THE FULL SPECTRUM

Spectrum Financial, Inc.

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GENERAL MARKET COMMENTARY

Surging inflation throughout the second quarter of 2022 continued to destroy financial markets effectively everywhere. The declines have officially plunged major stock market indexes into a bear market cycle where most prices have dropped nearly 20 percent or more from recent highs. In fact, the opening to 2022 has been the worst 6-month start to a year for the US stock market since 1970. Normally, bonds offer a conservative investment option during stock market selloffs. Unfortunately, the bond markets didn't provide protection from the market declines either with the 30-year Government Bond Index losing -21.9% and the Aggregate bond index dropping over -10%.

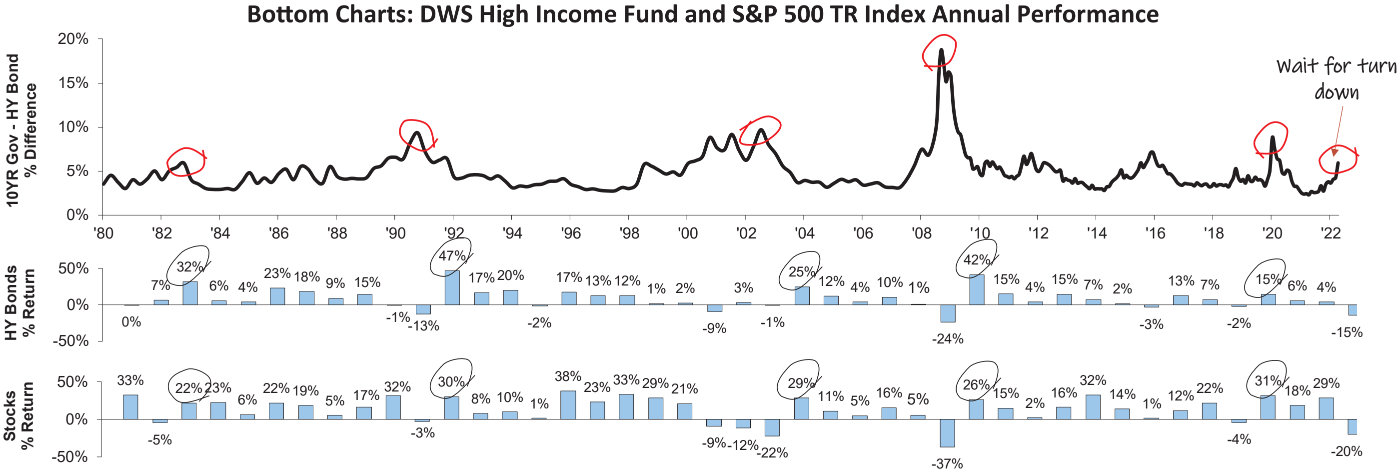
Although the markets have recently stabilized, we do not have reason to believe that the storm is over. The Federal Reserve has made it clear that they will continue to raise interest rates until inflation is contained. That means they prioritize lower inflation over recession and economic pain.

If we look past the aberrational bear markets of 2020, 1990, and the crash of 1987, then today's bear market (if the lows are already in place) would be the shortest bear market of the past 60 years. The likely outcome should be more pain to come. Just turning inflation lower from the 9.1% will not be enough when the Federal reserve's goal is 2%. We have a long way to go.

HIGH YIELD BONDS, STOCKS, & RECESSIONS

The media would have everyone believe that recessions are unfavorable times to invest. But as active managers, we love recessions. During the great recession in 2008 we wrote a letter to all clients and addressed a once in a decade opportunity for high yield bonds. These bonds are debt securities with lower credit ratings that offer a higher yield for the increased risk of future default which becomes more likely in a recession. But as the economy begins to improve, the yield on these bonds not only continue to pay a higher yield, but the price of the bonds increase in value, giving a double return. The yield spread shown below illustrates the historical difference between the yield of low-risk government bonds compared to the riskier high yield bonds. The charts below it show the economic cycle every 8 to 10 years, and the investment returns comparing high yield bonds and stocks, in the year before and after a recession. Here are some observations to study. Stocks and high yield bonds have substantial losses just prior to when the recession arrives (like this year). But more importantly, after the recession, high yield bonds often outperform stocks by a substantial amount with much less risk. That is why we love trading high yield bonds instead of stocks. Higher risk adjusted returns and lower volatility. This is our kind of investment. By standing aside right before a recession and then committing funds when yields are higher, we can increase returns while reducing risk. The key is waiting until yields start dropping, usually in the deepest part of the recession. With high yield bonds currently posting one or their worst selloffs since the great recession, we may be getting close with yields currently about 8.6%. Study the chart below and you can see how history repeats itself. Yes, we received client thank-you letters after the last recession.

