THE FULL SPECTRUM

Spectrum Financial, Inc.

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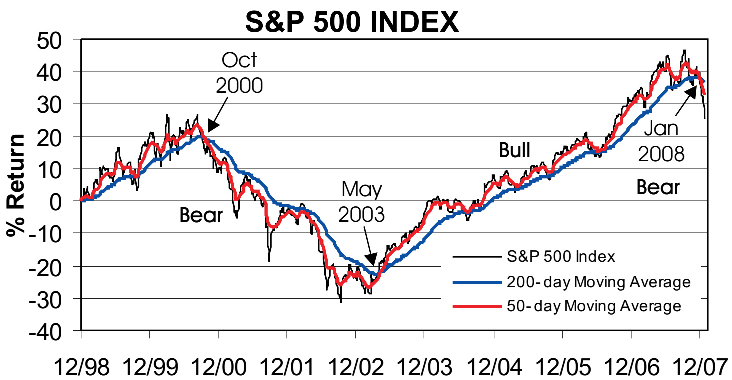
GENERAL MARKET COMMENTARY

Bear Market Signal: The chart below illustrates the S&P 500 Stock Index for the past 10 years. It shows the 200-day (blue) and 50-day (red) moving average. When these two averages cross, the major trend changes. This sell signal occurred on the first week of January 2008, for the first time since the buy signal in May 2003.

World markets have declined 20-30% since the highs last year. Although the Federal Reserve has currently dropped interest rates from 5.25% to 3%, the 2001 recession required 13 rate decreases over a 2 ½ year period, dropping rates from 6.5% down to 1% before the stock market responded. A conservative investment approach is prudent until this bear market ends. This is why we move clients to a conservative position until the trend changes. When the trend does change, it can happen quickly. We will watch for the signs of a new bull market, since the beginning of a bull market has the most profitable gains of the cycle.



The stock market has been on a roller coaster ride this year, unlike any other time in history, with daily swings of 3-4% becoming a common occurrence. High volatility does not usually have a good track record if history is any precedent….. This high volatility was always settled in a bear market, with investors losing money.

The Full Spectrum *April 2000*

This may be it – the pending break above the 200-day moving average. Over the past century, this one single observation has been the single most reliable indicator of a Bull or Bear market. However, now that we are trading above the 50 and 200-day moving average, a more aggressive investment strategy is recommended.

The Full Spectrum *April 2003*

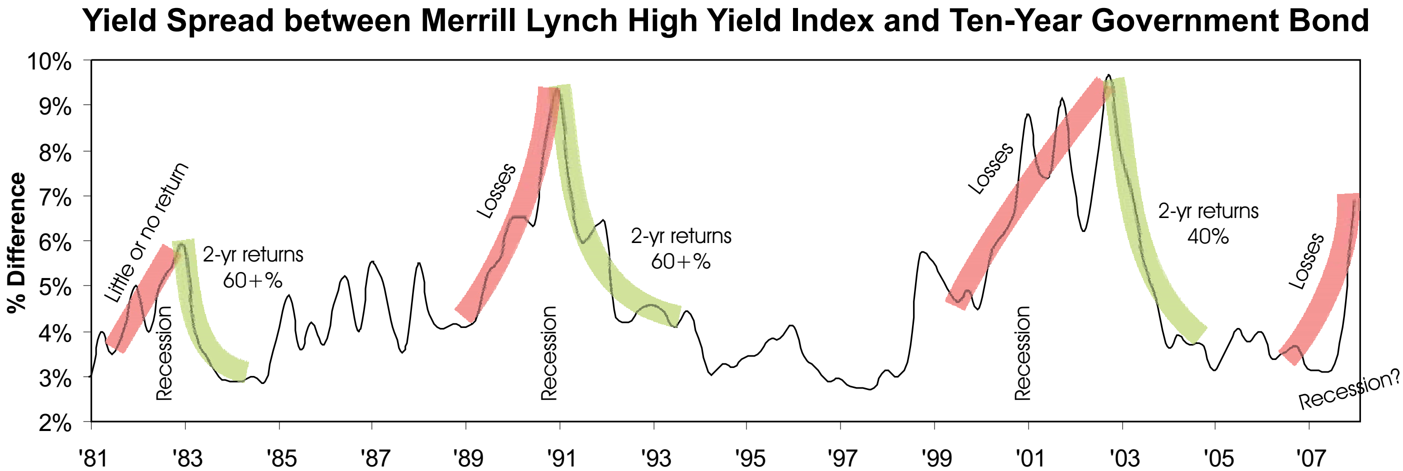
2001 SAMPLING OF GROWTH FUNDS (3rd Quarter Total Return)

