THE FULL SPECTRUM

Spectrum Financial, Inc.

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GENERAL MARKET COMMENTARY

The past summer quarter has been a volatile one as the sub-prime lending issues began to freeze up lending in an already battered real estate market. The Federal Reserve, in an unexpected move, quickly lowered the discount and fed funds rates which clearly indicates that they are more concerned about a recession than they are about inflation. The stock market took notice and began a rally in the S&P 500 Index of 15% within the next 40 trading days, and took the averages up to a new all-time high. A combination of issues is making it difficult for the Fed to chart a course with housing in the worst shape since the depression, the dollar plummeting, inflationary metals and oil hitting new highs, and the emerging markets rallying into the stratosphere. Can a Fed easing help here, or will it be too late, like it was in 2001 when they began dropping rates from 6.5% to 1.75% in less than a year?

Fed easing is historically bullish for the stock market. The age-old truism of "Two tumbles and a jump" suggests a high probability that stock prices will jump higher after the Federal Reserve has made two moves to ease borrowing rates.

The table shown illustrates a 3:1 ratio of upside potential to downside risk in the stock market over the past 50 years, after a second discount rate cut by the Federal Reserve. Two-thirds of the 2nd discount rate cuts have led to double-digit gains within the following six months, while only two experienced double-digit losses. This action still has risks, since the Fed is not easing as confirmation of a successful "soft landing", but rather in fearful panic of a "hard one". The real estate market is deflationary, so there is only so much that lowering rates can do for a housing depression. Even if mortgage rates were 0%, who wants to buy a house that will be worth much less next year?

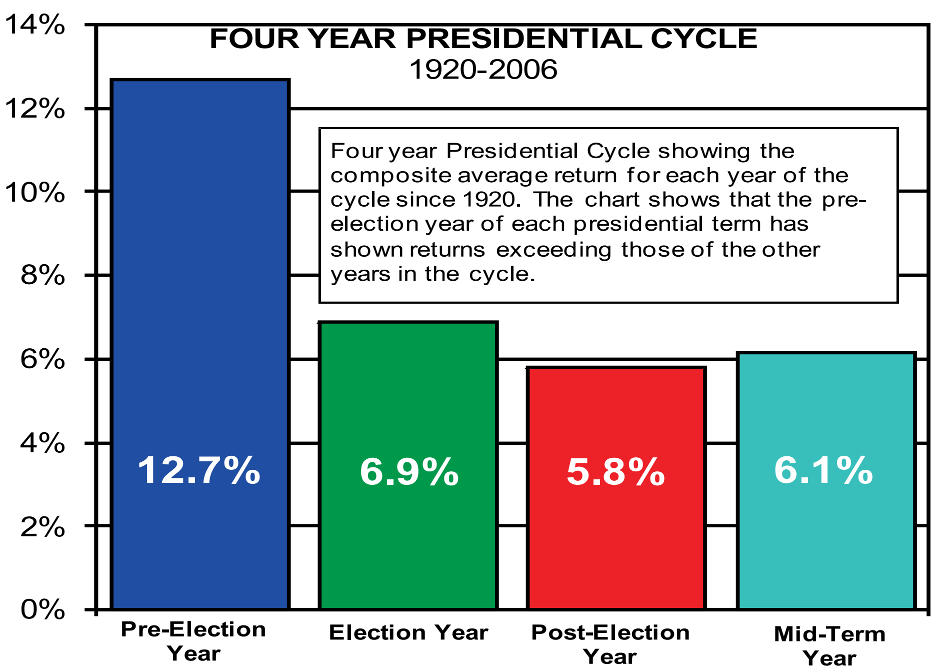
2nd Discount Rate Cuts (DJIA)

Cut Date	0-6 month Max % Gain/Loss
Apr 19, 1954	16.9 / -0.3
Jan 24, 1958	10.3 / -3.1
Aug 12, 1960	4.4 / -9.6
Dec 04, 1970	16.5 / -0.1
Dec 17, 1971	11.2 / 0.0
Jan 10, 1975	33.4 / -2.6
Jun 13, 1980	14.1 / -1.0
Dec 04, 1981	0.0 / -10.9
Dec 24, 1984	9.8 / -2.0
Feb 01, 1991	11.2 / 0.0
Oct 15, 1998	26.1 / 0.0
Jan 31, 2001	4.1 / -13.8
AVG:	**13.2% / -3.6%**

InvesTech Research

CAN THE PRESIDENT MOVE THE MARKET?

The Presidential Election Stock Market Cycle proposes that the last two years of a presidential term produce much higher gains than those of the first two years. The average stock market gain of the two pre-election and election years since 1833 has shown a 745.9% increase, compared to 227.0% for the two post-election and mid-term years (courtesy Stock Traders Almanac). Presidential administrations start the task of "taking care of business" by implementing any unpleasant economic policies during the first two years of their term and focus the last two years on winning their party's bid for re-election. As shown in the chart to the left, the pre-election year has on average outpaced the other three years since 1920. The market seems to be following this pattern from its 2006 mid-term year low, and we may look forward to the market continuing to follow this favorable pattern going into the 2008 election year.



INVESTMENT STYLES – DOES IT MATTER?

The investment community traditionally sorts companies into three main categories or styles: large cap, mid cap, and small cap. Important distinctions can be made when comparing the performance between these three styles, but especially between the large and small caps. Historically small caps have offered higher returns over a longer period of time. During periods of small cap out-performance, the investment climate tends to be considered more speculative as investors venture into this more volatile, higher risk but higher reward area. The large caps tend to out-perform the small caps during nervous periods and thus many are labeled "defensive" stocks.

The large caps and small caps tend to take the same path regarding overall direction but the movements by the small caps are usually exaggerated to the upside and downside depending upon the market environment. Given the longer-term upward bias of the market, the small caps, have offered the greatest returns. The large caps have narrowed the performance differential somewhat since 2006 as many of the larger companies perhaps are benefiting from a robust growth cycle due to overseas demand. It is difficult to say if this trend will continue since styles often experience cyclical leadership.

Investors may not want to needlessly switch between large cap and small cap based on short term performance, but should consider risk tolerance and longer term leadership. Spectrum offers several options for strategies that invest in large cap, small cap, or mid cap. Your representative can help you decide which style you should be invested in based upon your individual risk tolerance and investment objectives.

PERSONAL PERSPECTIVE *by* Ralph Doudera

This month I had an opportunity to travel around the world on a vision trip with the Haggai Institute for Advanced Leadership Training and see firsthand what is happening worldwide. The more I travel, the more I realize that the United States is not the center of the universe. Haggai Institute has recognized that the traditional role of the Western Missionary is obsolete, and the world is struggling without leaders to teach sound principles. The Christian Church is not a religion of the West, but has a significant number of followers in Korea, China, and India.

In fact, in Beijing at a private meeting with a prominent Chinese governmental official, I was surprised to hear him say that his biggest concern was the current rapid growth of Christianity in China and the declining interest in Chinese Communism.

Haggai Institute believes that the West has lost its global influence with its politics and moral decay, and needs a new method of training leaders — Nationals training Nationals. By selecting the most qualified leaders from within their own culture and training them at their facilities in Singapore, China, and Maui, each leader can then take back his experience and personally commit to train a hundred other leaders within his own country. This is a much more effective method which overcomes the hurdles of culture, language, influence, and cost. By selecting current leaders from their own country, and transforming them through training, they can then multiply their effectiveness with exponential growth.

Worldwide peace will only be established by implementing the tools of love and prayer. Haggai Institute ranks at the top of my list for effectiveness in changing the world for the better. To find out more, log on to www.haggai-institute.com.

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

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