THE FULL SPECTRUM

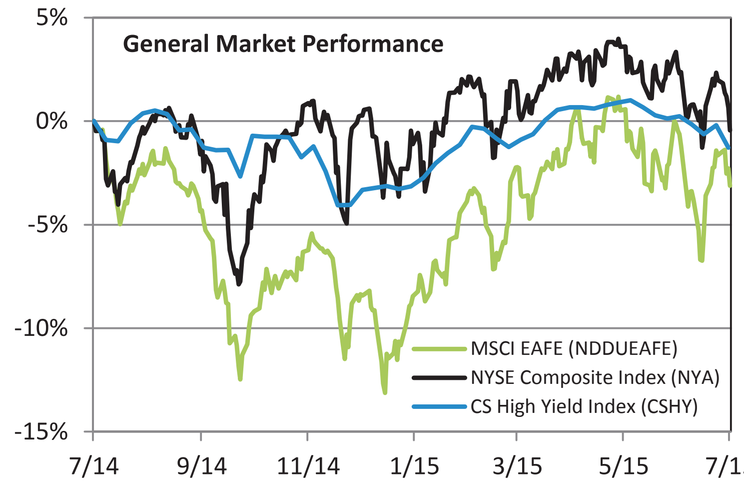
Spectrum Financial, Inc.

July 2015

GENERAL MARKET COMMENTARY

The financial markets at this juncture are difficult to assess as there is no historical precedent for where we are at this time. Interest rates will soon be going up. The world has become so connected that risk in one area of the globe becomes intertwined with everyone else. Market internals have been deteriorating all year, with the market moving sideways making little progress in any direction. While some individual sectors have sold off, others have surged higher and then vice versa as excess liquidity chases from one market to another. The chart to the right illustrates performance for the past year of the New York Stock Composite Index (NYA), the Credit Suisse High Yield Bond Index (CSHY), and the Morgan Stanley International Stock Index (EAFE). As you can see not much money is being made this year.

Near zero interest rates implemented by the Federal Reserve have squeezed most of the returns out of lower risk income instruments, making investors reach into higher risk categories. While this party continues, investors should lower their expectations, because when the financial engineering unravels, we believe that it could be very damaging for investors who do not recognize levels of risk inherent in the financial system. We remain committed to sitting close to the exits for clients, as our investment strategies will always look to risk management as a primary objective. As active strategy investors, we believe that there is still money to be made with our risk management overview.



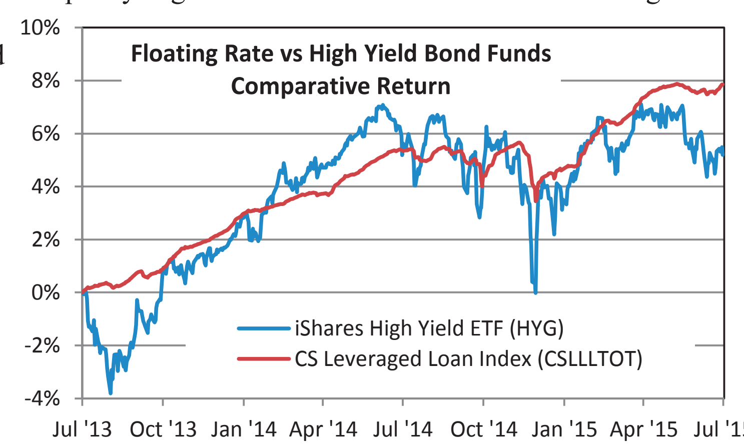
LEVERAGED LOANS AND FLOATING RATE FUND OPPORTUNITIES

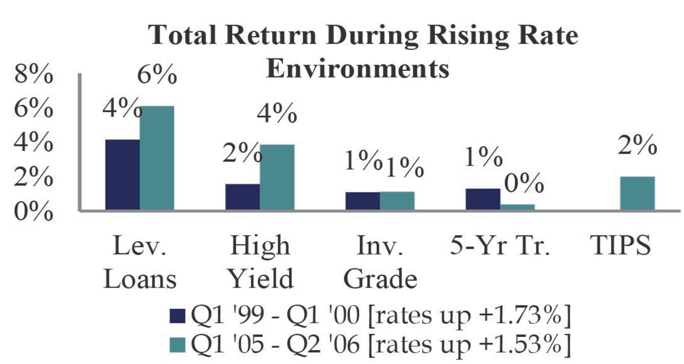
In today's market of low interest rates and slow growth, leveraged loans offer a unique diversification option for fixed income portfolios due to attractive rates combined with seniority of credit position. These investments are secured corporate loans made to a higher yield company, and rank ahead of the company's unsecured high yield bonds. They offer a floating rate that can take advantage of rising interest rates, which we currently see on the horizon, by increasing a company's rate as market rates increase.

