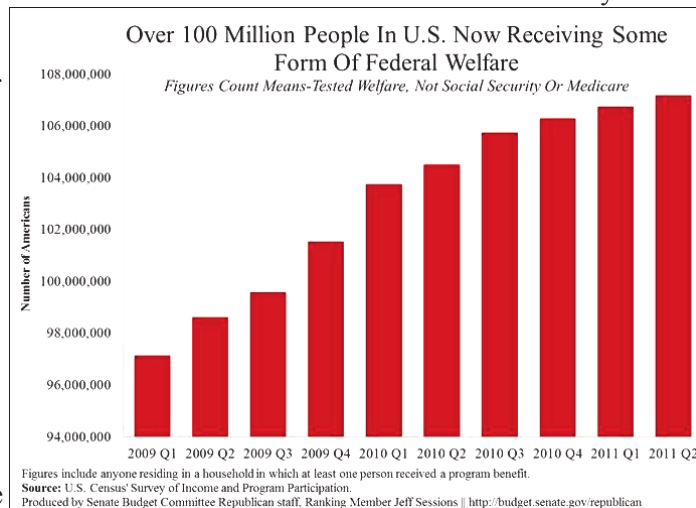


GENERAL MARKET COMMENTARY

The markets have been on a roll lately, because QE3 has injected liquidity into the weakening economy, and it has to go somewhere. Federal Reserve Chairman Ben Bernanke's action pretty much assures him of a job after the first of the year. While politics do not determine the future of the stock market, there is a direct link historically that the stock markets can predict who will win the White House. It seems that in almost 90% of the presidential elections over the past 112 years, the direction of the market in the two months preceding the election accurately predicted whether the incumbent party would retain control of the White House. A rising stock market indicates an improving economy, which means rising confidence, and this increases the chances of an incumbent's re-election. With the stock market nearly unchanged since

Labor Day, and two weeks until elections, it would seem that this election is in a dead heat, now that Governor Romney has momentum on his side as people reconsider the important issues. The issues do take the country in two very different directions.

The chart below is disturbing. The percentage of people now receiving money from the government has passed the 50% mark. Disability claims are soaring, because people are



finding that they can receive as much money from the government as from a job. If all these people vote with their wallet, it will direct this country on the same path as Greece, and much of Europe. This is contrary to free enterprise and personal responsibility, concepts upon which our country was founded. The "Fiscal Cliff" issue is the next major economic stumbling block we will need to address.

THE "FISCAL CLIFF"

By the time many of you read this newsletter, presidential election results will no longer be news, and we will need to focus on the next big crisis, the Federal Budget deficit. There are several ways to get out of this situation. Think of this just as we would a family budget with too much credit card debt:

- We can reduce our spending, but that does not lower our monthly payment to the credit card company. In fact, it is not even making the minimum required payment.
- We can increase our income by demanding a raise from our employer (increase taxes), but that might force him out of business (otherwise called economic recession).
- Give everyone a raise in order to pay our bills. (runaway inflation).

The only legitimate way out is to grow our way out by increasing wages through productivity increases, which cause tax revenues to increase without increasing tax rates. Low taxes help to do that. Why shouldn't everyone pay some tax? Isn't that what "fairness" is all about? I paid taxes all my life, including when I had summer jobs in college. Why should people who don't contribute to the system get to have the same say in government as paying citizens?

The \$16 trillion (\$16,000,000,000,000) Federal debt and projected trillion dollar annual budget deficits are on investors' minds now, as the fiscal cliff will be looming on December 31, when large tax increases and spending cuts will automatically occur if there is no agreement in Congress. It is estimated that only half of all Americans are paying any taxes. That means that each tax payer owes over \$100,000 of debt that continues to increase each year. The

The only legitimate way out is to grow our way out...

government must stop spending. There is so much uncertainty that businesses can't plan, and confidence is lacking, causing continued unemployment. Add to this the fact that the Federal Reserve has no more room to help if a recession comes next year. This economic expansion is already over four years old, and the average for the past century is 3.8 years.

Spectrum's investment strategies will depend a great deal on the election outcome and the direction our new leaders will try to take us. We are confident that our technical indicators will continue to show us when to increase exposure to risk, and when to back away. A buy-and-hold investment strategy at this point of the economic cycle may prove disastrous to an investor's portfolio.

