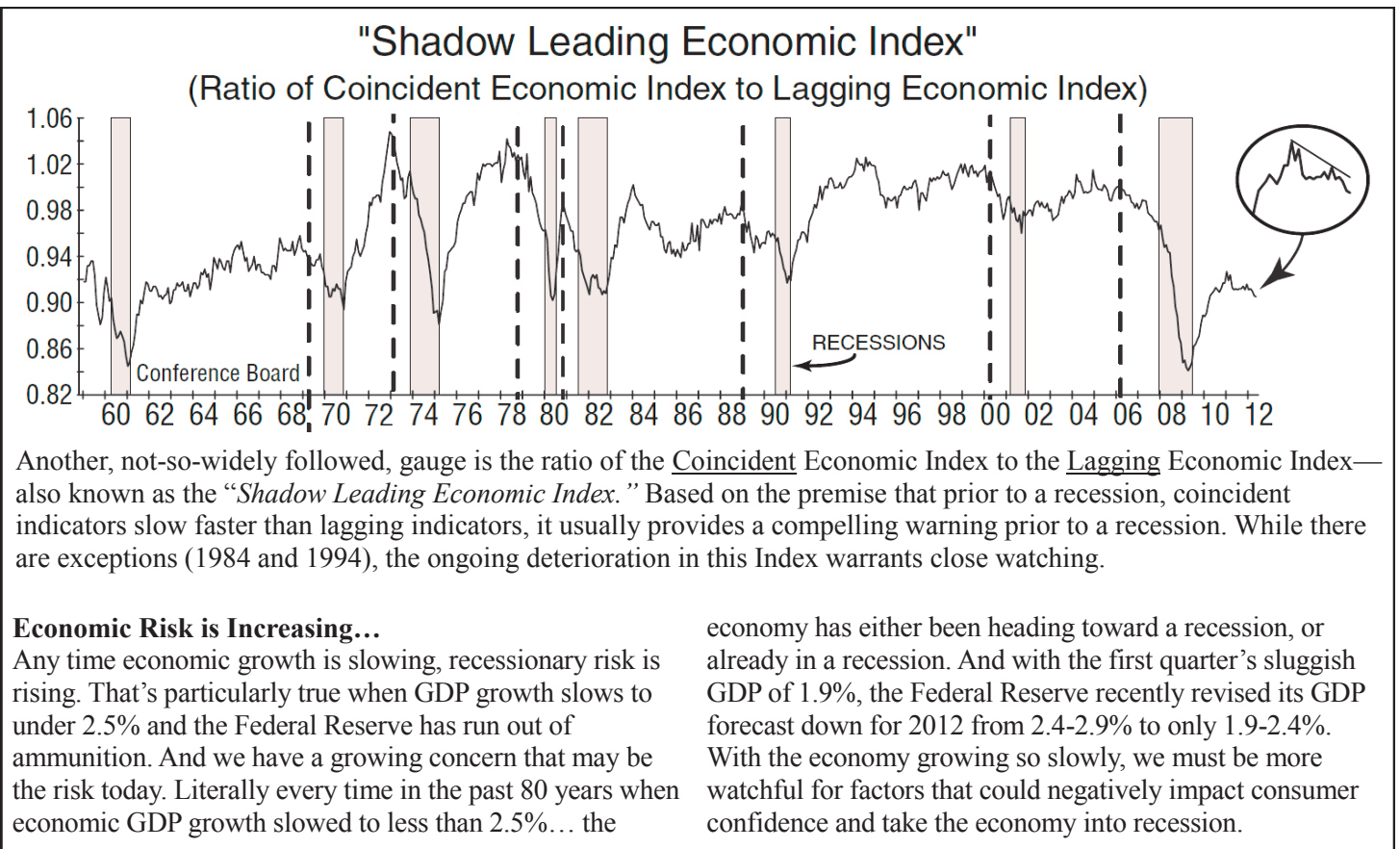


GENERAL MARKET COMMENTARY

Over the past several decades, the economy has had to adjust to normal business cycles, which run in a fairly predictable fashion. This one is different. The Federal Reserve has attempted to stimulate growth by reducing interest rates for nearly four years without much success. The Fed cannot allow interest rates to go below zero, so their only way to stimulate the economy is to print money. Eventually that causes inflation, and in our view that is the only way out of the fiscal mess we are in at this time. Sooner or later the world has to get its fiscal financial house in order. Political rhetoric will not solve the issues. We will need to grow our way out, or, more painfully, inflate our way out. Investing will be challenging going forward. Interest rates will stay low a lot longer than people can imagine. This liquidity may cause hard asset speculators to push up the price of oil, copper, corn, gold, and collectibles. Higher yielding assets

such as high yield bonds may also benefit, as long as the Federal Reserve can keep us out of a recession. Stocks will likely remain volatile, subject to every news announcement on the solvency of Europe's financial house of cards.