These investments offer strong and stable current income in both high and low interest rate environments, superior credit position due to being in a senior position, and lower volatility of price thanks to removal of most interest rate risk as well as credit risk. For example, the upper right chart illustrates the return and volatility of the Credit Suisse Leveraged Loan Index (CSLLLTOT) compared to the iShares High Yield ETF (HYG).

In addition, since rates can adjust upward in periods of rising interest rates, they have outperformed other fixed income securities as is shown in the chart to the right.

We are able to select and invest in these funds inside the mutual funds that we manage. There remains, however, a time to leverage these bonds and increase exposure, as well as a time to sell them and go to a safe cash position. By monitoring these investment alternatives, we continue to be conservative investors when risk increases, yet we maintain liquidity to go to cash when favorable conditions change.





Leveraged Loans: A Primer, *Sankaty Advisors*. www.sankaty.com

HIGH YIELD BONDS AND RISING INTEREST RATE RISK

It is likely that the Federal Reserve will finally raise interest rates in September of this year for the first time since 2006. Rising interest rates generally affect the bond market by causing prices to drop, since newly issued bonds would have a higher yield, causing existing bonds to be less attractive. This rate rise tends to affect the highest quality bonds more than lower quality bonds; and longer maturity bonds more than shorter maturity.

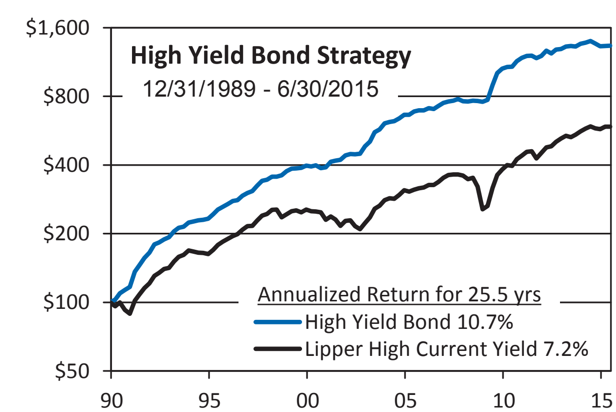
This chart illustrates every period of rising government bond rates for four or more quarters since 1982. These results show that while government bonds can have losses due to interest rate risk, high yield bonds can have gains over the same period. The primary reason for this is that interest rates generally increase when economic indicators are improving, causing government bond prices to fall. However, an improving economy reduces the risk of owning high yield bonds because they should strengthen as their credit rating improves. High yield bonds act more like stocks than bonds in a favorable economic environment. This is consistent with the Federal Reserve's commitment to keep rates low until the economy is stronger. We still believe that high yield bonds should have more profit potential, as long as a recession remains a low probability. Recession increases bond defaults and investors migrate to higher quality bonds. Moving to a cash position when a recession becomes likely, enables us to keep principal intact. Then, after they sell off, we have the opportunity to repurchase at lower prices. Currently high yield bonds are paying a yield of 4.7% more than government bonds.

