THE FULL SPECTRUM

Spectrum Financial Inc.

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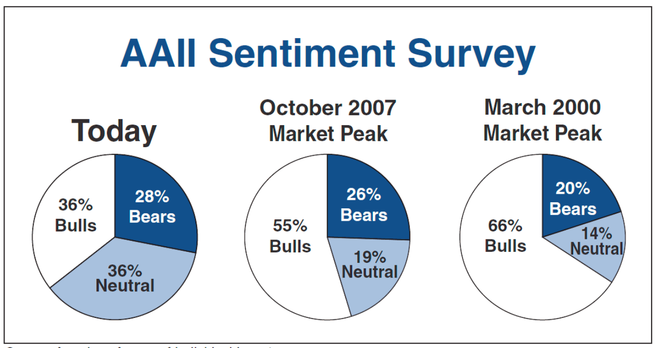
GENERAL MARKET COMMENTARY

The market has gone straight up for the first quarter of 2013 leaving many investors on the sidelines. The bearish sentiment at year-end has left many investors anxious. If one is invested, the question is whether or not to take profits. If one is underinvested, the stress is even higher in not knowing whether it is too late to get in.

To look at some perspective on this dilemma, we show the latest survey from the American Association of Individual Investors. This shows an almost even split between bulls, bears, and neutral.



Source: American Assoc. of Individual Investors

This is good news since the bullish sentiment is not close to the extremes seen at the top in 2007 or 2000, when bulls out-numbered bears 2 or 3 to 1.

Historically, what happened the rest of the year after a strong first quarter of 5% or more? The table to the right illustrates that in more than 86% of the time since 1950, the remainder of the year provided further profits.

See chart below. *For a third consecutive month, the Conference Board's Leading Economic Index moved upward to a new recovery high, with 8 out of 10 components contributing to that gain.*

No recessions in the past 50 years have begun without this LEI peaking and turning downward ahead of the economy. The minimum lead time was 4 months in 1960, and the lead time on every recession since 1970 has been 9 months or more.

— **InvesTech Research**

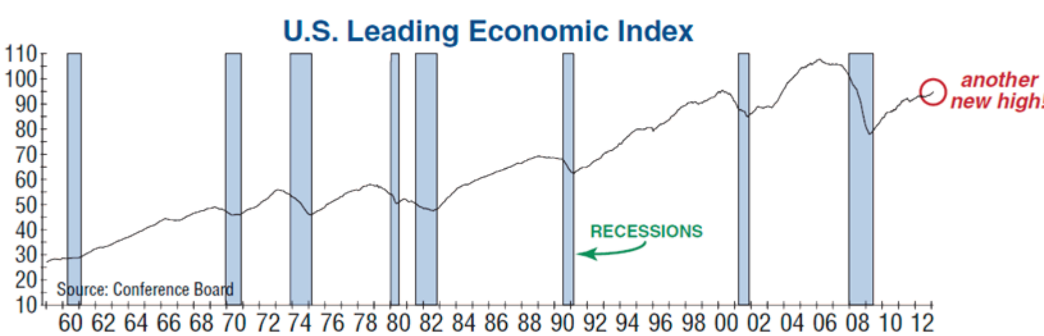
S&P 500 Performance After First Quarter Gain of 5% or More (1950 - Current)

		Q2 through Q4		
Year	Q1 Gain	Gain/Loss	5% Correction?	10% Correction?
1975	21.6%	8.2%	Yes	Yes
1987	20.9	-15.3	Yes	Bear Mkt (Aug)
1976	14.0	4.6	Yes	
1991	13.6	11.2	Yes (3)	
1998	13.5	11.6	Yes	Yes
1986	13.1	1.0	Yes (2)	
1967	12.3	7.0	Yes (2)	
2012	12.0	1.3	Yes (2)	
1961	12.0	10.0		Bear Mkt (Dec)
2013	10.0	?		
1995	9.0	23.0		
1971	8.9	1.8	Yes	Yes
1983	8.8	7.8	Yes (2)	
1954	8.6	33.6		
1985	8.0	17.0	Yes	
1956	6.6	-3.7	Yes	Bear Mkt (Aug)
1989	6.2	19.9	Yes	
1979	5.7	6.3	Yes	Yes
1963	5.5	12.7	Yes	
2011	5.4	-5.2	Yes	Yes
1958	5.3	31.1		
1964	5.3	7.3		
1972	5.0	10.1	Yes	
	Average:	9.1%		

% of time with gain for Q2-Q4: 86%

InvesTech Research

The Federal Reserve continues to make liquidity available, and the economy continues to slowly expand. Corporate earnings currently being released have also been higher than estimates. As long as this trend continues, we see continued stability in the markets.



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HIGH YIELD BONDS AND RISING INTEREST RATES

Spectrum has recently had a number of investors express concern about the long-term bond market rally, and have been asking how a rising interest rate environment may affect high yield bonds.

We have done a study illustrated in the attached chart showing every period of rising government bond rates for four quarters or more since 1982. These results show that while government bonds can have loses due to interest rate risk, high yield bonds can have gains. The primary reason for this is that interest rates generally increase when economic indicators are improving, causing government bond prices to go down. An improving economy reduces the risk of owning high yield bonds. This is consistent with the Federal Reserve's commitment to keep rates low until the economy is stronger. High yield bonds should have more room to continue to be profitable in any case. An impending recession would provide reason to reduce high yield bond exposure.

