THE FULL SPECTRUM

Spectrum Financial Inc.

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GENERAL MARKET COMMENTARY

The US stock market has been enjoying the year while the Federal Reserve continues to inject funds into the financial system to keep the economy afloat. Talk of slowing down QE purchases of bonds by the Fed was brought to an end thanks to political gridlock and a government shutdown, which caused the economy to slow down even further. What would cause the Federal Reserve to stop throwing money at the economy? We believe they are moving into a difficult position. Two things would cause them to reconsider their policy. Either the employment rate must drop further, or the rate of inflation must pick up considerably. We are of the opinion that the economy is unlikely to pick up speed with Obamacare causing additional employment problems, and a further government shutdown scheduled for January. Inflation, on the other hand has been controlled so far, but is likely to begin to pick up speed shortly. With both inflation and poor economic growth, the Federal Reserve has some really tough choices to make, and the story could turn out badly. This means interest rates will remain lower than everyone expects for longer than everyone expects, and might make both the stock and bond markets continue higher for a lot longer than expected as well. However, the end of this economic cycle could see a very bad ending. Meanwhile, we shall enjoy the rising markets with our eyes on the exits. With home financing rates dropping once again, we also believe that a new housing bubble may be a topic of conversation at future Federal Reserve meetings.

YEAR END STRATEGIES

The S&P 500 moved ahead the third quarter, positioning itself for an outstanding year if the next quarter cooperates. The Index was up 17.9%, excluding dividends, through September 30, and we can look at what a strong double-digit gain in the first nine months of the year has meant for the fourth quarter historically.

Considering the 85 years since 1928, the first nine months of this year falls in the top quartile in terms of S&P performance. Overall, the results are encouraging with most fourth quarters building on earlier gains. About 75% of the time, the markets ended the final quarter higher. Four of the years on the table even closed with double-digit gains from October through December. Also, the two times which had double-digit losses from bear markets that started in the third quarter (1929 and 1987) had monetary conditions that were unhealthy, which is currently not the case.

A concern in the current period is the age of this bull market, which is now in its fifth year. However, strong market gains for the first nine months do not change the Q4 performance odds even in a mature bull market. Seven of the 17 periods on the table (highlighted in yellow) occurred after the 4-year milepost in a bull market. Also, five of those seven saw the market move higher by year-end. The two bear markets mentioned earlier were the exceptions.

The market is heading into its seasonally strong period from November through April, and with the Federal Reserve continuing its easy money policy, political gridlock keeping consumer confidence low, uncertainty about Obamacare, and further political gridlock on the horizon, the market should continue climbing the wall of worry. Next year will be much more challenging.

S&P 500 Q4 Performance Following Q1 - Q3 Gains > 17.9% 1928 - 2013

	Gain/Loss	
Year	Q1 - Q3	Q4
1933	42.7%	2.7%
1987	33.4	-23.2
1954	30.2	11.4
1997	27.9	2.4
1995	27.2	5.4
1989	25.7	1.2
1958	25.2	10.3
1929	23.9	-28.9
1943	23.6	-3.4
1975	22.3	7.5
1935	22.0	15.9
1945	21.7	7.4
1955	21.4	4.1
1967	20.4	-0.2
1928	20.3	13.9
1936	19.2	7.3
1983	18.1	-0.7
2013	17.9	?

