THE FULL SPECTRUM

Spectrum Financial, Inc.

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GENERAL MARKET COMMENTARY

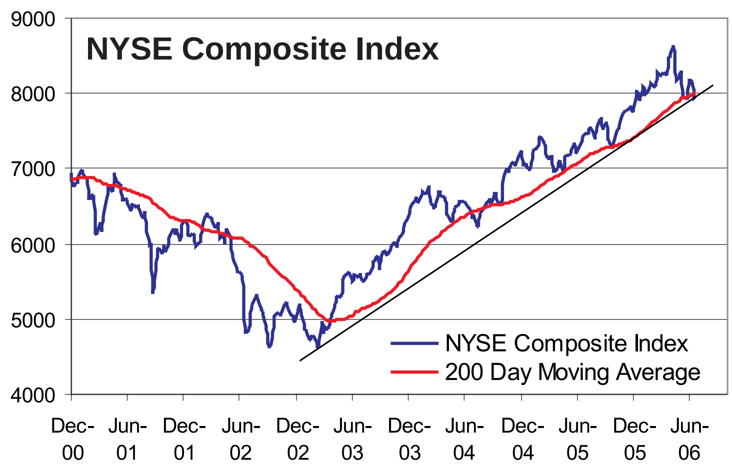
Stocks continue to gyrate up and down in a trendless and volatile manner, as the head of the Federal Reserve board makes comments amid news announcements of a new war in the Middle East. Why the concern? Oil supply. The 1956 war in Egypt shut the Suez Canal to oil tankers, cutting world oil production by 10%, and by 1957 we were in a recession. The outbreak of the Iran-Iraq war in 1980 caused world oil production to drop 7.2%, and a year later there was a recession. Iraq invaded Kuwait in 1990, and the same pattern held, with a recession the following year.

What does this market want? Alan Greenspan left Ben Bernanke holding the inflation bag. And so far Bernanke has been less than articulate in his public statements about where we are going from here, mainly because he doesn't know either. He is trying to keep inflation in check while continuing to encourage growth in the economy. However, rising oil prices add to inflation pressures, and at the same time reduce consumers' purchasing power because they have less money to spend on other things. If the fed raises interest rates, that too decreases the consumer's purchasing power, and both of these issues together may lead to a recession, and lower earnings and stock prices.

The stock market does have some good things going for it. Valuations remain reasonable, with the S&P 500 trailing 12-month price/earnings ratio of about 17, which is about normal for historical averages. Relative to current long term interest rates, this level is even more favorable. Presidential election seasonality should produce favorable returns for stocks in 2007 if history proves to be accurate. Although the long term trend is up, the market is on the fence at the moment for determining its major direction.

The chart below shows the New York Composite Index (a capitalization-weighted index of all stocks on the New York Stock Exchange).

As you can see, we have had three years of upward movement. It seems that the 200-day moving average is once again vulnerable to the possibility of a breakdown, which could indicate the beginning of a bear market. Although the major trend remains up, a breakdown here could change our market outlook for the next year.



Favorable NYSE Volume Indicators (volume up compared to volume down)

According to market technician Ned Davis, days have historically been significant when the upside volume is nine times or more as high as downside volume, particularly when two of these days occur within three months of each other. This has happened recently on three occasions. On June 15, 2006, the daily ratio of advancing to declining volume was 23:1 on the NYSE, on June 29 it was 12:1, and on July 19 it was 14:1. History since 1950 shows that this indicator has had bullish implications for future market performance.

S&P 500 9:1 Breadth Chart

	S&P 500 gain following 9:1 up days:		
Market Event	**1 mo later**	**3 mo later**	**6 mo later**
All 9:1 days	2.1%	4.7%	9.4%
All 1st 9:1 days	1.7%	4.2%	8.7%
1st 9:1 day not followed by 2nd	1.4%	3.4%	7.9%
1st 9:1 day followed by 2nd 9:1 day	2.8%	7.0%	11.5%
2nd 9:1 day (within 3 months)	4.1%	7.0%	12.6%
All periods	**0.7%**	**2.2%**	**4.4%**

