THE FULL SPECTRUM

Spectrum Financial, Inc.

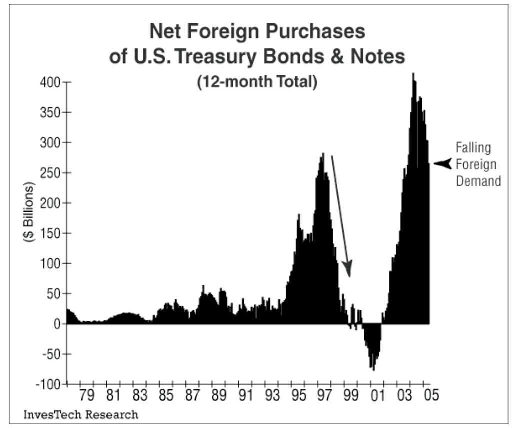
October 2005

GENERAL MARKET COMMENTARY

There is reason to be concerned about the negative forces (which have been building up in the economic environment) that drive the U.S. stock market. The Federal Reserve has normally continued to raise rates until there is evidence of a slowdown in the rate of economic growth. High energy prices certainly have begun slowing things down. Will the Fed again move too slowly and cause a recession?

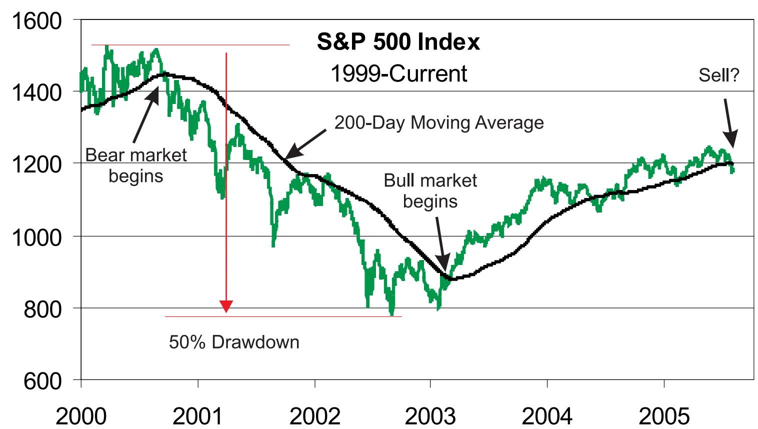
They have made comments about keeping the real estate market from overheating, but it is showing signs of softening almost everywhere. Market action the past month has been negative, with rallies short lived. Sentiment indicators indicate that we may have a year-end rally, but there is a reasonable chance that we have seen the high in the U.S. market for a while. What would cause the market to go up from here? The Federal Reserve interest rate policy. Lower rates would move this market to new highs.

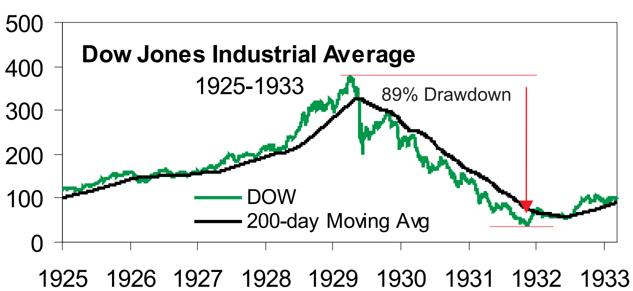
"For the first time since the late '90s, we're starting to see a sharp decline in the Net Foreign Purchases of U.S. Treasury bonds and notes. In 1999, this helped drive bond yields up over 2 percentage points. If this demand continues to wane, then bond yields will likely push higher." (*InvesTech Research*, October 21, 2005)

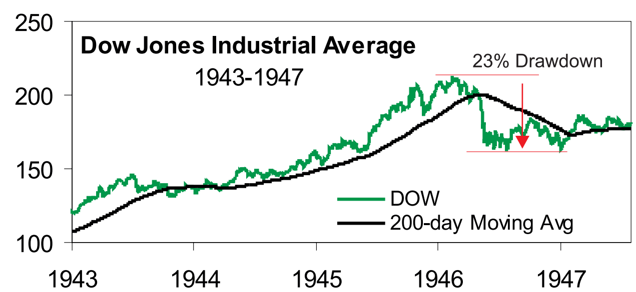


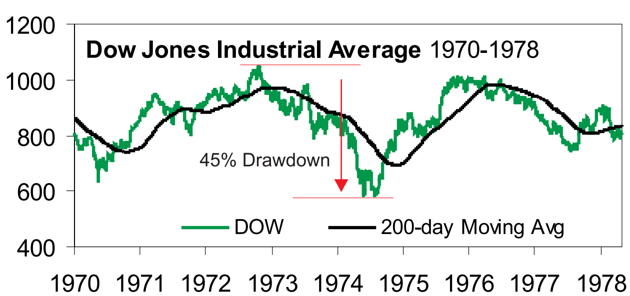
MARKET TREND...UP OR DOWN?