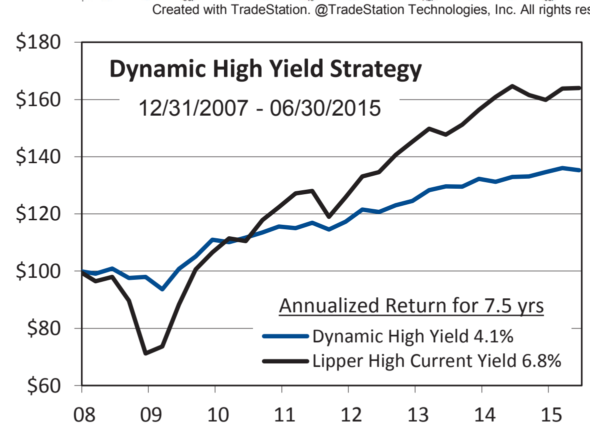
Period Ending	# of Quarters with Rising Interest Rates	Annualized Return (Including dividends) CSFB High Yield Index (CSHY)*	Annualized Return (Including dividends) 30-Year Government Bonds (GT30)*
Jun-84	7	2.4%	1.8%
Sep-87	5	5.2%	-7.0%
Dec-94	5	2.7%	-6.5%
Mar-97	5	11.1%	-3.0%
Dec-99	5	4.9%	-20.7%
Jun-04	7	20.6%	0.8%
Jun-06	4	5.0%	-5.7%
Mar-10	5	46.6%	-9.1%
Jun-13	4	9.2%	-5.3%

The CSFB High Yield Index (CSHY) is designed to mirror the investible universe of the $US-denominated high yield debt market. *Data obtained from Bloomberg. Green bars indicate positive returns; red bars indicate negative returns.

HIGH YIELD BOND PERSPECTIVE

Spectrum focuses on *steady plodding* to bring emotional stability and help investors avoid worry of substantial loss. With domestic equities having an extended bull run, it is easy for investors to forget the financial and emotional effects of unforeseen risks in exchange for exciting returns. Spectrum's purpose is to manage risk, but produce steady non-volatile returns. The chart on the right shows buy and sell signals for our High Yield Bond Strategy, and illustrates the consistent avoidance of drawdowns. Below are charts illustrating actual performance of both our High Yield and Dynamic High Yield Strategies for over 25 years. "Steady plodding brings prosperity."





High Yield Bond and Dynamic High Yield Strategies assume Reinvestment of Dividends and $100 Original Investment for the periods indicated. Performance numbers were selected from client accounts having no purchases or withdrawals during the year, and may have been obtained from personal or related accounts. The averages used represent actual performance after Spectrum's annual management fees and are non-weighted averages representing mutual funds using that trading system. Fees for all accounts are assumed to be 0.50% per quarter. Past performance does not guarantee future results. Spectrum High Yield Index is an equal weighting of 15 of the largest high yield bond funds' daily net asset value as tracked by Fast Track database. Numbers are adjusted for dividends, and sales loads are not included.

PERSONAL PERSPECTIVE *by* Ralph Doudera
Pastor Rick Joyner's perspective is that when the Supreme Court declared same-sex marriage to be a constitutional right, it was a direct frontal assault on both religious freedom and the Constitution of the United States, undercutting the very foundations on which they stand. As the four dissenting justices pointed out, the Supreme Court does not have the constitutional authority to make this decision. The authority was given to Congress, not the courts. We now suffer under the very tyranny that our founders warned about if the courts ever presumed this authority. Regardless of our position on same-sex marriage, we need to be very concerned about the power of government dictated through appointed and not elected judges. Nowhere is any court, including the Supreme Court, given authority to determine if a law or action is constitutional or has been given authority to define social issues such as marriage and family. The hubris of the Supreme Court to change the definition of marriage, having been universally accepted in civilized nations for six thousand years of recorded history, is not only shocking, but an unprecedented level of arrogance by the Court.

All devout Christians, Muslims, and Jews base their faith on the written word that they hold to be the revelation of God for those who serve Him by seeking to obey Him. All three major religions have a clear definition of marriage in their written word, and on this all three are in agreement. I have friends, neighbors, or family members who are of different persuasions, yet I choose to love and respect them. I appreciate the freedom in this country to do what I believe, as well as openly speak my opinion. There are two separate issues: Government tyranny and personal rights. One group's rights should not take away the rights of another.

We must each personally resolve what we will do about the issues. For the political issues, we must vote. For the spiritual issues, Christians must take positions that may be politically incorrect. The Supreme Court does not have authority over the Supreme Being. Christians are commanded to respect and obey the laws of civil governments until they conflict with the laws of God. Then they must obey God rather than men. This test has come frequently in history, and is a basic determining factor in revealing who we are really worshipping. My Bible is my owner's instruction manual, and I will continue to search it for insight into life's challenges.

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