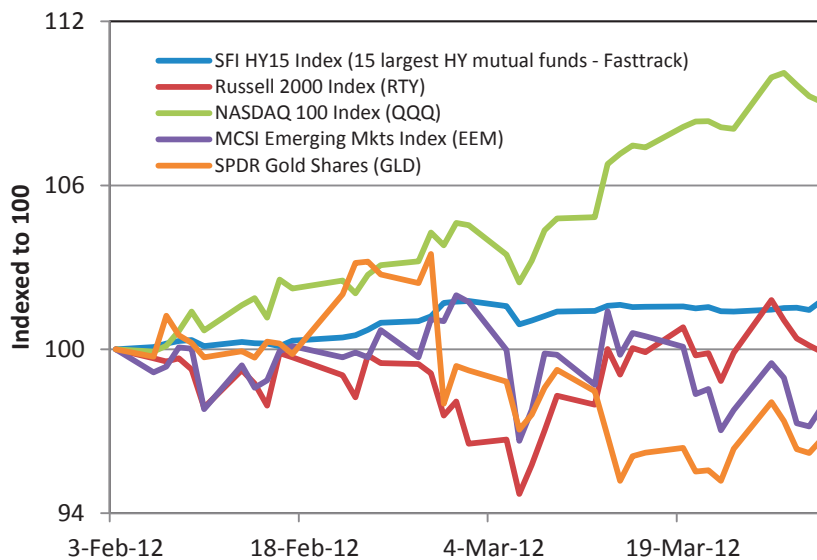


GENERAL MARKET COMMENTARY

The stock market rally that began in the 4th quarter of last year continued unabated for the entire first quarter of 2012 before pausing in the first weeks of April with a very nasty 4% correction in the S&P 500 Stock Index. There were major dislocations in various stock groups, as investors allocated funds in various places. The chart below illustrates the disparity from February 3 until the end of the quarter, March 30. For that period, the NASDAQ 100 was up 9%, high yield bonds up 2%, Russell small caps unchanged, Emerging Market EEM down 2.1%, and gold was down 3.3%.

But overall, it was the strongest first quarter since 1998, and overall the S&P 500 returned a hefty 12.5% for the quarter. These gains were concentrated in just three sectors: Financials, Technology, and Consumer Discretionary. The average gain for



these three sectors was close to 20%. Defensive issues such as Health Care, Consumer Staples, Energy, and Telecom significantly underperformed the broader index. One stock, Apple, contributed nearly 40% of the tech sector's returns.

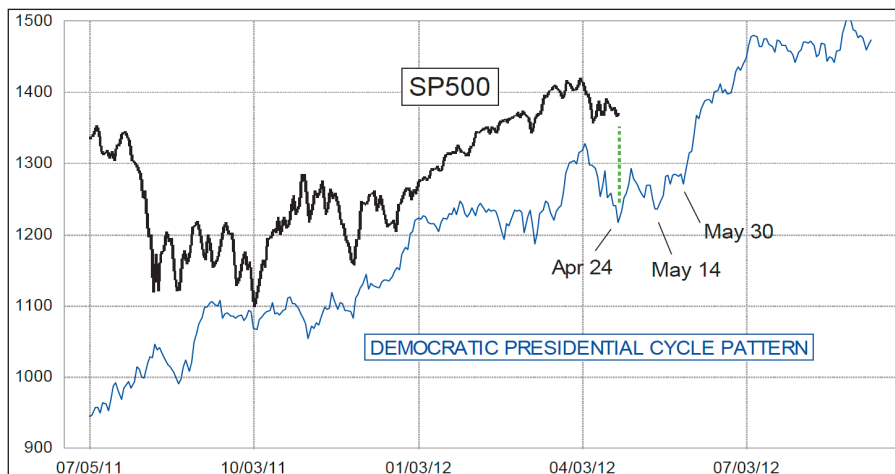
Looking forward, the economy continues to expand at a very sluggish pace, but consumer confidence continues to improve, and earnings continue to come in higher than expectations. The confidence of the consumer and investor fell off a cliff last summer, as the European debt crisis and

US national debt ceiling debate came to the forefront, but those issues are put away for the time being. The focus now will be on the upcoming election and the issues surrounding it. Going into the elections, do not look for anything major to happen, but beginning next year there will likely be economic fireworks regardless of who wins.