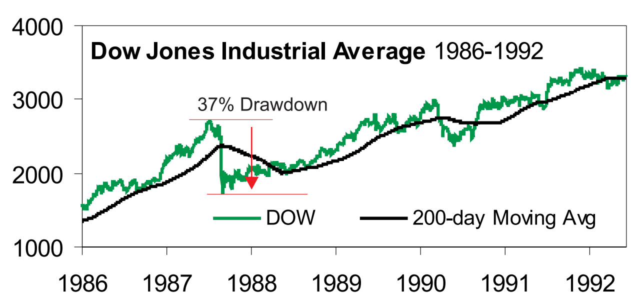
One of the first technical market indicators that I observed many years ago was the 200-day moving average which, simply explained, is the average price of the past 200 market days. When the current price is above the line, good things usually happen, and when the current price is below it, all the worst bear markets have occurred. These charts illustrate this principle; particularly the 1920's Dow Jones chart below and the S&P 500 chart on the right. Invest with the wind at your back. Be invested when above, be in cash when below, and when we are right on it (like right now) be a very short-term trader.





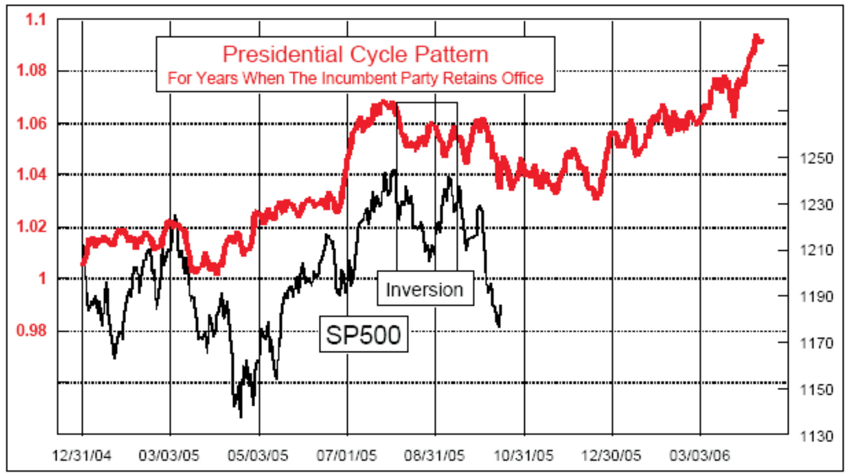






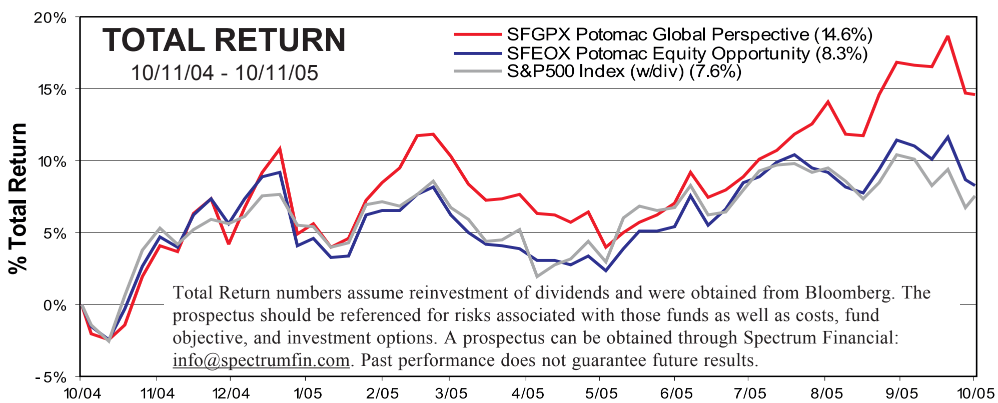
PRESIDENTIAL CYCLE PATTERN

The chart shows the presidential cycle pattern crafted from the patterns of the S&P 500 Index during presidential terms when the incumbent party held on to the White House. After a bit more bottoming for the rest of the quarter, past patterns indicate the potential for a strong beginning in 2006. Price increases are historically up 6% from November through the following May in the second year of the presidents term.



