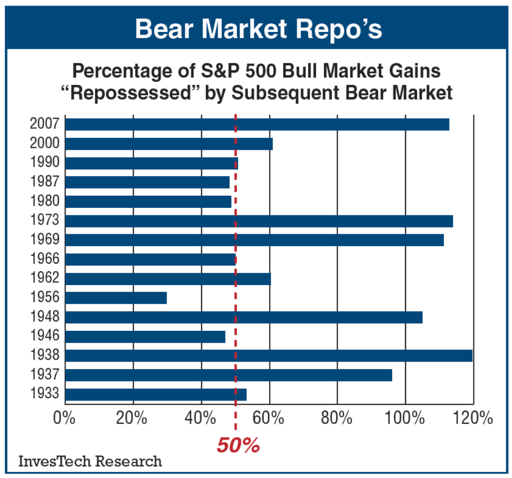
THE FULL SPECTRUM

Spectrum Financial, Inc.

October 2021

GENERAL MARKET COMMENTARY

After a brief correction, the stock market begins the fourth quarter continuing its upward march toward new highs. But all is not well in the financial markets. Bear markets tend to be a byproduct of financial excess. The Federal Reserve is caught in a situation which may not resolve itself without pain. We are all aware of the inflation issue, up 5.4% for the past year. The Fed says it is transitory because they don't want everyone to program their thinking and it becoming a self-fulfilling prophecy. How does this affect our investment portfolio? In order to have a positive real return investors would need to generate an after-tax return higher than 5.4%, which is a 9% return in a 40% tax bracket. What will cause more inflation? The US Government creating a new bill to borrow trillions more, and by keeping rates artificially low for a longer period. This will not end well.



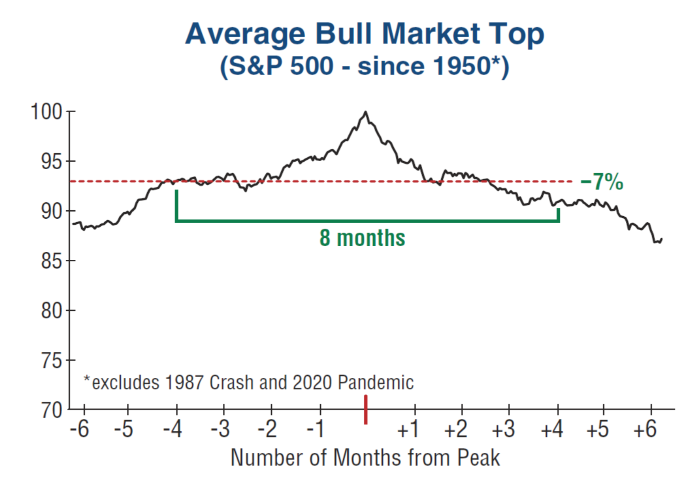
So how does the Fed fight inflation? They must begin the painful process of raising interest rates. But will the medicine kill the patient? Stock prices are determined by two factors: earnings and interest rates. The current value of a stock, or its "present value", is a calculation of what its future earnings will be discounted back to today at current interest rates. If rates go higher, the "present value" of the company will drop. And if earnings also drop the negative loss effect is magnified. And next, throw in real estate concerns. If mortgage rates go up, many people cannot afford to purchase a house, and real estate values could drop significantly. If 30-year mortgage rates increase from 3% to 4.5%, payments increase by 20%. These are the seeds of the next recession: inflation causing less consumer purchasing power, real estate values and liquidity dropping, investment accounts dropping in value, causing consumer sentiment to drop while prices continue to rise. Then the Federal Reserve will have to step back in and lower interest rates once again to zero to keep it going, while inflation continues to destroy purchasing power at an even faster rate. That might be the preferred solution we must prepare for. It may be the only way out for the Federal Reserve. Prepare for inflation.