PRESIDENTIAL CYCLE

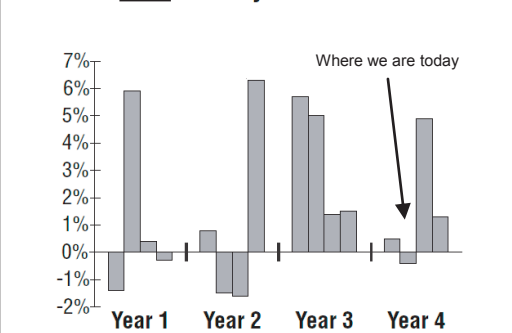
The chart below left illustrates the Presidential Cycle Pattern which is a graphic summary of how the market should respond this year if history is a guide. Perhaps the most interesting insight is that during election years, the old

“sell in May and go away” rule does not work. Instead, investors should be buying in May, ahead of a big June rally. There is usually a big dip right into elections, because people are feeling insecure before the results. Finally, a strong rally usually ends the election year.



McClellan Financial Publications, Inc.

Presidential Election Cycle Gains* Size of Qtrly Gain/Loss



*S&P 500: 1929-June 2010

InvesTech Research

The Presidential Election Cycle will be favoring stocks for the last half of the year if history is to be our guide. The chart on the right shows gains averaging a return of 5% for

the third quarter of year 4 of the election cycle. The second quarter, which we are in now, shows modest losses, and that has been accurate so far this quarter.

EMERGING MARKETS STRATEGY

Spectrum has developed an Emerging Markets Strategy that was designed to minimize volatility and possibly even produce positive returns in down markets. We have nicknamed “her” Emma and meet daily about where “she” should be each day—invested, or in a cash position. We have found that the quarterly returns are not necessarily directly connected to the stock market returns.

It is only invested about half of the time and for very short periods. We daily ask the question “Should I be invested in emerging market stocks tomorrow?” Relying on technical indicators such as rate of change, candlestick

HIGH YIELD UPDATE

High yield bonds are corporate debt securities with lower ratings. These bonds offer a higher interest rate to compensate investors for higher risk. Because these companies tend to be more vulnerable to the economic cycle, the prices tend to trend in a predictable direction, making them less volatile, and therefore, less risky to trade. By maintaining exposure in the

The High Yield Strategy performance is calculated by using the non-weighted quarterly average of actual bond mutual funds used in the trading strategy during the timeframe. Fees for these accounts are assumed to be 0.50% per quarter. Performance numbers were selected from client accounts having no purchases or withdrawals during the period, and may have been obtained from personal or related accounts. Some performance may vary due to fund restrictions and/or limitations imposed by the mutual fund families. The initial commission on funds is not taken into account but could reduce performance. Lipper numbers provided by Lipper Analytical Services. Past performance does not guarantee future results. Current performance may be lower or higher than data quoted.

PERSONAL PERSPECTIVE *by* Ralph Doudera

It seems that lately most of my close friends have suddenly experienced a major life setback of some kind. The big ones that cause the most trauma are often a loss in one of three areas: health, relationships, or finances. They are a three-legged stool of stability. If one stool leg is lost, it upsets the stability of life, but if two or more are lost, it can be devastating. As I think about life, I think in terms of what I consider normal. I know that I am guilty of thinking that the future will be the same as today, but the only thing that is truly normal is that the way things are right now will certainly change in the future. No one is insulated from life-changing events. If we have all three stool legs in place today, tomorrow may bring another situation. I believe that life throws things at us which test our ability to trust God. We can't always change our circumstances, but we can change

charts, premium/discount and short-term oversold/overbought indices, plus a “common sense” element, we make a daily evaluation. Since we have no trading restrictions, we adjust out exposure to market conditions and can trade as often as we think appropriate.

The system blends a combination of trend-following for a core position and a market volatility position for use in more volatile markets, which often occur in downtrends. The combination of these two strategies can improve performance by allowing the possibility of occasionally being up to 150% invested when appropriate. This strategy works differently from and complementary to our other strategies.

high yield market during favorable market conditions, and moving to the safety of cash in negative environments, we are able to capture the gains without subjecting investors to major losses. Over the past 22+ years, Spectrum has averaged an annualized return in excess of 12%, and over the last rolling five years, averaged 10.5%, adding significant value to a buy and hold investment.

our response and attitude toward them. There is always a grieving process we must go through when we have a loss of any kind, and it can help build our character if we learn to trust God to bring us through it with new insights. Sometimes God may even allow unpleasant events into our lives to teach a life lesson, or give us a humble spirit.

Job lost his family, his wealth, and his health. As God revealed his pride, arrogance and self-pity, his attitude changed, and his story ended well. Like Job, I must learn to submit to a sovereign God and accept by faith that He has a good plan for me if I trust Him.

I don't know how some people get through life's tragedies without God. He is my resting place along the narrow highway. He is my bridge across the troubled sea. People ask me why I believe, and I can always answer truthfully, because He has proven Himself faithful to me every time.

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

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