THE FULL SPECTRUM
Spectrum Financial, Inc.

July 2007

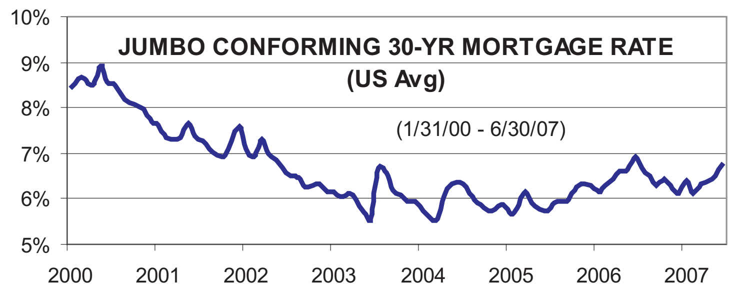
GENERAL MARKET COMMENTARY

The stock markets continue to rally to new highs around the world in spite of negative news about subprime lending and rising long-term interest rates. All categories of stocks except for small caps broke out to new highs recently and continue to surprise investors with its strength after a very healthy second quarter. The US dollar continues to hit new lows against foreign currencies, which has helped foreign markets do even better than the US markets.

Fed Chairman Ben Bernanke spoke before the House Financial Services Committee and predicted that growth will remain slow this year, and then pick up a little in 2008, but inflation should recede. Certainly, that would be the best-case scenario.

However, he expressed concern about the worst housing recession since 1991, and has kept the benchmark interest rate unchanged at 5.25% for the past year. It is expected that Bernanke would keep the rate unchanged for the remainder of the year.

However, the 30-year bond market yield, which the Federal Reserve cannot control, has been inching upward from its low of two years ago. This rate also affects the 30-year home loan mortgage rates that look to be heading higher, even as the Fed keeps its benchmark rate level. In fact, in the past four months, the 30-year jumbo mortgage rate has climbed from 6.1% to 6.8% and looks to head higher from the chart below. That would help housing continue its downward spiral.



Courtesy www.banx.com

HOUSING INDICATORS HIT NEW LOW

Since the housing market frenzy peak in the summer of 2005, there have been many people who have been underestimating the extent and duration of real estate cycles.

All financial product pricing is held by the basic law of economics—supply and demand.

When there is more demand than supply, prices rise, and when there is more product than is needed, prices fall. Everything operates on this time-tested law, unless government tries to control prices, which causes a black market, or an underground economy.

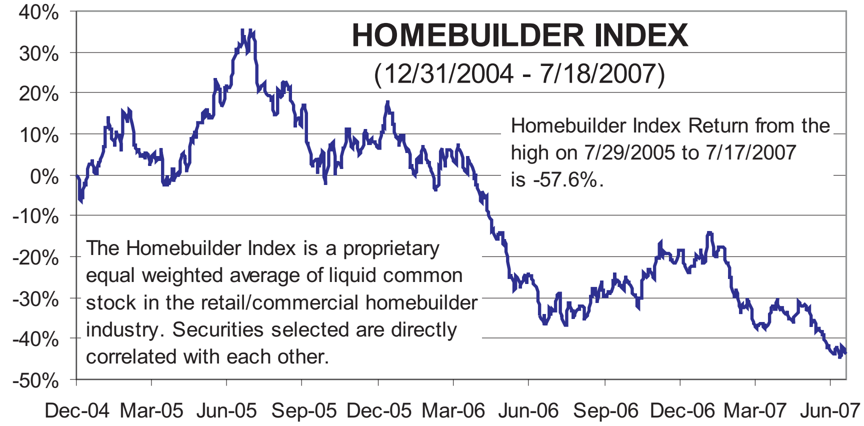
Psychology plays an important part of this cycle. Real estate went up higher and faster than it should have due to low interest rates, and investor psychology began to take hold of the idea that trees grow to the sky, or more appropriately that condominiums grow to the sky.

However, the more speculation there is on the upside, then the more dramatic the correction will be on the downside.

Like the internet bubble in 1999, or gold in 1970's, or tulip bulbs in Holland in the 1600's, everything must have a price correction. This correction usually takes long enough that people never want to own the investment again. We are not quite at that point yet, but are beginning to see some real estate investors getting uncomfortable, and many people are upside down in their investment properties, having more debt than the value of the property.

Two years ago we recommended that U.S. real estate is good to have for personal use, but not for speculation. We said that when everyone is talking real estate, buy stocks, and when everyone is talking about stocks, buy real estate. The time will come again when we will be recommending real estate purchases, but it is still early. The fickle real estate investors are now investing in the stock market, helping to keep the rally going.

