THE FULL SPECTRUM

Spectrum Financial, Inc.

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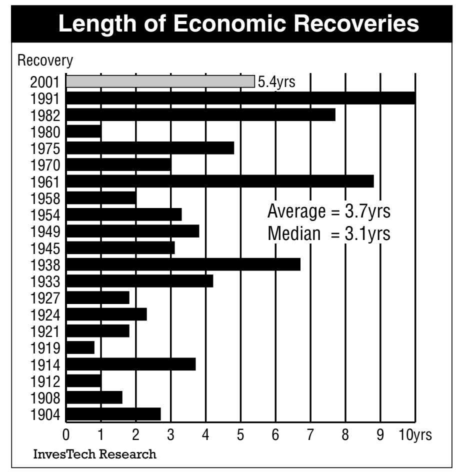
GENERAL MARKET COMMENTARY

The 3.5% loss in the S&P 500 Index and the 7% loss on the Emerging Market Index at the end of February was the worst one-day loss in nearly four years, and was a rude awakening after more than seven months of virtually uninterrupted advances with low volatility. It seems that people have forgotten about risk. This action certainly could represent a turn for the worse ahead, but history suggests that big one-day losses in a positive long-term market environment are likely to be buying opportunities rather than bear market beginnings. As it turned out, the market recovered and hit new highs. The market seems to be responding well over the short term, but risks to the economy remain high. From an economic standpoint, this recovery is getting to be a bit longer lasting than is normally historical. We are in the 6th year of economic expansion, which is already two years longer than the median economic recovery of the past 100 years. In fact only four of the previous 20 expansions have lasted longer than today's.

These risks remain: Housing seems to be having a hard time finding a bottom. Crude oil is back up pushing its highs again. Inflation is still worrying the Federal Reserve as the core rate continues to show gains.



Historically, we have a 20% chance of a soft landing, but for now, it looks like interest rate cuts are nowhere on the horizon as the Fed walks the tightrope of keeping inflation in check and the economy from slowing.

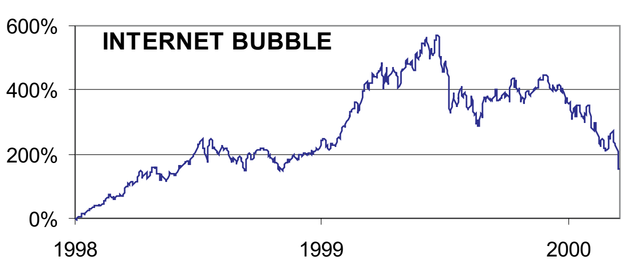
EVALUATING RISK

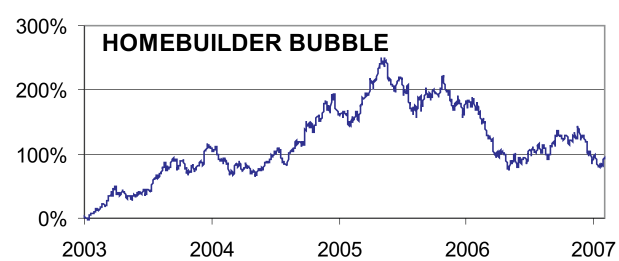
Markets have historically had psychological booms and busts since the beginning of time. The fear/greed syndrome will continue to drive investors into making emotional decisions at the wrong time. Human nature will always remain the same. Mania has always gripped the markets from season to season. Gold, tulip bulbs, real estate, Internet stocks, Japanese stocks—and could it now be China and emerging country stocks? Here is a sample of 2007 YTD (mid-April) returns for some smaller emerging country stock markets: Ukraine +59%, Croatia +52%, Serbia +95%, Turkey +25%, Nigeria +40%, Israel +18%, Poland, +24%, China +85%, Vietnam +33, Kuala Lumpur +25%, Russia +38%.

The following charts may tell an interesting story: the Internet Index from 1998 to 2001 and the Real Estate Homebuilder Index from 2003-2007 and lastly, check out the Shenzhen 300 China Index to see if there may be any similarities.

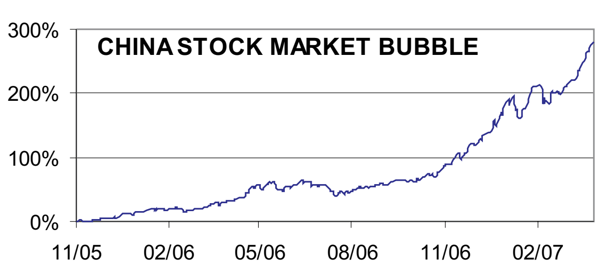
While market "bubbles" can continue a lot longer than predicted, they will all come to a very unpleasant ending that can last for years. For example, Japan's market hit its high in 1989, and today, 18 years later, it is still down 55% from its high.