FUND	3rd QTR 2001	9 MOS.	1 YEAR	3 YEARS
Vanguard S&P 500	-14.7%	-20.5%	-26.7%	3.1%
Van Wagoner Emg. Growth	-60.0%	-78.6%	-88.1%	-12.7%
Fidelity Aggressive Growth	-40.3%	-59.4%	-70.6%	-26.7%
Invesco Dynamics	-35.0%	-48.6%	-61.6%	3.0%
Vanguard Growth	-23.8%	-38.0%	-55.9%	-10.5%
Scudder Sm Cap Equity	-33.0%	-43.8%	-57.4%	-19.1%
Putnam Vista	-32.2%	-47.2%	-58.2%	-9.8%
Janus 20	-19.7%	-35.3%	-51.8%	-9.7%
Berkshire Focus	-60.5%	-82.1%	-90.3%	-44.4%

Looking back over previous newsletters, we came across this mutual fund performance chart from 2001. It was not long ago that many investors lost more than half their money in less than a year. However, investors forget. In 1987, the S&P 500 lost 33% in only two weeks. We are not subscribers to the buy and "hope" philosophy, as there is a time to be defensive, and a time to be aggressive.

HIGH YIELD BOND POTENTIAL

We have been tracking and trading high yield bonds for nearly 30 years and have noticed a great degree of predictability in their behavior. In good economic times, high yield bonds yield about 3% more than government bonds, but when a recession comes along, they can pay an annual yield of 10% more than government bonds. This "yield spread" is shown in the chart and seems to go through about a 10-year cycle. When the yield spread is increasing as it currently is, there's not much moneymaking potential, and it pays to stay in money market funds. However, when the trend changes, high yield investors can make serious money with very limited risk. This trend change should begin quickly when the sub-prime issues are finally resolved and when an economic recession reality is no longer on the horizon.



PERSONAL PERSPECTIVE *by* Ralph Doudera

Over the Christmas holidays I was able to get away to my favorite place in Costa Rica and catch up on my reading, finishing four books of assorted topics including current events, investments, spiritual growth, and fiction. The book I found most interesting surprised me — *The Age of Turbulence* by Alan Greenspan.

Who would have thought that the reclusive economist would be so interesting and funny? He not only wrote about economics, but about himself as well in a most humble fashion. He openly shared things that happened as head of the Federal Reserve Board that we never knew. I was most impressed by just how brilliant he is. So, what did he say in 500 pages?

America's prosperity has been attributed to personal property rights and individual freedoms that have not existed in many other places in the world. As other countries accept and encourage these foundations of capitalism, they too will prosper. Free trade is encouraged. Lowering trade barriers helps everyone in the long run, getting low cost goods to one country and keeping inflation low, while helping the other to provide employment and a higher standard of living. As the standard of living improves and labor costs rise in exporting countries, the rate of inflation will increase here in the US, and will eventually drive interest rates substantially higher. He predicts that the 10-year Treasury rate will soon be at a rate of 8%, and is temporarily being held down due to the real estate correction. China, not India will be the biggest winner due to India's bureaucracy, as long as China continues on a path of individual freedoms and free enterprise.

A major threat in the future remains to be a large-scale terrorist attack. Since it is difficult to have adequate petroleum in storage, a disruption in supplies is a major economic risk. The oil crisis will not be resolved until it is economically feasible to create alternate energy sources. He proposes a phased in \$3 tax per gallon to get people to reduce gasoline consumption and create incentives to make ethanol from grass.

Recessions are tricky to forecast because they are driven primarily by irrational behavior, but he is quite optimistic about the future. He states that the business cycle is not as volatile as it was two decades ago due to globalization and computerization, but volatility will still continue for the foreseeable future, causing bull and bear markets. Everyone could learn something from his writing.

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

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