

GENERAL MARKET COMMENTARY

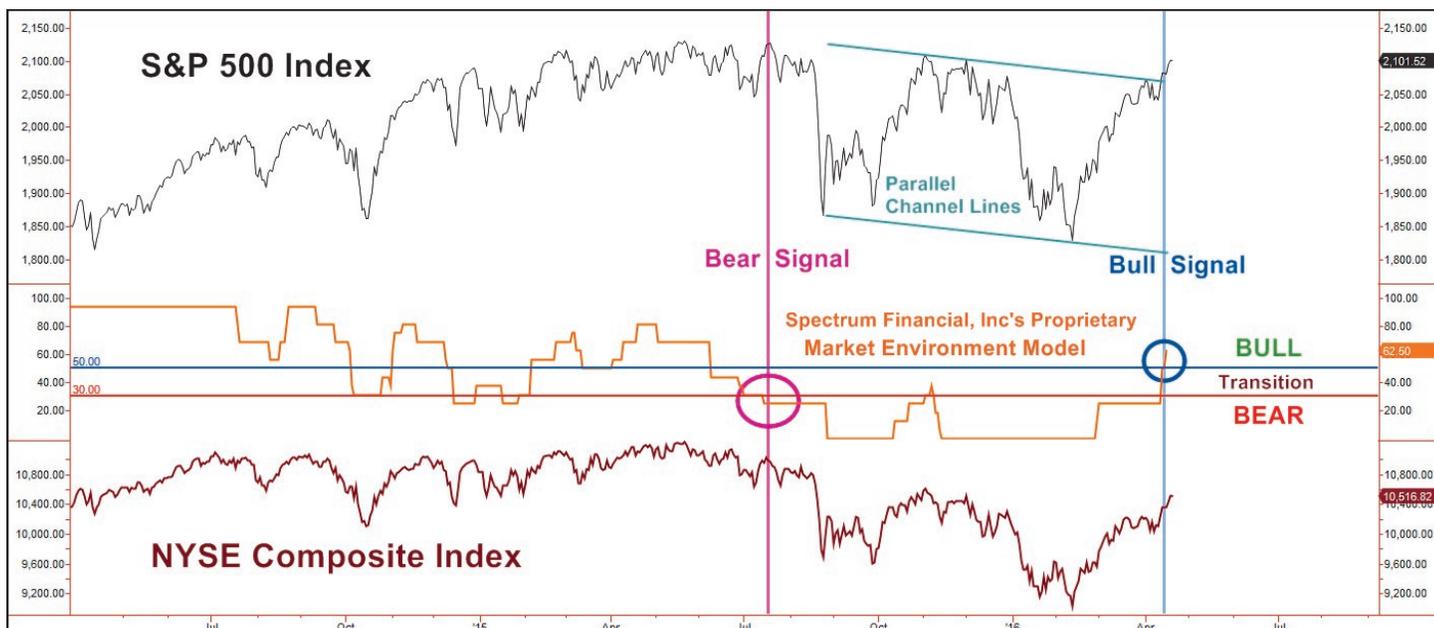
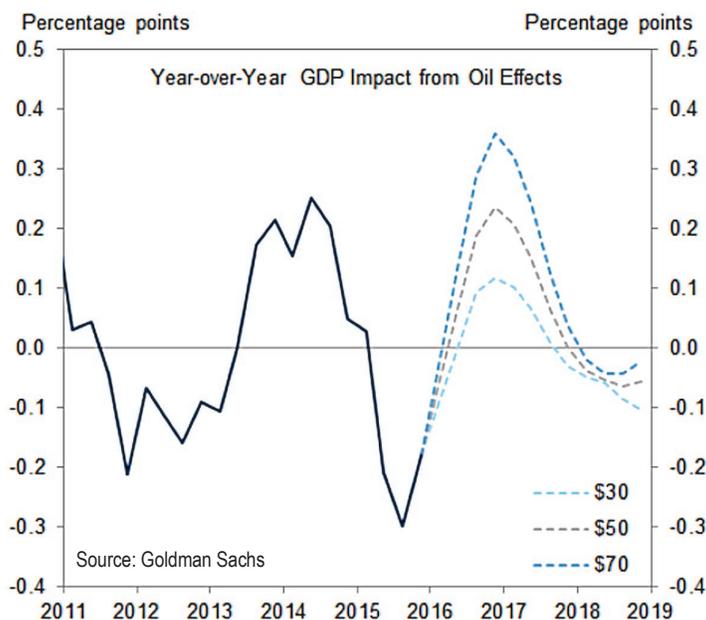
Stocks started this year with a waterfall decline that turned into the worst 6-week January start in Wall Street history. This was likely due to the perception that the Federal Reserve was hinting at four more rate hikes in 2016. When they seemed to change their minds, the market took off and retraced the losses. At the end of April, the stock market has become the second longest bull market in US history. Only the tech bubble market in the 1990s lasted longer. Opinions are mixed as to whether we are in a bull or bear market, as prices peaked over a year ago. Historically, a bear market has seen a correction of 20% over a period of approximately 9 months. A case could be made that we have conceptually already seen this on the New York Stock Composite, which dropped over 18% from May 2015 to February 2016, a 9-month period. Lately, the market has been acting stronger than the current fundamental evidence, but the market always looks forward and leads the economy.

