

GENERAL MARKET COMMENTARY

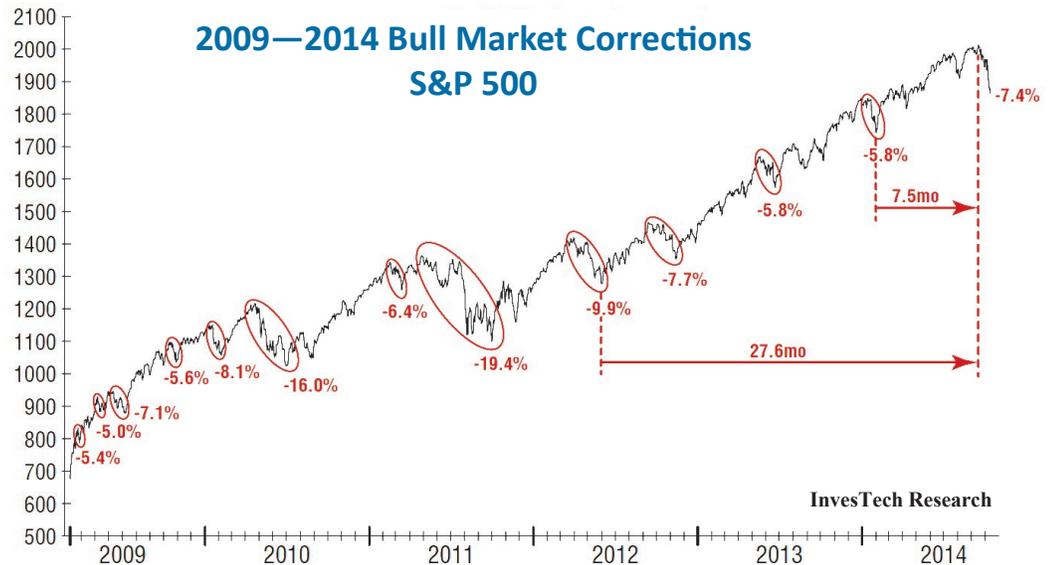
The first three quarters of 2014 showed a large variation in performance depending upon the sector. While the average stock fund was up 2.8% for the year, small cap growth was down 5.4% and Europe was down 4.1%. Then the October sell-off happened. The S&P 500 dropped by 9.9% in 2 ½ weeks and all sectors except high quality bonds were down. Does this mean that the bull market is finished? The chart below shows that corrections in a bull market come unpredictably. The frequency of a 5% correction since 1932 is about every 7 months, and about every 25.7 months for a 10% correction, so we have been overdue.

Positives: The market seasonality is positive in the last two months in an election year.

Consumer confidence is rising. Purchasing Managers Index is rising. Leading Economic Index is rising (lead time from LEI decline to the start of a recession has been at least eight months). A 10% correction is behind us, causing over-optimistic investment sentiment to reset to a lower level. Low interest rates remain. Energy prices have dropped significantly, causing consumers to have substantially more cash, not only from gasoline price drops, but the

pricing of many consumer objects that use petrochemicals in their production. There is a possibility that election results could cause Republicans to gain control of the Senate and remove gridlock from Washington. Unemployment continues to drop. A recent drop in long-term mortgage rates may also encourage new home sales.

Negatives: The Federal Reserve is no longer injecting capital in the form of purchasing new loans. The threat of a major terrorist attack is high (radioactive or virus laden bombs spread by drones, or mass assassinations), which could cause us to slip very quickly into recession. The unwinding of excess borrowing of funds for margin could cause a lack of liquidity in various financial debt markets.