A significant number of today's new investors have not experienced a real bear market. The "covid market" sell off last year only provided a "buy the dip" opportunity for novice investors. Bear markets correct excesses and are needed to restart a new economic recovery. Long expansions create high debt levels and overvalued stock markets. But investors need to be aware that a bear market follows every bull market and can be devastating to investors. The chart above illustrates that every bear market for the past 88 years has taken back or repossessed about 50% of the bull market gain. Even if we look at the gains from the low of 2020, that indicates a probable drop of 9,100 points on the Dow Jones Industrial Average. Investors need to review their risk tolerance at this point of the investment cycle and ask themselves if losing half their investment would change their lifestyle.

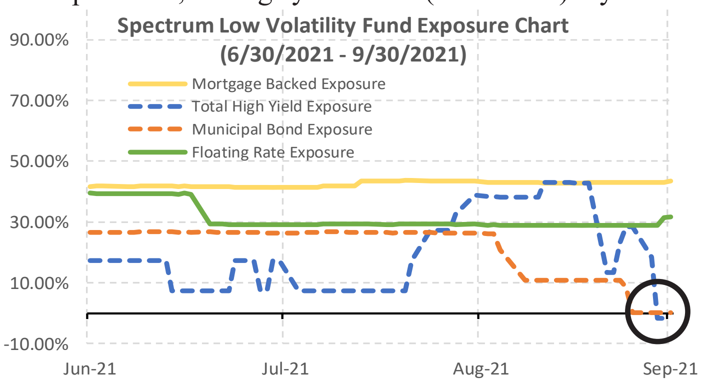
IDENTIFYING MARKET TOPS

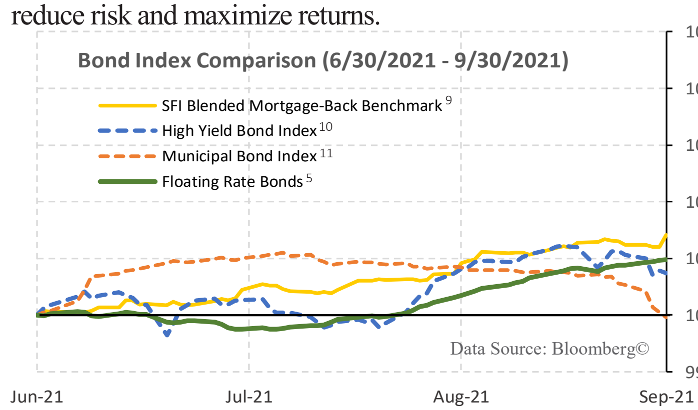
No one has consistently been able to identify market tops. There are many clues however to help us interpret when risk becomes high. Many of them have become visible recently. Some include: decreasing percentage of stocks in an uptrend, over speculation in a relatively few "hot stocks", the Federal Reserve increasing interest rates, excessive stock purchasing using borrowed money, just to name a few of them. Speculation extremes peaked early this year, which is not to say that it couldn't start up again. Spectrum has been able to stand aside in the major market corrections in the 1987 crash, the Tech Bubble in 2000, the Housing Bubble in 2007, and Covid in 2020. Our time-tested technical analysis has helped us reduce losses, and we continue to evaluate markets going forward. Our primary objective is safety of principal by limiting losses.

Average bull market tops usually do not happen suddenly, but over the past 70 years we have observed an 8 to 12 month window surrounding the top in which evidence changes and bear market confirmations appear. We shall continue to remain invested with these risks in mind, always ready to exit the markets when we believe risks exceed profit potential.