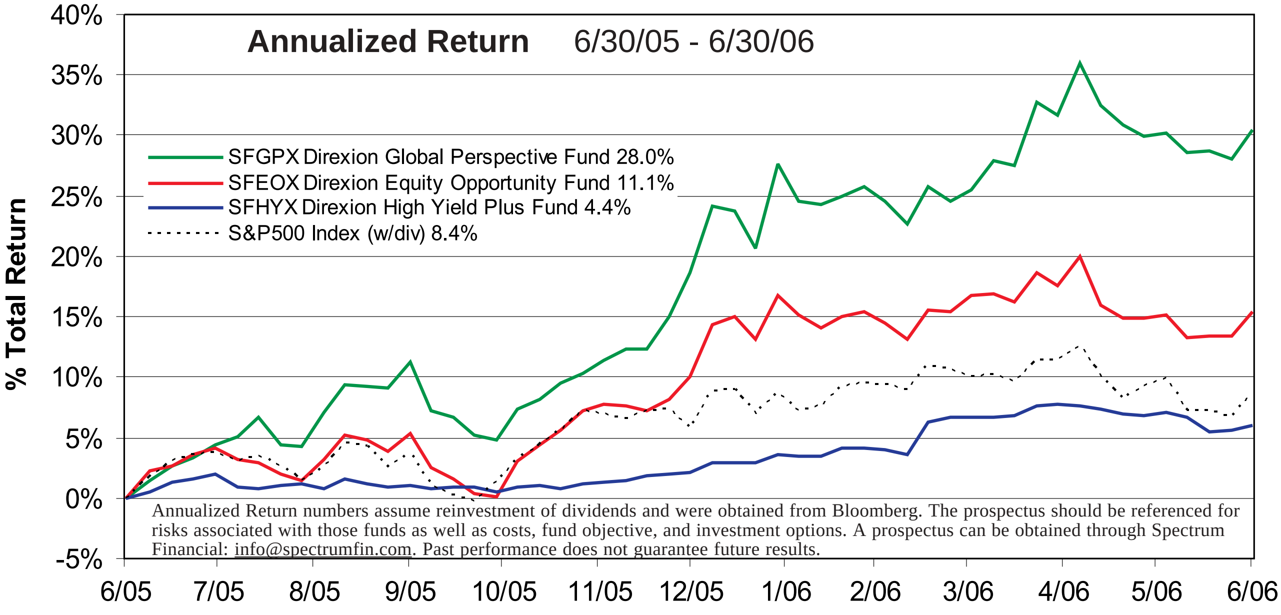
Chart data from Ned Davis Research as referenced by Gerald Appel Systems and Forecasts (www.Signalert.com, 1-800-829-6229)

According to historical records, the occurrence of one 9:1 day was favorable, and two 9:1 days within the 3 month period showed the S&P average up over 4% in the next month, and up 12.6% over the next 6 months. If this did occur, it could put our market averages out to new highs by the end of the year. The study does indicate that the data seems to have the most significance prior to 1980, so the impact of program trading, Internet access, hedge funds, and Exchange Traded Funds may influence the historical data.

ACTIVELY MANAGED *by* DIREXIONfunds

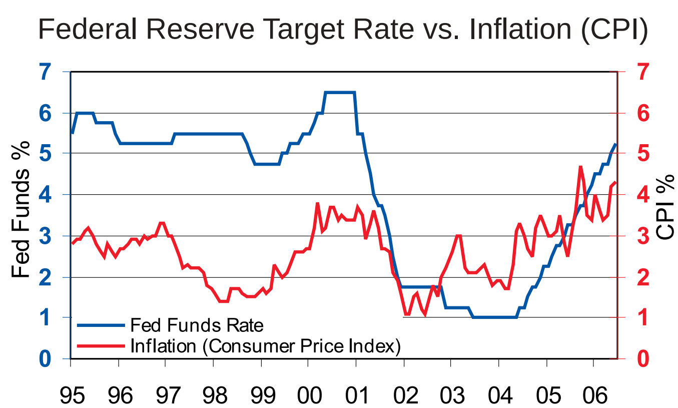
All of the **Direxion**funds' actively managed Spectrum Funds continue to perform well in this bull market. This table and chart illustrate the recent 12-month performance through June 30, 2006. These funds are designed to allocate assets from an invested position to a conservative cash position, depending on the technical trading strategies being followed. These funds utilize strategies to determine how aggressive the invested position should be and are based on time-tested technical analysis. Our Strategic Asset Allocation service assists clients in determining a portfolio mix of these funds based on their objectives. Please call our offices to speak with someone about your individual needs.