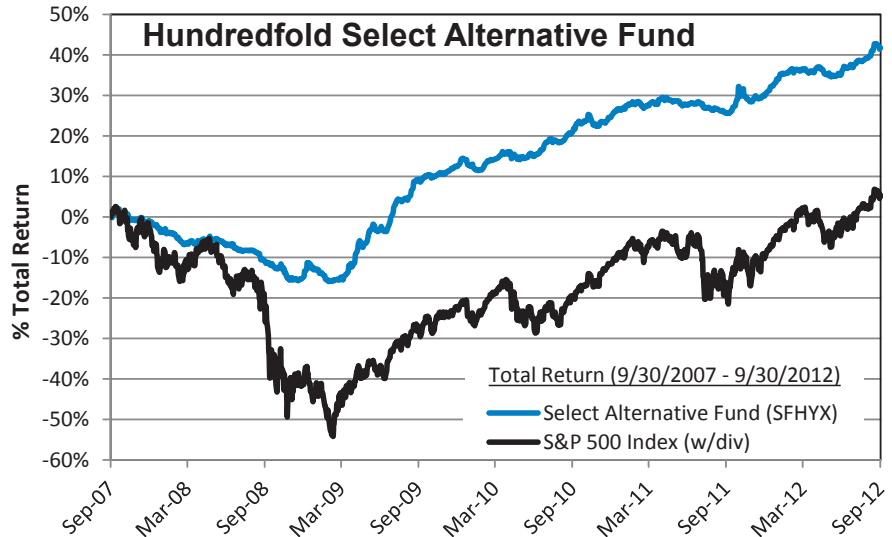
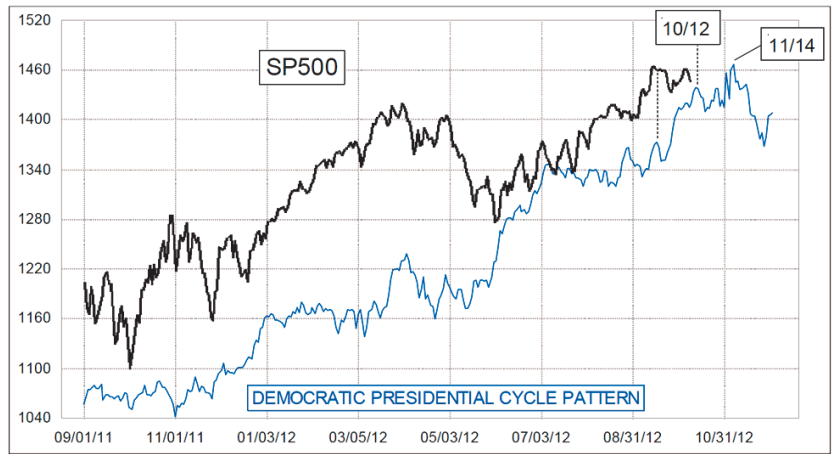
PRESIDENTIAL CYCLE 2012

Averaging the historical data for the 4-year election cycle, shows that the market typically firms up going into elections, and then reacts to whoever is elected. The reaction is historically stronger when the race is close, because the market cannot discount the unknown until it happens. The chart illustrates that if a Democrat is in the White House, the market should rally into mid-November before a correction.

But all bullish bets are off for the year following an election, as historically it has been the worst time to be invested.

The uncertainties of the next year should make the strategies of alternative investing of more interest to investors. Steady plodding always gives investors more confidence in uncertain times. The Hundredfold Select Alternative Fund, described in more detail on page 4, has had steady, consistent performance in a very volatile market environment. The annualized return for the past five years has been 7.3% per year, compared to the S&P 500 Stock Index of 1.1%, and has less volatility because it has very little exposure to stocks.