Returns on stocks have not been remarkable for a long time. The New York Composite of all stocks on the NYSE has had an annualized return of -3.6% for the past year, -2.0% for 5 years, 3.3% for 10 years, 3.2% for 15 years, and 6.0% for the past 25 years. Recent market volatility and electronic trading systems, iPhone traders, and the elimination of the short sale uptick rule has made things more difficult for traders. While presidential election years have historically been a good time to be invested, the year following an election has proven to be some of the worst years to invest. Therefore, we remain cautiously invested and ready to become defensive when our technical indicators provide us insight into potential economic changes.



SELECTED ADVISORY COMMENTARY

These are recent comments from well respected investment experts concerning the current economic environment:

“Sadly, the period of low or no returns is not likely to be over soon. P/E [price to earnings ratio] has a long way to decline before the end of this secular bear. We can get to the lower P/E ratios that typify the end of a secular bear market and the beginning of a secular bull market by either going sideways (with lots of volatility) for a long time, while earnings continue to rise, or we can see a serious collapse of the price of stocks in a short cyclical bear market. While we suspect the former is more likely, given the various crises afoot in the world and a US government that has the potential to not respond correctly, a serious cyclical bear market cannot be ruled out. Either way, the next few years or perhaps the entire next decade will be frustrating for investors, as the market continues its rollercoaster ride to nowhere.” John Mauldin, July 7, 2012

“The weak employment report on Friday just served to reinforce the weakness that has begun to show up across the economic spectrum during the past few months. Most mainstream economists do not expect this weakness to turn into a recession for the US, but

most mainstream economists did not see a recession coming in 2007. If the Fed acts aggressively enough, I am sure they can forestall a recession and generate another stock market advance. Eventually, the Fed will run out of tricks and this whole episode will end badly, but for now, it is all about the Fed. Europe is sliding into a deeper recession. I am a little wary of stocks right now (until the Fed announces a new \$T [trillion dollar] stimulus program), but the environment remains generally positive for bonds. The Fed is clearly more interested in driving yields lower than higher.”

Michael Price *OnTrack Report* July 6, 2012

Bill Gross, who runs the world’s biggest bond fund at Pacific Investment Management Co., forecasts [that] real growth in the U.S. will be about 1.5 percent a year for at least the next 10 years. Slower labor-force expansion, overextended credit and potential geopolitical or environmental shocks will limit growth as the economy struggles to duplicate previous productivity gains, Gross said in a July 11 telephone interview. “Slower growth means lower returns on capital,” Gross said. “If real GDP grows at 1.5 percent, then a diversified portfolio of stocks and bonds would probably grow at 1.5 percent, as well.” Bloomberg, July 13, 2012

PERSONAL PERSPECTIVE by Ralph Doudera

If I asked you to identify the one major theme of the Bible, what would you answer? After re-reading the out of print book *The Supreme Beatitude*, by E.V. Pierce, I am realizing what a solid grasp he has of this central theme. So what is this “attitude” around which he writes an entire book? “The very heart-throbs of our God, Creator and Redeemer are felt in these nine short words—*It is more blessed to give than to receive.*” (Acts 20:35). A beatitude is a condition of supreme blessedness or happiness. It covers all that we mean by our overused word “success” (which we often make an idol), but is so much more. Blessedness deals with our soul. Happiness deals with our circumstances and environment. I can be unhappy, but still live in a peace and quality of blessedness in unpleasant circumstances. I need to remind myself of this when financial markets go against me.

In fact, my self-created “austerity” of the past several years has personally affected me by creating an attitude of scarcity and selfishness in my own life that has recently left me “unblessed”. I have tipped less, cut my family budget, given charities less, and have been considerably less

generous in every area of my life. The “cheap” person who I used to be started taking over my life and had left me quite unfulfilled. I don’t like him.

Jesus said “Love your enemies, bless those who curse you, do good to those who hate you, and pray for those who spitefully use you and persecute you, that you may be sons of your Father in heaven; for he makes the sun rise on the evil and on the good, and sends rain on the just and on the unjust.” (Matthew 5: 44-45).

To be financially rich, physically healthy, and mentally sound is desirable, but it is not the highest state of blessedness. One of the most spiritually blessed men I know is a quadriplegic. As good as getting may be, giving is better. The very nature of God is giving. And, as I attempt to love my enemies and give to those who are less fortunate, I begin to slowly change from being a “taker” to becoming a giver, and begin to take on the character of God.

Do I want to be more God-like? Then I need to love more. And, as I love I will give more, and as I give I will be blessed. I want that.

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

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