THE FULL SPECTRUM

Spectrum Financial, Inc.

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GENERAL MARKET COMMENTARY

The bear market of 2008 continues to bring bad news to the economy. Rising oil and commodity prices and a housing bust dominate investor anxiety. The Federal Reserve seems to be caught between a rock and a hard place, wanting to stop inflation (raise interest rates) and wanting to help the housing market (lower interest rates). They are trying to decide which scenario is worse. We think the oil and commodity price run up is overdone and things should get back to normal shortly.

We have been through this before. Between 1972 and 1975, both oil and commodity speculation ran wild, and the stock market sold off badly. However, within two years (1974-75) the S&P 500 stocks rallied over 70%!

PRE-ELECTION-YEAR MARKET HISTORY

It seems that the first six months of this election year have had the largest loss (-12.6%) for any presidential election year since 1940 when Germany invaded France at the start of WWII. The only other double digit loss of the first half of an election year occurred in 1932 during the worst of the Great Depression. The chart below illustrates this in more detail.

Pre-Election Market Performance

Election Year	January 1 to June 30	July 1 to Election Day
1928	8.1	15.9
1932	-45.4	63.4
1936	10.5	15.7
1940	-20.1	11.8
1944	11.2	-0.2
1948	9.4	-0.2
1952	5	-1.4
1956	3.3	1.3
1960	-5	-3.2
1964	8.9	4.3
1968	3.2	3.5
1972	4.9	6.4
1976	15.6	-1.1
1980	5.8	13
1984	-7.1	11.2
1988	10.7	0.6
1992	-2.1	2.9
1996	8.9	6.5
2000	-1	-1.6
2004	2.6	-0.9
2008	-12.6	?

*S&P 500 Index

Courtesy of InvesTech Research

On a more optimistic note, the market performance has historically proven itself to be quite positive between July 1 and Election Day. In the past 80 years only one presidential election year has experienced more than a 2% loss over the next four months, and that was a mild -3.2% loss in 1960. Note that the two election years with double digit losses in the first half (1932 & 1940) experienced double digit gains from July through Election Day. So investors should be more optimistic.

On the same topic of optimism, another technical indicator has given us a potentially profitable situation. We illustrate this indicator with the chart below that relates the VIX Index (an index measuring stock market volatility) to treasuries. We have been watching this closely, and we like how it relates these two indicators that are sensitive to market sentiment. Both volatility and treasury prices tend to spike during periods of extreme fear, and this spike and fear are often seen near important market lows. This combined "Fear Indicator" just moved above its threshold spiking over 7, confirming the idea that scared investors are throwing in the towel at what could be the wrong time. Historically, the S&P 500 Index has performed extremely well across several shorter-term periods once investors display extreme levels of fear as measured by the VIX/Treasury Ratio. While the past is no guarantee for the future, odds favor the market entering at least a shorter-term positive period.

S&P 500 Performance When VIX/Treasure Ratio Spikes Over 7

Date	5 Days Later	10 Days Later	1 Month Later	3 Months Later
05/28/62	3.7%	1.5%	-5.2%	7.3%
07/03/62	2.2%	-0.5%	2.6%	-0.7%
10/19/87	1.3%	13.7%	8.1%	10.9%
09/01/98	1.2%	5.2%	-0.8%	18.2%
09/08/98	1.4%	0.6%	-5.2%	16.0%
10/16/98	1.3%	4.0%	7.5%	18.5%
04/05/01	2.8%	8.0%	9.7%	3.4%
10/03/01	0.8%	0.4%	1.1%	8.7%
10/10/01	-0.4%	0.4%	3.5%	7.0%
07/24/02	8.1%	4.0%	14.1%	5.5%
03/24/03	-1.9%	1.8%	6.3%	13.6%
03/31/03	3.7%	4.4%	8.1%	14.9%
04/08/03	1.4%	4.6%	4.8%	14.1%
Average	2.0%	3.7%	4.2%	10.6%
% Positive	85%	92%	77%	92%