High yield bonds, after dropping 13% in the past year, have rallied back to make up half of those losses, and are now in sustained uptrends. Further gains should continue for this asset class unless signs of a recession become evident. If that should happen, we will move investors back to the safety of cash.

Our proprietary Market Environment Model has recently moved back into “Bull Market Environment” after having been in “Bear Market Environment” since July of 2015 (see bottom chart). The model goes beyond the simplified traditional definitions of market loss and gain. We believe better insight into the market’s health can be derived from a mixture of various factors from categories such as breadth, sentiment, trend persistence, and leadership measures.

While technical action has been favorable, some risks remain, including high valuations, lower corporate earnings, declining margin debt, and potential interest rate hikes by the fed.

It seems that the stock market has been following the price of oil. While many believe that lower oil prices result in better economic growth, that is not necessarily the case. Goldman's economic model that looks at 3 trajectories for crude oil prices shows a surprising result. A \$70/bbl oil price will result in stronger near-term US growth than if crude oil falls to \$30/bbl. (see chart above)

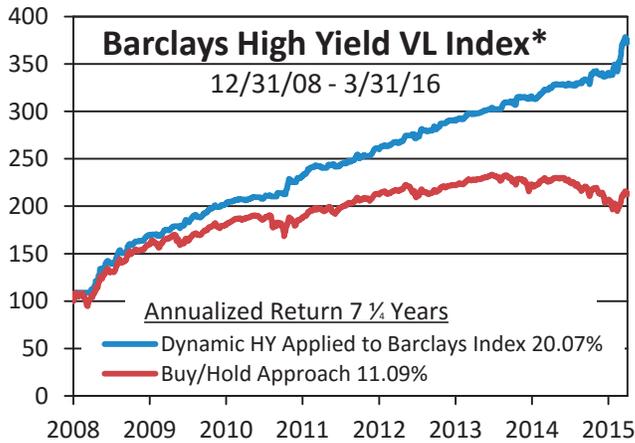


DYNAMIC HIGH YIELD TRADING SIGNALS

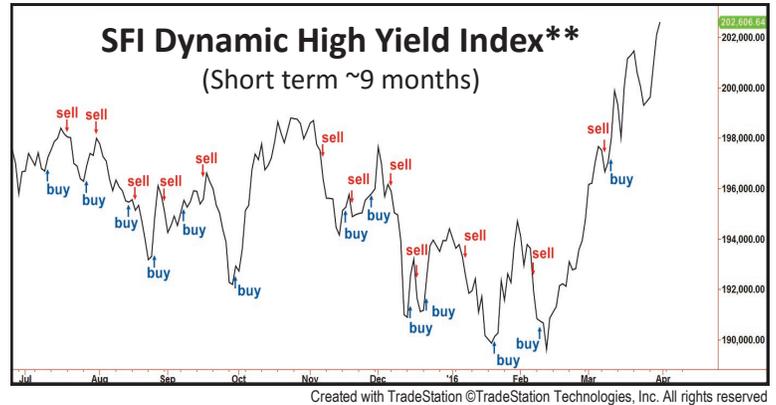
The lower left chart illustrates Spectrum's short-term high yield trading strategy. Active trading minimizes losses, but allows profits to grow in a steady manner. By trading funds that allow short term trading, we are able to produce steady returns with less risk.