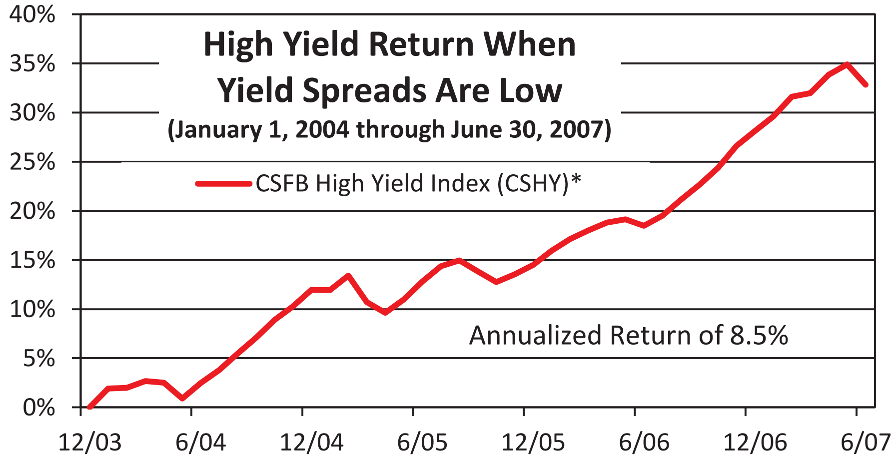
Bull market older than 4 years

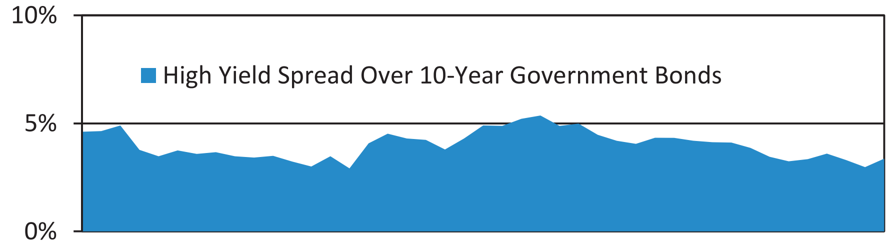
InvesTech Research

HIGH YIELD RETURNS

The yield differential between high yield bonds and US government bonds is currently only about 3.5%. This indicates that the yield on high yield bonds is paying 6.9%, where 10-year government bonds only yield 3.4%. A normal range for this yield spread is between 3% and 7%. The lower this number is, the lower potential returns will be. Looking at what happened in 2004, when we were midway in an economic expansion and the yield spreads were about where they are today, we illustrate the returns for the three years following this similar economic period. Total returns for the next few years averaged about 8.5% annually for high yield bonds. (see charts).

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





PERSONAL PERSPECTIVE *by* Ralph Doudera

On recent visits to Southern California this fall, I had the opportunity to visit Saddleback Church, founded by Rick Warren, author of *The Purpose Driven Life*. His book has been the bestselling nonfiction hardback book in history after the Bible. During my visit there he was presenting the first of a 12-week series on "happiness". How the heck can you talk about that topic for three months? I must admit that listening to the first message felt like I was drinking out of a fire hose. I took lots of notes. Who doesn't want to be happy? We all know a lot of folks who aren't. In fact, I would have to say that from my personal experience, happiness seemed to be inversely proportional to a person's wealth. But I never studied the topic as he has. Maybe a few of his ideas are worth mentioning here with some relevant Bible quotes.

First, gratefulness leads to happiness. Happiness is a decision, and we are as happy as we choose to be. We need to take personal responsibility, and someone else's behavior should not affect our happiness. *Be cheerful no matter what; pray all the time; thank God no matter what happens. This is the way God wants you who belong to Christ Jesus to live. 1 Thess 5:16-18 (MSG)*

Happiness is not the destination, it is a by-product of personal decisions.

The second step is to keep our conscience clear by dealing with guilt. *Happy are they who are without sin in their ways, walking in the law of the Lord. Happy are they who keep God's unchanging word, searching after him with all their heart. Psalms 119:1-2 (BBE)*

Happy is he who has forgiveness for his wrongdoing, and whose sin is covered. Happy is the man in whom the Lord sees no evil, and in whose spirit there is no deceit. Psalms 32:1-2 (BBE)

By confession of our sin we can be forgiven and harbor no more guilt. Guilt causes shame, which can cause depression. Humility also seems to be an important requirement for happiness.

Lastly, do something for someone else. Serve God by serving others. Status, salary, or sex won't make us happy, but service will. *For whoever desires to save his life will lose it, but whoever loses his life for My sake and the gospel's will save it. Mark 8:35 (NKJV)*

Seeking happiness never delivers it. It is a by-product of giving ourselves away. Decide to have a grateful spirit. I will not be concerned by someone else's opinion, as only God's opinion should motivate me. I want to evaluate my life and ask God for forgiveness so I can have a clear conscience. I should develop a generous spirit with my time, money, and relationships. Happiness will follow.

Get happy today! This entire "happiness series" is conveniently available on the Saddleback web site http://www.saddleback.com/ if you want to smile more.

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

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