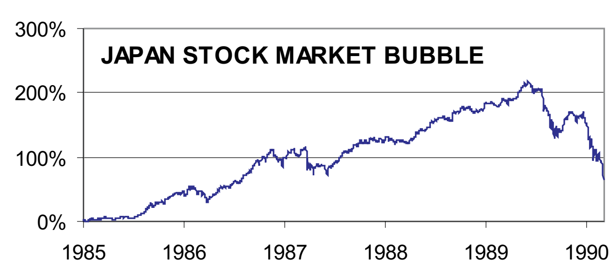
Knowing which markets to avoid and when to exit them is an important philosophy that Spectrum employs in its investment decision process. While we expect the markets to continue their bull market run, we always need to sit close to the exits when technical market conditions deteriorate.





Charts show percentage return.





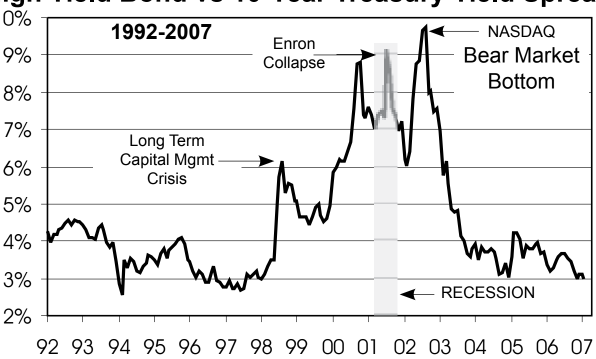
HIGH YIELD CREDIT SPREAD

The chart illustrates the difference in bond yields between high yield bonds and US government bonds for the past 15 years. When economic uncertainty prevails, the yield on high yield bonds goes much higher than on higher quality, safer bonds, due to the inherent risk of defaults on the riskier bonds. Currently, yields on high yield bonds are at historic lows, paying only about 3% more than government bonds. When this occurs, it generally means that the future potential returns for high yields is limited. You can see that the yield at the bear market low in 2003 was nearly 10% higher per year than government bonds. The same thing happened in the recession in the early 1980's, as well as in the 1990's. This is due to the fact that investors may become complacent about risk in a healthy market, but normally flee to safer investments when they see economic risk increasing. Therefore, the stable environment of today can change quickly if the markets sense that an economic "soft landing" may turn out to be a hard one. In 1998-2001, as the high yield spread climbed from below 3% to over 9%, high yield bonds had poor returns, even though the stock market remained strong. The Lipper High Yield Bond Index had a total return of -5.6% for a three year period of 1998-2001, while the S&P 500 had a total return of 40.4% for the same three years. Many investors, feeling like they were not making any money in bonds, moved to stocks at just the wrong time to catch the top of the bull market in stocks.

In January 2001, we wrote a special supplement in Spectrum's newsletter on the high yield opportunity existing then. We wrote the following about high yield bonds: "Occasionally we see an investment opportunity that comes along every decade." Over the following 36 months, the Lipper High Yield Bond index was up 36.7%.

Diversifying into other investment strategies is one risk reduction technique that should be used in a balanced investment portfolio. Also, be careful to adjust your portfolio based on risk tolerance, and not based on recent performance.

High Yield Bond vs 10-Year Treasury Yield Spread



With this in mind, the SFHYX fund is changing its name and slightly adjusting its strategy. The fund name will be Direxion Select Alternative fund. The sub-advisor, Hundredfold Advisors, is implementing a strategy to diversify out of using high yield securities exclusively, and supplement it with other alternative investment strategies. This will reduce exposure to only one asset class, and blend it with others that may be less directly connected to the overall stock and bond market direction.

PERSONAL PERSPECTIVE *by* Ralph Doudera

Four hundred years ago today, more than four months after setting sail, English settlers landed on a beach about five miles from my home in Virginia. Soon to become the first successful English colony at Jamestown, they landed and planted a rough-hewn wooden cross brought from England for the purpose of giving glory to God in their mission. The colonists kneeled in the sand around the cross as Rev. Robert Hunt led a prayer dedicating the new continent to the purpose of God, saying "…from these very shores the Gospel shall go forth to not only this New World, but to the entire world."

I think he might be shocked today to see the outcome of that prayer as it continues to unfold. The nation of the United States would be formed nearly 200 years later, and then 200 years after that, the Bible and prayer would be banned from public schools. I find it interesting that people are beginning to see that education without a moral compass leads to chaos. This month's *Time Magazine* cover read: "Why We Should Teach the Bible in Public School." The author, *Time's* senior religion writer, explained that a background in religion is a helpful tool for people of today, because it has so many implications in today's society.

> *Simply put, the Bible is the most influential book ever written. Not only is the Bible the best-selling book of all time, it is the best-selling book of the year, every year*.

Why are so many people offended by this idea? Is their position so tenuous that they fear someone may disagree with their own personal belief? If everyone in our public schools would have exposure to all of the world religions, it would give each person the opportunity to evaluate them and choose, rather than remaining ignorant.

In the process of earning a master's degree in Biblical Studies, I have realized that what the Bible teaches is relevant for my daily activities. The truths revealed through continued study become more and more applicable, helping me gain God's perspective of life's issues. And I certainly need that more often.

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

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