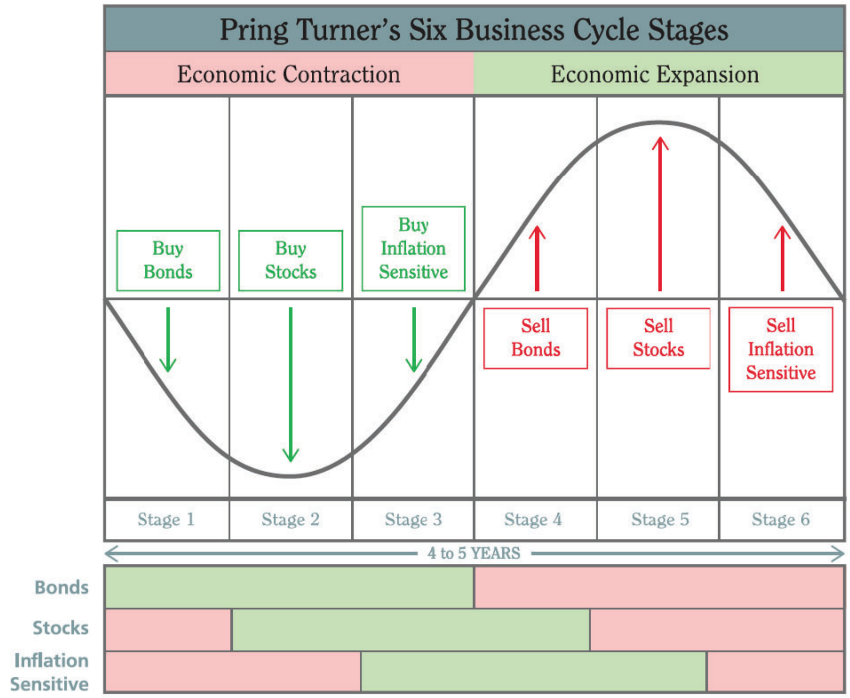
Top Chart: Yield Spread (HY Bond Yield in Excess of Government Bond Yield)
Bottom Charts: DWS High Income Fund and S&P 500 TR Index Annual Performance



Annual return performance numbers for DWS High Income (KHYAX formerly Scudder-Kemper High Yield) and S&P 500 TR Index were obtained through Bloomberg, LP. Dividends reinvested sales loads not included. Past performance does not guarantee future results.

BULLISH FOR BONDS?
In his book, *The All-Season Investor,* and in his monthly newsletter Martin Pring discusses the stages of the economy and how it relates to investing. He currently views the market in Stage 5 moving on toward Stage 6, which normally presents the worst of times—bearish for bonds, stocks and commodities. Commodities have just had one of the biggest selloffs (copper and wheat down over 30% and crude oil down over 20%) in anticipation of a recession. This leads us directly into Stage 1 which is bullish for bonds. But that depends on the Fed's willingness to fight inflation. Spectrum will be watching our technical indicators for confirmation.

(Chart to the right from Pring Turner Investment Management, All-Season Investing 101, January 2016)



PERSONAL PERSPECTIVE *by* Ralph Doudera
During my early morning prayer time recently, I experienced the first image released by NASA from the James Webb telescope which showed thousands of galaxies, including the faintest and sharpest images of the universe from 13 billion years ago, about one billion years after the Big Bang. I use the word "experienced" because as I studied it, I became emotionally moved by the significance of the magnitude, age, and complexity of the universe. I think about the design and order of the universe and question my significance.

The word awesome takes new meaning. *"When I see and consider Your heavens, the work of your fingers, the moon and the stars, which You have established, What is man that You are mindful of him, And the son of man that you care for him?" (Psalm 8:3-4). The heavens are telling of the glory of God; And the expanse of heaven is declaring the work of His hands. Day after day it speaks out-- night after night it reveals his greatness. (Psalm 19:1-2).* Yet the bible says we are made in His Image, made to emotionally connect and have relationship with this God whose greatness cannot be comprehended. This God wants to connect with me because He loves me. This concept also is difficult to get my mind around.

My morning prayer time had become routine and almost businesslike, sometimes feeling like an obligation to get my list checked off, feeling guilty when my mind wandered off a prayer list. Then I realized that God does not want a business meeting but wants a connection where each of us becomes free to talk and listen to each other, bringing all of life's issues into a conversation like I would have with my wife, enjoying being together, brainstorming ideas and letting conversation flow. Not just asking for stuff but listening to what He was saying because I have discovered that I can't learn anything if I do all the talking. I would call this freedom inefficient prayer. Sometimes it may feel like wasted time and does require more time than setting my watch for 10 minutes, but the best times I have had, and the best ideas I get are when I am relaxed and open to hear Him. It is nice to know that God is not religious, but just wants a relationship. We can argue, and I can get mad at Him, but He can handle that. Fighting a God who loves me is foolish. Dr. E. Stanley Jones once said, "Any time any believer gives everything they know about themselves to everything they know about God—watch out!" And Tommy Tyson said it this way: "God's will for your life is exactly what you would choose for yourself if you had sense enough to know".

It has taken me a lifetime to figure this out, but when I contemplate images of the universe I begin to grasp the greatness of God and am inclined to spend more time listening.

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

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