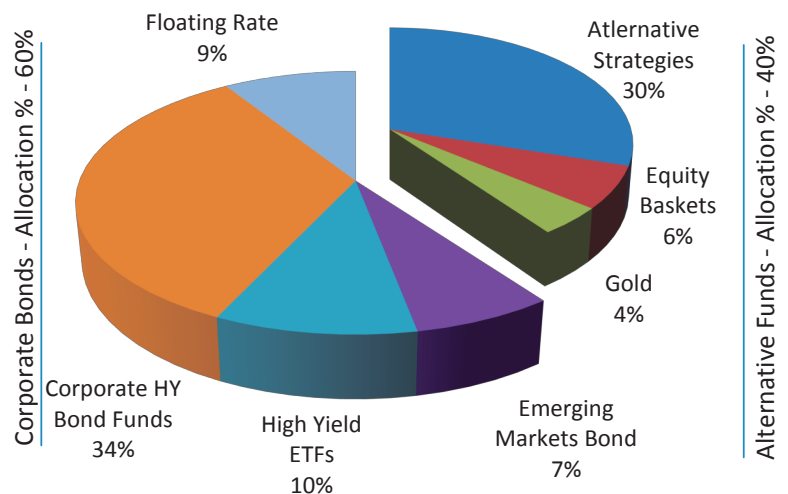
Return numbers assume reinvestment of dividends and were obtained from Bloomberg. The prospectus should be referenced for risks associated with those funds as well as costs, fund objective, and investment options. Past performance does not guarantee future results.



HUNDREDFOLD SELECT ALTERNATIVE FUND

Investors have been frustrated by the markets over the past several years due to the economic, credit, and political uncertainties. Investors continue to look for a place that is not directly correlated to the stock market, but still provides steady returns in a zero interest rate environment, which will likely continue for the next several years. The Hundredfold Select Alternative Fund (SFHYX) invests in a diversified portfolio of investment vehicles which are designed to complement each other and reduce stock market risk and volatility. It is suitable for investors who would like to have potential returns in excess of money markets, yet be less subject to stock market volatility. Currently the portfolio is modeled with a 60% allocation to actively traded high-yielding corporate bonds, and a 40% allocation to alternative investments. An example of the portfolio's positions is illustrated in the pie chart. The percentages are indexed to show relative allocation. Because of its low volatility, it may utilize leverage from time to time with a current target of 130% and still retain its conservative character. During favorable market conditions the portfolio may increase exposure, or it may eliminate exposure if needed. The 40% alternative fund allocation in this example (expanded pieces) has various funds in the portfolio. These funds add

non-correlated performance to the fund and are monitored and replaced as circumstances change and new opportunities present themselves. The chart on the bottom of page 2 illustrates the performance for the past five years (up 40%) compared to the S&P 500 (up 2.2%) according to Bloomberg. Morningstar has given Hundredfold Select Alternative Fund their highest "5 star" rating, and according to their publicized information, it ranks #1 out of 40 Conservative Allocation Funds over the past five years.



PERSONAL PERSPECTIVE by Ralph Doudera

With terrorist attacks currently in the news, the question on everyone's mind is "how can we win the war against a fanatical, suicidal enemy who believes their god instructs true believers to mass murder infidels?" There is no such thing as "winning a war". Only peace can be won. Jesus said "Blessed are the peacemakers: for they shall be called the sons of God". (Matthew 5:9). Terrorism in the name of Islam, is fundamentally an idea. Only a better idea will defeat it.

Frank Laubach, one of the most noble personalities of the 20th Century said this in a letter he wrote about Muslims killing Christians: "Their faith calls them to do the will of Allah. Unless I can live to do the will of God as passionately as they do, I have no right to share God's love with them". He knew what God's will was—to love your enemies. To bless those who curse you, do good to those who spitefully use you.

I am not a pacifist. A strong military is essential to keeping world peace. There are times that going to war is the only solution as was demonstrated in World War II. But the weapons of love and prayer should be our first line of defense. Jesus said "...love your enemy and pray for those who persecute you, so that you may be like your Father in heaven." Matthew 5:44-45

Several years ago I went on a missions trip to Vietnam with International Cooperating Ministries (ICM), an organization who partners building churches around the world. A fellow pilgrim on this mission was a man who had not traveled back to this country since he had dropped bombs on the local Vietnamese people. Last week we met again as he told me that by sponsoring the construction of a church in that community in Vietnam, he felt that he had made peace with himself and them in the very best possible way.

In a separate and quite different trip I was invited to join a small group with the Haggai Institute to personally meet the president of Taiwan, Chen Shui-bian. Dr. Haggai centered his remarks around talks of peace by using weapons of love and prayer.

Would anyone look at my life and be motivated to want to believe what I believe? Do I follow Jesus' teaching to "let your light shine before men that they may see your good works and glorify your Father in heaven?" Matthew 5:16

Our purpose in life is to glorify God and enjoy Him forever. Just as darkness is extinguished by light, hatred will be extinguished by love, understanding, and forgiveness. I have so many opportunities.

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

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