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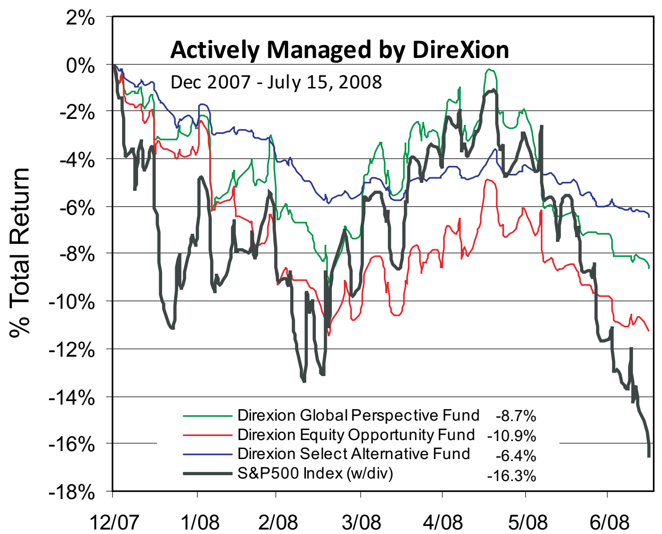
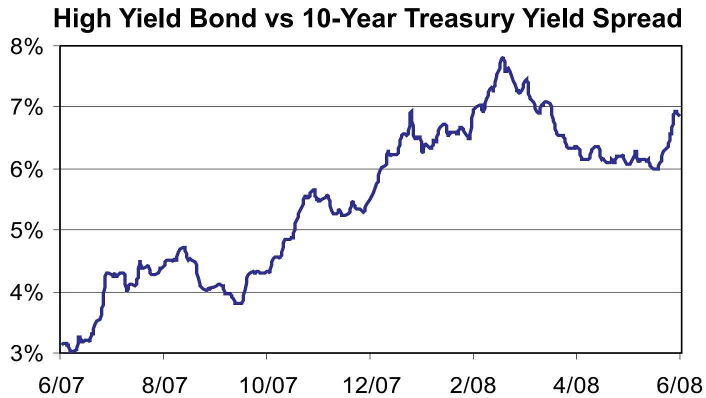
DIREXION ACTIVELY MANAGED FUNDS

The chart below illustrates the performance of Direxion actively managed funds since the first of this year. All three funds have outperformed the S&P with reduced volatility. By minimizing bear market drawdowns, these funds will be in a good position to take advantage of the next bull market advance which usually begins when the investor sentiment is poor. We caution investors in making changes to their portfolios more often than annually.



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.

HIGH YIELD SPREAD



The chart above indicates the % difference in yield between high yield bonds and government bonds. When economic conditions deteriorate and liquidity dries up, the yield on high yield bonds usually pays much more, and it can be a good time to consider them as part of a lower volatility portion of an investor's portfolio. Currently, they are paying about 7% per year higher than quality government bonds. This yield differential in normal times is about 3% more, so there is a big incentive to purchase these bonds and lock in that differential. As the spread returns to more normal levels, prices on the high yield securities rise and can make substantial returns with modest risk. This phenomenon has occurred about every ten years, and coincides with economic weakness like we are currently having.

Spectrum's Dynamic High Yield Strategy is designed to be invested in high yield bond products when they are trending up, and selling them if they weaken. This has been a profitable strategy used for the past 25 years.