ANY SEASON BOND SELECTION ROTATION
Rising interest rates often cause concern for bond market investors. But all types of bonds do not perform together. The Spectrum Low Volatility Fund (SVARX) continuously monitors all categories of bonds to select and rotate out of low performing categories and into the groups which continue to provide better returns. The chart below (left) illustrates four types of bonds which the fund owned, mortgage-backed, floating-rate senior loans (shown as solid lines), compared to municipal bonds, and high yield bonds (dotted lines). By reviewing how much exposure we had of each of these classes compared to each other, we can see that as municipal bonds and high yield bonds began to show losses (reference chart to the right); positions were reduced and eliminated by the end of the quarter. In the floating-rate bonds and mortgage-backed bonds, exposure was maintained as they continued to move higher. This is how active management works. A daily review of 17 bond classes are ranked based on trend, momentum and relative strength and adjustments are continually made to reduce risk and maximize returns.





[9] SFI Blended Mortgage-backed Index: This benchmark gives an equal weighting to the following 40 act mutual funds to represent the mortgage-backed space: AlphaCentric Income Opportunities Fund (IOFIX), Axonic Strategic Income Fund (AXSIX), Braddock Multi-Strategy Income Fund (BDKNX), Columbia Mortgage Opportunities Fund (CMOYX) and the Semper MBS Total Return Fund (SEMMX).
[10] Barlcays US High Yield Very Liquid TR Index: This benchmark includes publicly issued U.S. dollar- denominated non-investment grade, fixed-rate taxable corporate bonds that have a remaining maturity of at least one year, regardless of optionality. The bonds are rated high yield (Ba1/BB+/BB+ or below) using the middle rating of Moody's, S&P, and Fitch, respectively (before July 1, 2005, the lower of Moody's and S&P was used). Included issues consist of only the three largest bonds from each issuer that has a minimum amount outstanding of $500 million or more (face value) and less than five years from issue date.
[11] S&P Municipal Bond Index TR: is a broad, market value-weighted index that seeks to measure the performance of the US municipal bond market.

PERSONAL PERSPECTIVE *by* Ralph Doudera
Yesterday I went to my favorite lunch spot only to find a sign on the door saying that the dining room was closed because they had no employees willing to work. Signs offering employment seem to be everywhere with signing bonuses becoming a way of life. What is going on? It seems that a government social security "safety net" has been turned into a "safety lounge". It has been shown that people who retire have a higher incidence of heart attacks, dementia, depression, and social anxiety. Basically, we have a need to do productive work. Both the Old and New Testament advise us: *"You are to labor six days but you must rest on the seventh day; you must even rest during plowing and harvesting times". (Exodus 34:21).* New Testament says: *"…we gave you this rule: "The one who is unwilling to work shall not eat." (2 Thess. 3:10).* That's pretty clear instruction from our "owners operation manual".

Many people also stop looking for work the first day of employment, thinking that they earn their salary by showing up each day. Many might say "*if they paid me more, then I would work harder*" Nothing could be further from the truth. The opposite is true. Motivational speaker Zig Ziglar once said "*if you help enough people accomplish what they want, you will become rich".* Wealth is a byproduct of successful stewardship.

My favorite Bible story is about Joseph, who began as a slave in prison, and eventually was elevated to the highest position under King Pharoah in Egypt, all because he was a faithful servant, constantly making good decisions for his employer, until he watched God elevate him to his high position. Sometimes we slow down our destiny by making poor decisions, but we usually get new opportunities.

Over 30 years ago I reached a place of financial security and wanted to retire. It was not the panacea I dreamed about. Retirement is not a biblical option, but new assignments are. I realized that I had talents and abilities that could help others, so I began to focus on how I could make a difference in the lives of others and not just self-indulge. In 2004 we organized the investment fund *Hundredfold Select Alternative Fund (SFHYX)*, and since then we have donated 100% of our sub-advisory fees - making a difference to many diversified charities around the world. Our investors are happy also, since an initial investment of $10,000 is currently worth about $33,000.

We should not look at our current employment situation only as a way of making money. We work for more than that. Offer up whatever you have for God to use and in due time He will elevate you for your faithfulness. And give you joy in the journey. Making a difference gives me much more satisfaction than just lowering my golf handicap.

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

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