POTOMAC'S ACTIVELY MANAGED FUNDS

Using several combinations of trading strategies internally within a mutual fund is the strategy used by Potomac Spectrum Equity Opportunity and Global Perspective Funds to meet the objectives of performing well and controlling risk with cash positions when appropriate. Over the first year of operation, these funds have outperformed the S&P 500 Index while the portfolio was only invested in stocks on average 75%. In addition, there were six occasions where the portfolio was entirely in a cash position. There are times to be fully invested, partially invested, and not invested. These funds utilize strategies to determine how aggressive the invested position should be.



ONCE IN A LIFETIME OPPORTUNITY

When Hurricane Katrina devastated the Gulf Coast region, tens of thousands of Americans were left homeless. Thousands of Americans volunteered and gave to support those in desperate need.

As the recovery process began, Congress recognized that all American charities would need support. In order to help charities in this time of great need, Congress changed the charitable deduction rules. Cash gifts given between August 29 and December 31, 2005, are deductible up to double the normal charitable level. Cash gifts for the rest of 2005 will be generally deductible up to an individuals full income.

This unprecedented opportunity is available only until the end of 2005. These gifts do not have to be specifically for Katrina relief, but for any qualified charitable organizations, with a few minor exceptions.

Sitting down with my tax advisors, we prepared a list of ways of utilizing this opportunity in some creative planning strategies. See if any of these ideas can be useful to you this year.

The IRA Transfer to Charity: It is now possible to gift all or a portion of an IRA's assets and receive a full deduction for the entire amount, totally offsetting the income. To fully benefit, the donor must be at least 59 ½. Those who are younger than 59 ½ may also do this on a smaller scale by annuitizing an IRA each year and giving the distribution.

The Gift That Keeps on Giving: distribute IRA assets and roll these funds into a Roth IRA (allowed when taxable income is less than $100,000), then gift other assets away to offset taxable income from the IRA distribution. Now you can eliminate all income taxes on the Roth IRA (accumulates tax free, distributions tax free, no minimum distribution requirements).

Delayed Roth Rollover: Take distribution from a regular IRA by year end and give the funds by Dec. 31, funding the Roth IRA within the next 60 days from the sale of another asset or by a mortgage or bank loan.

Capital Gain-Ordinary Income Shuffle: If a capital asset (stocks, real estate) were sold, this additional income would allow an equal amount of charitable contribution, but the income will be at capital gains rates, and the gift would be ordinary income deduction, creating a net tax reduction.

Corporate Giving: Corporate tax treatment of charitable gifts has also changed for 2005, allowing a deduction of up to 100% of corporate income this year for cash contributions to direct Katrina relief charities.

These creative planning strategies were submitted by Doug Sorenson, Kaufman & Canoles (jdsoren@kaufcan.com). This memorandum has many more ideas that space does not allow for here, but can be reviewed in more detail on our website: www.spectrumfin.com.

This newsletter is not meant to give legal or tax advice, but to generate ideas for you to investigate further with your advisors.

PERSONAL PERSPECTIVE *by* Ralph Doudera

I once was in charge of a Bible study where I was trying to explain to a small group of friends the meaning of stewardship. As an experiment, I gave each of the attendees a $100 bill with an assignment for the following week. I told them, "This money does not belong to you. It does not belong to me. This is God's money. You have one week to look at your situation and put it to use someplace where you think God would be pleased.

"You will try to have God's eyes this week. I want you to do something with this money that He leads you to do. Next week you will be accountable to report back what you did with it." Well, the next week not everyone came back, but it certainly had an impact on those who did.

A tragedy like Katrina can become an opportunity for us to climb out of our comfort zone and step up to the plate to become more generous. If all we have belongs to God, then we can see things in a new perspective and begin to see things His way.

Over the past 20 years I have accumulated a nest egg in my IRA, which has grown to about one hundred times what I have invested in it, thanks to a bull market and the magic of compound interest. Tax laws have kept me from withdrawing it to benefit various charitable organizations since the deductible gift limit was 50% of adjusted gross income.

Thanks to this new tax legislation, before the end of 2005 I plan on withdrawing all my retirement assets and paying the proceeds out to charity without any federal income tax consequences. Cutting my net worth down to less than 50% may seem a bit radical to many, but each of us need to determine just how much we really need compared to others. It seems to me if I give back to God when someone else needs it, then when I need it God will remember.

"He who has pity on the poor lends to the Lord,
and He will pay back what he has given"
Proverbs 19:17

Other ideas relating to charitable giving are available in more detail on the web site (www.wealthconundrum.com) of my upcoming book, **Wealth Conundrum**.

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

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