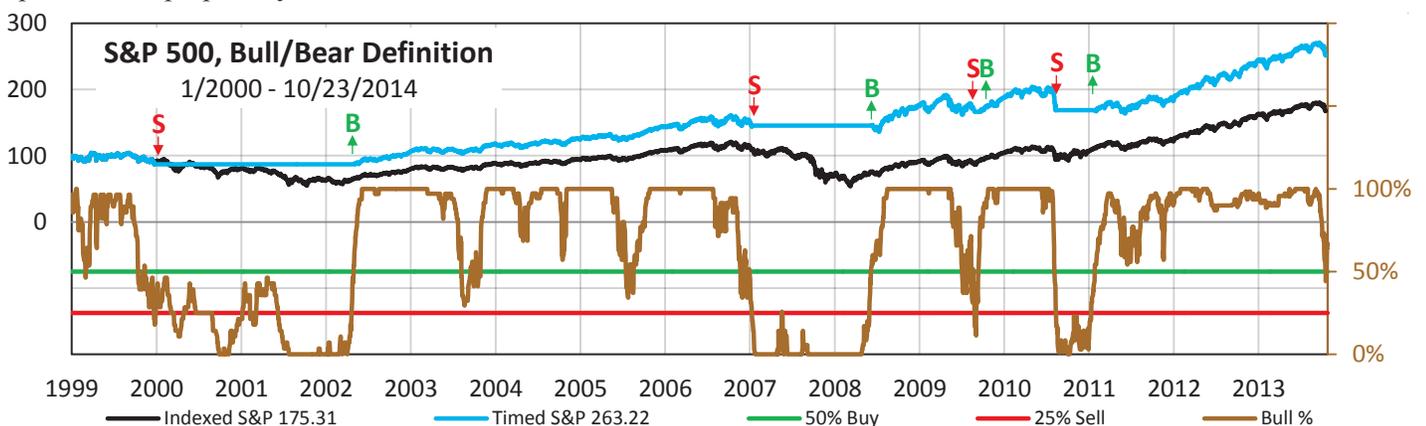
BULLS & BEARS

Spectrum has developed a propriety indicator that shows when to step to the sidelines to reduce equity exposure. This chart is composed of many indicators, and illustrates **buy** and **sell** signals during times of low and high market risk.

In the lower section of the chart, the brown line represents our propriety bullish indicator. When the

brown line falls below the **red** “25% sell line”, a sell is triggered. When the **brown** line rises above the **green** “50% buy line”, a buy is triggered.

This last sell-off came close to a sell signal, and we will continue to monitor these indicators for investment risk exposure.



PERSONAL PERSPECTIVE by Ralph Doudera
Loss is a word that many of us fear and few of us can evade. It impacted Jerry Sittser when a tragic accident claimed his mother, his wife, and his young daughter. In his book *A Grace Disguised* he speaks of how the soul grows through loss.

We all experience loss: Health. Relationships. Finances. What we do with these circumstances is important. If my soul aches, I may be on a journey that can stretch my faith, my understanding of the meaning of life, my knowledge of God. Sorrow can increase my capacity to love life and others and experience joy if I allow it, not just after the darkness but even in the midst of it. Deep sorrow often has the effect of stripping life of pretense, vanity, and waste, forcing me to ask basic questions about what is important in life.

Regret is inescapable in an imperfect world, and many losses can never be reversed. But regret is not healthy for healing. For positive changes to occur, I must let go of the loss itself and embrace the good effects that the loss may have on my life.

This leads us to the challenging concepts of forgiveness and grace. The Lord's Prayer states: *"forgive us our*

trespasses as we forgive those who trespass against us". They are connected. Ask God for his forgiveness, and we in turn are compelled to forgive others who have offended us — and also not hold a grudge against God for our self-centered perception of unfairness. Un-forgiveness is different from anger, grief, or the desire for justice. It is destructive to our soul. More destruction has been done from un-forgiveness than from all the wrongdoing in the world that created the conditions for it, whether it is Middle East conflict, or family Thanksgiving dinner conflict. God gives us the grace to forgive as we begin to understand how He has forgiven us. Grace is unmerited favor, or actually getting the opposite of what we deserve.

If we insist that life is fair, we will not only be disappointed, but we will become bitter. The experience of loss does not have to be the defining moment of our lives. Instead, the defining moment can be our response to the loss. It is not what happens to us that matters so much as what happens in us.

Jerry Sittser states: *"So, God spare us a life of fairness. To live in a world with grace is better by far than to live in a world of absolute fairness... it will give us life, even in our suffering."*

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

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