STOCKS VS INVESTMENT ALTERNATIVES

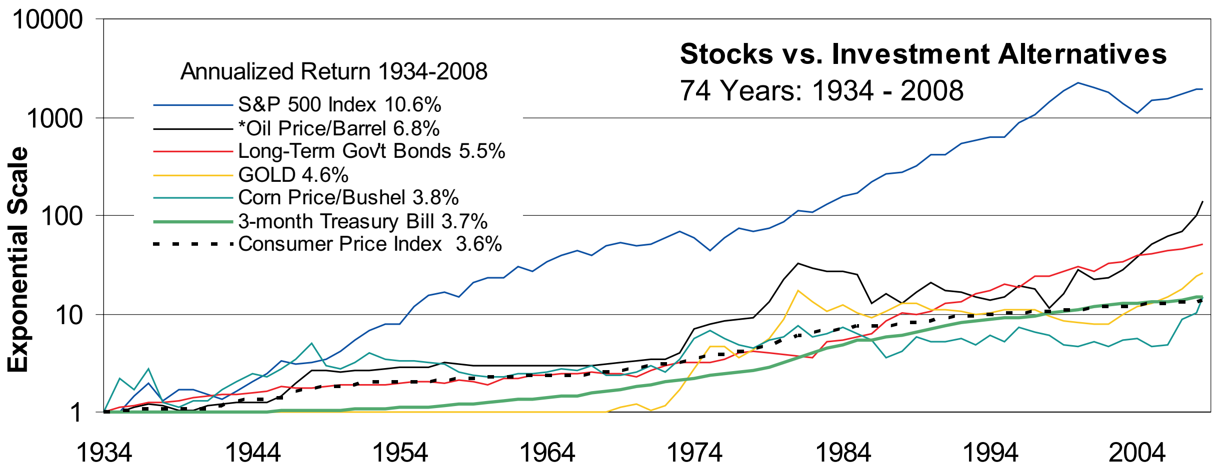
This chart illustrates that the long-term trend of the stock market for the past 74 years has been steadily higher in spite of all those bear markets, world wars, terrorist attacks, recessions, and oil and commodity price bubbles.

Stocks continue to outperform almost all asset classes over long periods. It is important to remember that bear markets end, bringing substantial returns back into investors' pockets.

The chart illustrates long-term rates of return for various investments. The 10.6% average annual returns for stocks has outperformed the inflation rate by about 7% per year on average. Government Bonds have beaten inflation by about 2% per year. T-bills (3-month Treasury Bill) performed exactly the same as the rate of inflation, so money market returns do not create wealth, and in fact after taxes will show a loss. What may be most surprising to investors is that gold, oil, and corn have not kept up with the stock market, except only for very brief speculative periods.

Gold is a "crisis" investment, and when things get back to normal, it will stop appreciating at a rapid rate. The same is true of grains and oil. When supplies increase (and they will over the longer term) prices will drop.

This has not been true of stocks, as they should continue to rise as innovative corporate management finds new ways to make money. This is not the time to be discouraged about the stock market, but view it as a good opportunity to build wealth. By using Spectrum's management strategies, clients should profit by participating in stock market investments while managing risk in the bear markets. It may be a good time to invest funds that are sitting in money market.



*Oil Price/Barrel data provided by wtrg.com.

PERSONAL PERSPECTIVE *by* Ralph Doudera

Steve Forbes, the editor-in-chief of Forbes Magazine, which I have probably been reading since my college days, recently wrote an interesting analogy. In fact, he would be my first choice for President, if the political system weren't the way it is. He compares the current situation with the economic issues of the 1920's, and how President Hoover did all the wrong things to bring on the Great Depression. He imposed a trade protection bill in the fall of 1929 which triggered the stock market crash. Beginning with farmers, the protective tariffs were eventually added for almost every conceivable industry and product. This disastrous Smoot-Hawley tariff destroyed the global trading system and dried up the flow of international capital. Senator McCain is a committed free trader, while Senator Obama wants to repeal NAFTA and increase tariffs.

The next catastrophic decision President Hoover made was to raise taxes sharply when we were in the pit of the Great Depression, which sent an already depressed economy to even worse levels. McCain wants to cut taxes, while Obama wants big tax hikes. He believes that raising the capital gains tax to 20% or 28% really won't cause a problem in the capital markets. But the tax rate in the USA is already one of the highest in the world. This will cause entrepreneurs and capital to flee this country looking for higher net returns.

And now that the credit crisis is over and the housing market is beginning to show signs of life, Obama is proposing interference with the capital markets to bail out the housing industry a bit too late. Many of these people were only interested in speculative house flipping. Too much regulation interferes with business. McCain has changed his mind and now is also talking about his own housing relief program.

I'm for keeping the government small, taxes low, and letting capital markets operate openly with as little regulation as possible.

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

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