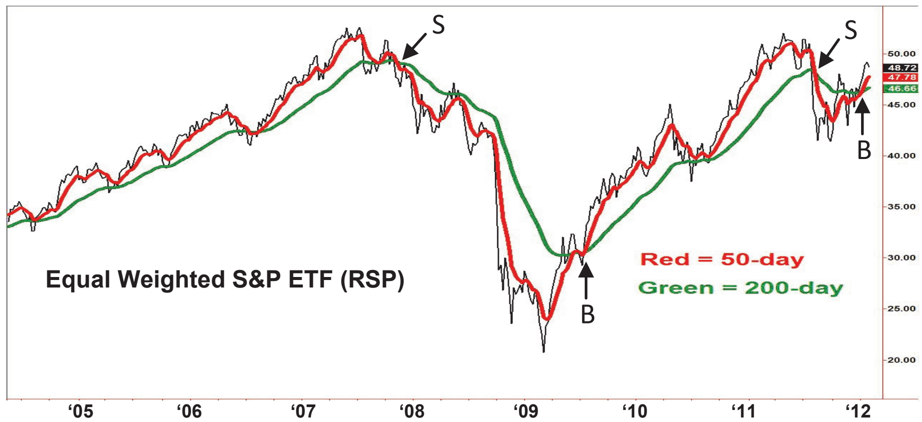
GENERAL MARKET COMMENTARY

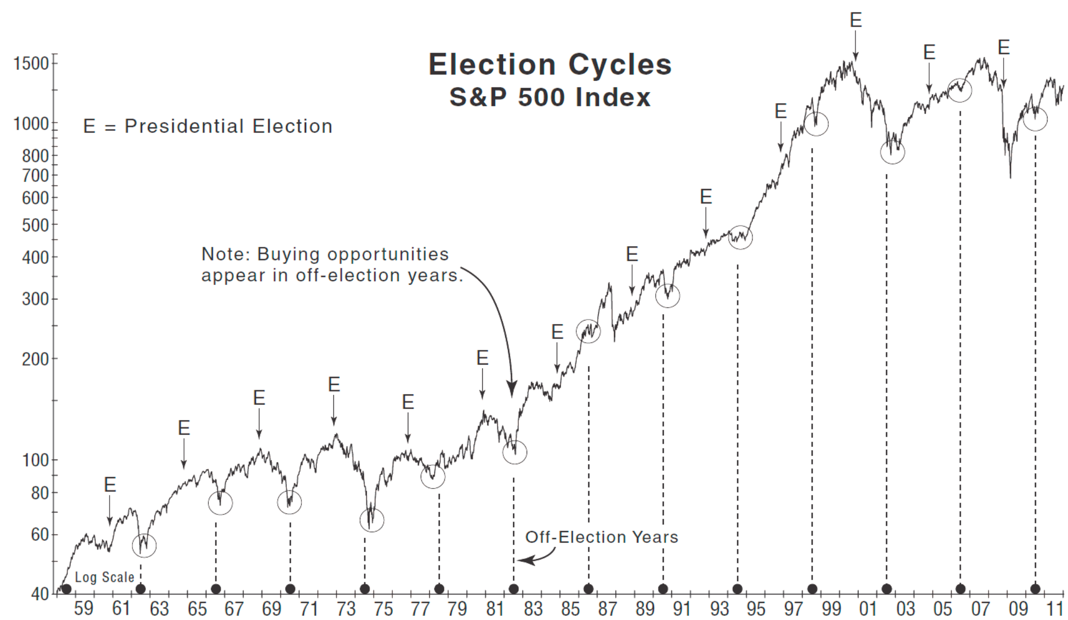
The year 2011 will go down as a year of frustration for nearly all investors, as just about everything lost money except for bonds. And, according to InvesTech Research, the Dow Jones Industrial Average this year has traversed over 28,000 points on a closing basis, yet the market closed with only modest losses for the year. Many well-known advisors had losses this year which were uncharacteristic of previous performance. Looking forward, we believe that the debt crisis in Europe has scared many investors to put cash on the sidelines, and when this issue is resolved, there will be a lot of money which can drive the market higher.



One of the many indicators which we monitor is the moving averages of the unweighted S&P 500 Stock Index. When the 50-day moving average crosses above the 200-day moving average, this creates a market environment where investors are more inclined to put money at risk. Very recently this crossover occurred and can be seen on the chart above showing the buy/sell signals generated by using this method. Other technical indicators are beginning to show strength going into 2012, and although Europe is in a recession, historically that does not mean that it will drag the US into one as well. Election-year markets have a strong upward bias, at least until the election, as politicians do all they can to assure their re-election.

ELECTION YEAR MARKETS

With the exception of the 2008 market decline, there has been a definite link between the Presidential Election Cycle and Wall Street. The graph to the right illustrates the 50-year track record with an "E" marking each Presidential Election day. You can see this correlation between cycles in the market and the 4-year election cycle. Historically, since 1941, the first two years after a Presidential Election have the lowest performance, with average annual gains of about 5%. Year 3, as politicians start gearing up for re-election, is usually the best year with an average gain of 17.3%. This was not the case in 2011. Not counting 2008, the final year of the cycle (which would be this year) has averaged 8.9%. Also, notice that the market rally is often concentrated in the second half of the final year.



InvesTech Research

PERSONAL PERSPECTIVE *by* Ralph Doudera

I was complaining to a good friend of mine today that my investment performance was not as good as I expected lately, and I was having trouble digesting that information. I was advised to reread the Proverb that I have printed on the last page of our newsletter for the past 23 years: "Steady plodding brings prosperity, hasty speculation brings poverty."

Some years ago, when I was learning the art of racing cars, my instructor introduced me to a racing term called target fixation. Simply put, we drive into what we look at. Fortunately, I remembered this lesson under duress on turn 6 of the Watkins Glen track during a formula car race and was able to recover.

In his book *Trading to Win*, Ari Kiev, M.D., a stock trading coach and consultant, says that investors eventually get the performance that they expect and think they deserve. He also says that "the stock market is linked to so many independent events that probability theory doesn't apply, it is necessary to master your automatic defensive responses to the uncertainty of the market in order to improve decision making, particularly in light of the stressful nature of the market." Winning traders view the results over a longer time frame. They have faith that if they do the right thing, over time they will profit. He compares it to golf where a pro golfer has one bad hole, and does not focus on the bad shot but on the next shot. Aggressive investing to make up for losses will eventually bring disaster.

I can't help but think how this relates to every area of my life. If I mess up and deny it, I am stuck with my delusion until I finally am able to accept my failure, fix my thinking, and make changes necessary to get the results I want in the future. And Kiev's *Fourteen Ways to Be a Super-Trader* shows number fourteen as: "Keep in mind that humility is helpful, too, especially in a market that is changing and where you have to admit that what you knew before and what you did before might not work today." Wasn't 'dealing with issues of pride' my New Year's resolution last year? It looks like I may have some more work to do this year.

I will continue my investment strategy of steady plodding, painting a mind picture of prosperity, apply the disciplines I have learned from the past, and enhance them with continued diligence and common sense. Sounds like a good plan for my personal life as well.

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

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