The Homebuilder Index we monitor is down nearly 60% in the past two years as you can see on the accompanying chart. This index continues in freefall since support broke this past June. The real estate market will not firm up until this index begins to form a base, and eventually begin to rally. Meanwhile the stock market should continue be the place to invest at least until signs of a recession appear on the horizon.



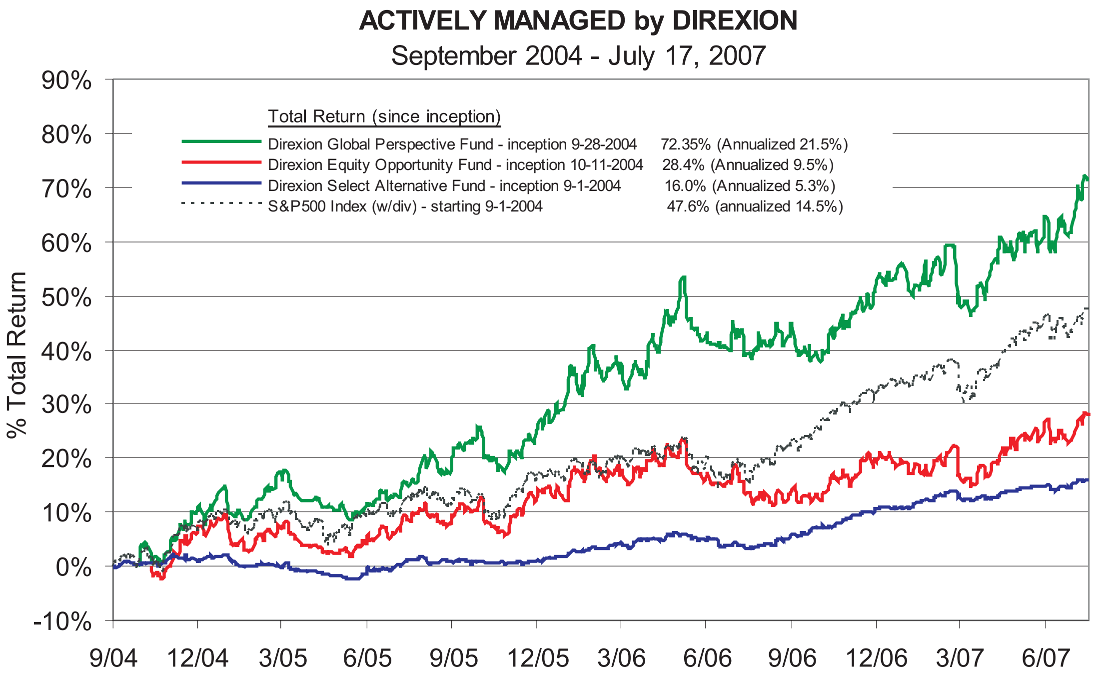
DIREXION ACTIVELY MANAGED FUNDS

The chart below illustrates the performance of three Direxion actively managed funds.

We selected these for many of our investors, and they are managed by Hundredfold Advisors using strategies developed over many years attempting to gain during up moves, and protect capital during extended market downturns. Each fund employs different strategies designed to limit drawdowns. The Global Perspective Fund (SFGPX) specializes in international equities, while the Equity Opportunity Fund (SFEOX) uses mostly domestic US equities. These two funds utilize many different strategies internally to determine how much equity exposure is appropriate based on the market environment and technical factors. They will not always attempt to track the markets since they will be less than fully invested much of the time. In a sustained bull market, like we currently are experiencing, they may underperform other bench mark indices, but throughout a full market cycle, should be able to perform well.

The Direxion Select Alternative Fund (SFHYX) has been designed to achieve its objective of lower but steadier returns with much less correlation to the global stock markets. It has been redesigned to take advantage of various alternative investment strategies instead of focusing only on high yield securities.

See page 4 for more information on the fund objective and design.



Annualized Return numbers assume reinvestment of dividends and were obtained from Bloomberg. The prospectus should be referenced for risks associated with those funds as well as costs, fund objective, and investment options. A prospectus can be obtained through Spectrum Financial: info@spectrumfin.com. Past performance does not guarantee future results.

SELECT ALTERNATIVE INVESTING

Many years ago, investment options were limited to real estate, stocks, bonds, or savings accounts. People would design an investment portfolio blending these vehicles to achieve a balanced portfolio to reduce risk. Unfortunately, these vehicles could all decline in price together, and a savings account could only be considered a temporary parking place for funds. Today there are many alternative investment choices that when blended together can make a diversified portfolio.

