



THE FULL SPECTRUM

Spectrum Financial, Inc.

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GENERAL MARKET COMMENTARY

While the year 2005 produced minimal returns, 2006 has begun on a very volatile note, with small caps and emerging markets once more beginning the year with strong performance. January is historically one of the best performing months for small cap stocks, as portfolio managers put money to work with a clean slate. The rally really began when the Federal Reserve indicated they were near the end of interest rate increases. These increases kept many investors on the sidelines all of last year because a rising interest rate environment has historically been bad for stocks. Now with the real estate boom ending, people are

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thinking about where to put their money once more. The one other concern that may cause potential problems later this year is the resumption of higher energy prices.

With crude oil pushing back toward the \$70 a barrel level, investors will be wary of the possibility of a recession. This could be caused by consumers cutting back on spending due to the additional "energy tax" on the higher prices. This, combined with softening real estate prices, could lead to problems later this year. Meanwhile, the market looks very good on a global basis for continued appreciation.

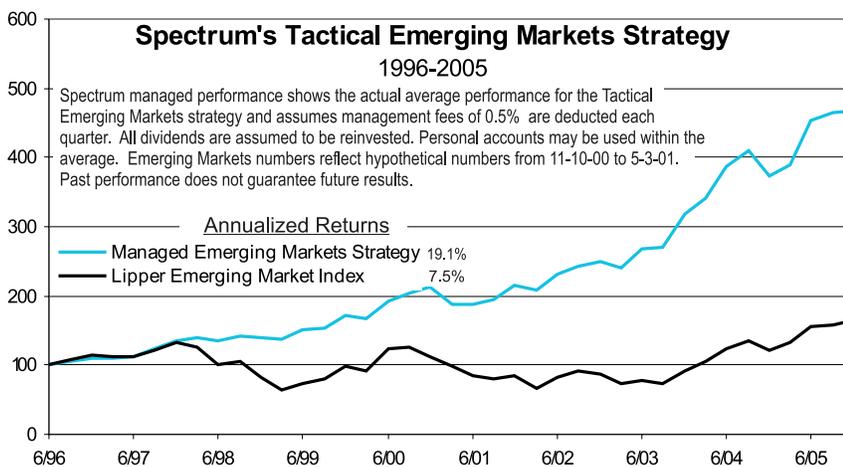
EMERGING MARKETS STRATEGY

International Emerging Markets have had a volatile performance record for the past decade, averaging a 7.5% annualized return since 1995 according to Lipper Analytical Services. These markets have a tendency to trend well, but have large corrections when bear markets erase much of the gain. In 1998 and 2001 for example, there were drawdowns in excess of 50%. This is the type of investment that Spectrum naturally loves managing by moving funds to a cash position at the appropriate time to meet its objective of

reducing major losses. As the chart illustrates, Spectrum has had actual performance of 19.1% annualized for this same period with a maximum drawdown of 13% on its Emerging Market strategy. Unfortunately, this strategy has been closed for new investors due to limited space availability.

Now there is good news due to the creation of Emerging Markets Exchange Traded Funds (ETFs). Spectrum now has the ability to invest in emerging markets using the Potomac Emerging Market Fund (PEMPX) with the objective of providing investment returns of 2 times (2 Beta) the

Emerging Market Index. While this fund is much more volatile than most other mutual funds, (having two investment strategies within one Tactical account) drawdown risk should be substantially reduced. Backtesting our trading strategies hypothetically resulted in a maximum drawdown of 25%, or half of the buy and hold risk, while providing returns well above the benchmark index. Investors interested in adding this strategy to their portfolio should call our office to discuss suitability.



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 past 12 months, these funds have outperformed the S&P 500 Index while the portfolio was only invested in stocks on average 75% of the time. In addition, there were seven 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 and are based on technical analysis.

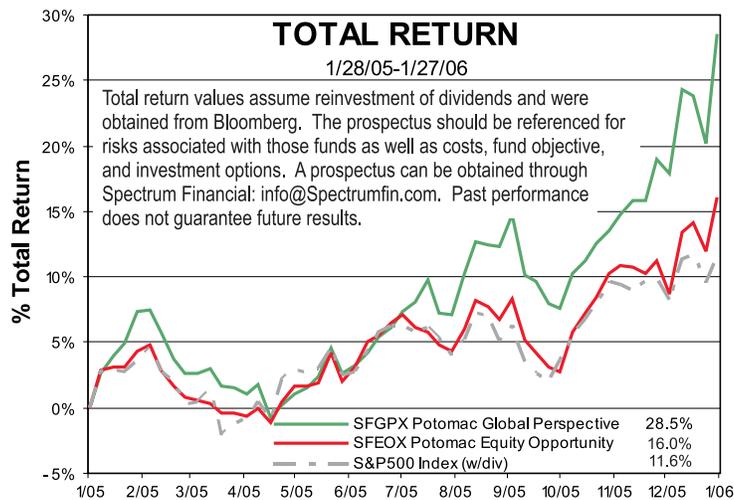
PERSONAL PERSPECTIVE *by* Ralph Doudera
I've been poor; I've been rich. Rich seems better. Picking up the Forbes annual Four Hundred Richest People in America issue today, I am intrigued by the stories. Only those with a billion dollars or more could make the cut this year. I page through the magazine with great curiosity on how and why they have accomplished what they did. In addition, there is an unredeemed competitive desire inside of me that hears the magazine calling my name, saying "Hey, you can be here, too!" However, rich isn't better, it just seems so to people who have that desire. Rich is a word like young and old—a comparison to some prejudged standard using ourselves as the center of the universe, keeping score with our financial statement and of course, always having things our own way. Being rich should really be defined as being satisfied with what I have. Being really

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

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rich is having my four month old grandson asleep on my chest while watching the football playoffs, or catching waves at sunset with my children in Costa Rica.

The Bible talks about the deceitfulness of riches. It also talks about how hard it is to connect with God if you are rich. So why do we all want to be rich? Is financial freedom a worthy goal? These are issues I have struggled with all my life that have no easy answers. I have spent the past four years attempting to condense what I have learned in my struggle so far. My book, **Wealth Conundrum**, will be available by the end of February. It addresses issues that have no easy answers. Some may love it, some may hate it, but I can assure you that it will get you thinking about issues you never realized might have controlled you. I invite you to come along with me on my journey down the class 5 rapids of Mammon.