Period Ending	# of Quarters with Rising Interest Rates	Annualized Return (Including dividends) CSHY Index* High Yield Bonds	Annualized Return (Including dividends) 30-Year Government Bonds (GT30)
Jun-84	7	2.4%	1.8%
Sep-87	5	5.2%	-7.0%
Dec-94	5	2.7%	-6.5%
Mar-97	5	11.1%	-3.0%
Dec-99	5	4.9%	-20.7%
Jun-04	7	20.6%	0.8%
Jun-06	4	5.0%	-5.7%
Mar-10	5	46.6%	-9.1%

*The CSFB High Yield Index is designed to mirror the investible universe of the $US-denominated high yield debt market. Data obtained from Bloomberg.

GOLD VS. STOCKS

Keeping a longer-term perspective is important for investors so that they do not get caught up in a short-term investment prejudice that may cause them to lose touch with historic norms.

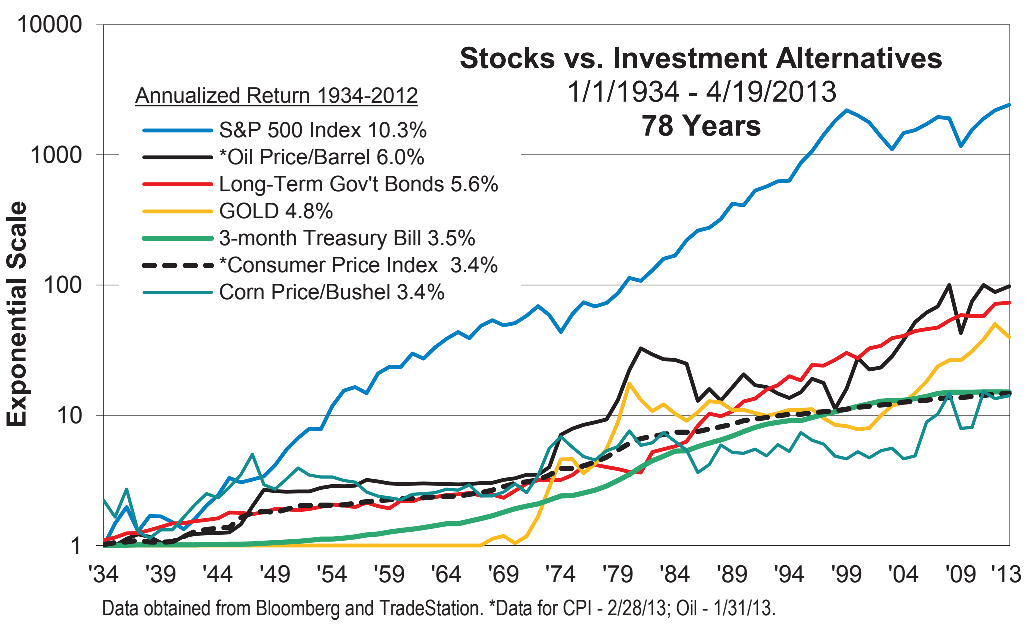
The chart below illustrates that the long-term trend of the stock market for the past 78 years has been steadily higher in spite of all those bear markets, world wars, terrorist attacks, recessions, and commodity price bubbles.

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.

This chart illustrates long-term rates of return for various investments. The 10.3% average annual return for stocks (S&P 500 Index) has outperformed the inflation rate by 6.9% per year on average. Government bonds have beaten inflation by about 2% per year. T-bills (3-month Treasury bill) performed the same as the inflation rate, so money market returns have not created wealth, and may actually show a loss after taxes. What may be most surprising to investors is that gold, oil, and grains have not kept up with the stock market, except for brief speculative periods.

Gold is a cyclical investment, and moves in periods of inflation and financial uncertainty. You can see in the chart that the last major move took place in the 1970's. It ended with a "blow off" move over 100% in less than two months and up eightfold over a 3-year period. It then went from $850 per ounce down to $300 per ounce over the next two years, and remained at this level for the next 20 years. It has averaged 4.8% per year, a little more than the CPI (Consumer Price Index) and a little less than government bonds. A similar drop today could see gold at $600/oz.

Historically, stocks have been better investments than hard assets, and over this extended period, stocks have performed at an annualized rate that was nearly 7% higher than inflation, whereas gold has outperformed inflation by only 1.4% per year even at its current inflated value.



Data obtained from Bloomberg and TradeStation. *Data for CPI - 2/28/13; Oil - 1/31/13.

PERSONAL PERSPECTIVE *by* Ralph Doudera

Every day when I log on to my Bloomberg terminal for the daily news and financial information, a quote for the day pops up on the first page. One this week struck me as challenging. *"The cure for depression is taking a hot bath and by doing something virtuous."* It hit me particularly hard since I was feeling down over the weekend probably due to personal losses combined with the tragedy of terrorist bombings in the past week. I began to realize that I have been focusing on ME and that it was time for me to look for opportunities to get outside of me, and into the lives of others. The first thing I did was make a list of organizations to which I can immediately contribute which may create worldwide peace and solve poverty issues. Next I started being more generous to those people around me. Leave bigger tips. Compliment people who I run into every day. Say I love you more often--maybe even shocking some who may not expect those words. As an introvert, these things do not come naturally to me, but yes, I can learn how to do this!

I looked up Random Acts of Kindness on the internet and found lots of good ideas, and found that there is a RAK week celebrated every February. Volunteer. Bake some cookies. Really listen to someone's story and let them know you understand them. Pay someone's toll. Slip a 100 dollar bill into someone's pocket. Give a heartfelt compliment to a cashier at the supermarket. Ask your spouse what they would like today with no repayment required. Or go wild with compliments to your friends on Facebook.

I was created to give, but need constant reminders to find opportunities. Instead of the hot bath, I had an hour long hot massage, and left a very big tip. It is starting to work for me. I feel much better. Drop me a note and let me hear your stories!

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

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