Here are some questions we asked Hundredfold Advisors LLC (HFA), sub-advisor to the funds used by Spectrum's Strategic Allocation Service. This should explain some of the reasons why we believe Direxion's Select Alternative Fund (SFHYX) is appropriate for many of our investors:

SFI: *Why the strategy and name change?*

HFA: The NASD limits a fund to investing at least 80% of the portfolio in securities that the name indicates, example high yield bonds. We felt that the potential for reasonable returns were limited in this sector for the next several years due to historic low yield spreads and the subprime mortgage issues, and the probability of a recession.

SFI: *Why the new name Select Alternative?*

HFA: The name will not restrict the fund to specific securities, which means flexibility.

SFI: *What kind of structure will this fund have?*

HFA: The portfolio is broken into two main parts. One half will use high yield strategies with emphasis on preservation of principle so our drawdown (losses) should be lower than we have had in the past. The other half will use unrelated alternative investments.

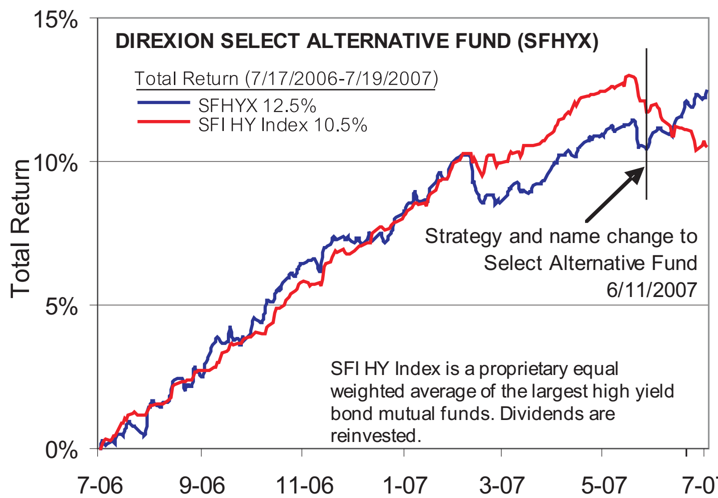
SFI: *What kind of investments will be used for this half?*

HFA: A blend of various strategies with objectives of lowering risk will be used such as Long/Short managers, Merger Arbitrage, Diversified Fund of Funds with hedging strategies, Hedged Equity that utilize put and call options to reduce risk, and Sector Quantitative rotation to adjust the beta or aggressiveness of the overall portfolio based on the financial environment.

SFI: *How will this fund benefit investors?*

HFA: We can select from other diversified money managers, and replace them with better ones when they are not able to keep up to our standards of providing profit with lower risk. It should also provide better liquidity in the event of a catastrophic financial event and allow the fund to meet its objectives while achieving reasonable returns.

While there are no guarantees with any investment, we think this fund is a good alternative for shorter-term investors or investors who care more about preservation of principle than hitting home runs. Spectrum will recommend this fund to clients as a foundation to any portfolio.



PERSONAL PERSPECTIVE *by* Ralph Doudera

If I asked a dozen of the world's best investors to summarize their ONE best investment strategy and asked them to write a summary of their thoughts on that topic, and if I then put it in a 12-chapter book, it would certainly be interesting reading. Taking this week off in my favorite "get away" place in Costa Rica, I am enjoying this excellent book entitled Just One Thing, edited by John Mauldin. So I asked myself what my ONE thing would be if I had a chapter to write.

I think it would have to be the quote from Proverbs, written by Solomon, the wisest and richest man in history. This quote has been on the back page of every Spectrum newsletter published for the past 20 years: *"Steady plodding brings prosperity, hasty speculation brings poverty".*

The concept of slow wealth building is a key element to financial success. There are two parts to this formula. The first is the magic of compound interest. That is the engine that exponentially grows a small amount into a huge amount over time. Wealth doubles every 5 years with a return of 15% per year. Remember, compounding only works over time, and patience is required.The second part of the equation is to avoid taking large losses. A 50% loss requires a 100% gain just to get back to where you started. The main reason losses like this usually occur is that investors take too much risk by trying to make money quickly. Investments that minimize all risk (such as a bank CD) will produce only minimal returns over time. But, consistently using moderate risk investments and asset diversification with patience over time, will be the key to financial success. It will also let you sleep better at night.

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

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