Ticker	Annualized Return	Average % Invested	100% Cash
SFGPX	28.0%	58%	2 times
SFEOX	11.1%	58%	3 times
SFHYX	4.4%	67%	1 time
S&P 500 w/div	8.4%	100%	N/A



RISING INTEREST RATES VS. INFLATION

The Federal Reserve has continued to raise interest rates regularly for nearly two years now, and it is beginning to slow down the economy's rate of growth. The graph to the right shows the historical relationship between the Fed Funds target rate and the rate of inflation. Since the beginning of 2006, the Fed's target interest rate is finally higher than the inflation rate. In the past, it has climbed as much as 3% above the inflation rate before they began cutting rates. Historically, the stock market has had difficulty going up as long as the Fed is raising rates, but once they stop, the market historically has gone higher over the next several years.



PERSONAL PERSPECTIVE *by* Ralph Doudera

There seems to be a new wave of philanthropists who are beginning to see the benefits of giving away their fortunes before they die. Warren Buffett has been making the news lately by his pledge to give $30 billion or 85% of his net worth to the Gates Foundation, currently the largest with assets of $29 billion, for distribution during his lifetime. It is his intent to distribute, not just warehouse, his fortune. I have read that he once said "I want my children to have enough money to do anything, but not enough to do nothing." He seems to be following in the footsteps of the great philanthropist Andrew Carnegie who over a century ago pledged to give away all of his assets while he was alive. In his gospel of wealth essays first published about 120 years ago, Carnegie spoke against those who believed in their right to spend their fortunes on themselves or leave them to their children. He considered it an act of almost criminal negligence for men like himself to waste their talents accumulating wealth that was not going to be spent for the sake of the larger community. Carnegie wrote "The man who dies thus rich dies disgraced."

Many wealthy people who do not want to deal with the insecurity of giving their fortune away while they are alive leave their wealth to a foundation when they die and let someone else give it away. Usually the people who distribute funds do not have the same objectives as the donor, and in fact may give to organizations which may be in direct conflict with the donor's objective.

Then there is the very common foundation "hoarding process" which dribbles funds out at the minimal 5% rate required by law. For example, the Ford Foundation, ranked number two in size with assets of $11.5 billion, after paying out $80 million dollars for their own overhead expenses, gave less than 5% of their assets in 2005. A contribution to a foundation does not really count as a gift until someone else is able to benefit from it. It is basically a tax free hoarding account for the donor until the assets are actually distributed.

This is why I decided to distribute the majority of my personal foundation assets a few years ago. I had the sticky finger syndrome trying to both give and hang on to assets.

Mr. Buffett seems to have been reading more than company earnings reports lately. Could it be he has been studying his Bible? There are at least twenty-five occasions where the New Testament clearly teaches that we will be granted rewards in our next life according to our works, and giving money while we are alive is the one most often mentioned.

According to the teaching of the Bible, life on Earth will have eternal consequences. It teaches that those who believe that their sins during life were paid for by the death of Jesus Christ will not have to pay for them in eternity. And in addition to their eternal destination, everyone, regardless of their personal beliefs, will also be judged on their deeds.

Our earthly belief determines our eternal destination
Our earthly behavior determines our eternal compensation

The author Randy Alcorn refers to it as a dot and line.

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The dot represents our life here on earth, and the line represents life after death in eternity. Jesus' teaching shows that *what happens inside the dot determines everything that happens on the line. And the line is eternal.*

Many people prepare for their children's future and their old age without giving a thought to *their real future.* Jesus taught "*Do not lay up for yourselves treasure on earth where moth and rust destroy and where thieves break in and steal; but lay up for yourselves treasures in heaven" (Matthew 6:19-20).*

Sounds to me like the shrewd Mr. Buffett may be doing some longer term investing.

For additional insight to this controversial topic, I highly recommend a book by the N.Y. Times best selling author Bruce Wilkinson entitled *A Life God Rewards.*

To order a copy of *Wealth Conundrum*, by Ralph Doudera, visit www.wealthconundrum.com

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

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