The lower right chart illustrates our recent actual trading signals, which are applied to the SFI Dynamic High Yield

Index from 12/31/08 to 3/31/16. You can see that Spectrum would have significantly outperformed a buy and hold approach with much less risk. While we cannot trade an index, we have traded other open-end high yield funds, which allow frequent trading. Results have varied depending on the fund used, but show consistently steadier returns than a buy and hold approach.



Barclays High Yield VL Index: This benchmark includes publicly issued U.S. dollar denominated non-investment grade, fixed-rate taxable corporate bonds that have a remaining maturity of at least one year, regardless of optionality. The bonds are rated high-yield (Ba1/BB+/BB+ or below) using the middle rating of Moody's, S&P, and Fitch, respectively (before July 1, 2005, the lower of Moody's and S&P was used). Included issues consist of only the three largest bonds from each issuer that has a minimum amount outstanding of \$500 million or more (face value) and less than five years from issue date. ****SFI Dynamic HY Index** is comprised of an equal weighting of the NAVs for FYAIX (Access Flex High Yield Fund) and RYHGX (Rydex High Yield Strategy Fund) mutual funds.



PERSONAL PERSPECTIVE by Ralph Doudera

Last month I returned home from my first visit to the Holy Land in Israel with a better perspective. Seeing the places I have read about all my life made them more meaningful and brought them alive for me. After studying the history of civilizations that have been around for thousands of years, I felt insignificant and somewhat intimidated being from what I imagined was a great country, but only a few hundred years old. Yes, there are cultural problems which are centuries old, and as the world becomes smaller due to globalization and technology, integration of people groups will become more prevalent. But as I study the history of the kings of Israel, I find that when the king honored and served God, the people prospered, and when the king did not honor God things went very wrong. Examples in both the Old and New Testament illustrate this concept. The very first of the Ten Commandments states *"You shall put no other gods (idols) before Me"* (Deut.5:7). An idol is anything which takes priority over serving God first. In the New Testament the Lord's Prayer says it in a different way: *"God, establish your Kingdom in my heart today where you are King and I am your servant"* (paraphrased Matt. 6:10).

With political elections in the forefront of people's mind, everyone wants to elect someone to save them from their problems. This is exactly what the Jews were looking for 2000 years ago when the people thought that Jesus might be that solution, deliver them from Roman rule, and solve all

their problems. Unfortunately, there will never be a political solution. Jesus came to save people spiritually, not politically. This disappointed many who expected Jesus to be their political and economic savior. Politics can only legislate, but not change the hearts of men. Are things any different for me today in a supposedly democratic society? I am not looking for a political solution for my problems as they are rooted in the sin nature of all mankind. Jesus holds the key to my spiritual problems as this is the place where I need a savior. The Bible says *"If we say that we have no sin, we deceive ourselves, and the truth is not in us. If we confess our sins, he is faithful and just to forgive us our sins and cleanse us from all unrighteousness."* (1 John 1:8-9) While we cannot be assured of escape from life's difficult circumstances, we are given a way to deal with them: Confession. And then start over.

My education has helped me deal with life's many challenges. A degree in Mechanical Engineering has helped me understand how things work. A master's degree in Finance and Management has helped me figure out practical issues of money and business. A Biblical Studies master's degree put me on the path to understanding God and how His rules work, and introduced me to a personal relationship with Him. This relationship is where I find my answers and find peace in a fragmented and dysfunctional world. I find that the older I get, the less dependency on government I want, and more dependency on the teachings of Jesus.

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

Spectrum Financial, Inc. is a Registered Investment Advisor. The Full Spectrum is published quarterly for its investors and account executives. This publication is not intended to offer or solicit investment advice, nor should anyone act upon any suggestions made herein, without individual counseling from your account executive regarding risks involved. There is no guarantee that the recommendations of management will prove to be as profitable in the future, as they have in the past. The information presented in this issue has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. A copy of Spectrum's current written disclosure statement discussing advisory services and fees is available upon request. *All rights reserved, please notify when quoting.*

