



# THE FULL SPECTRUM

Spectrum Financial, Inc.

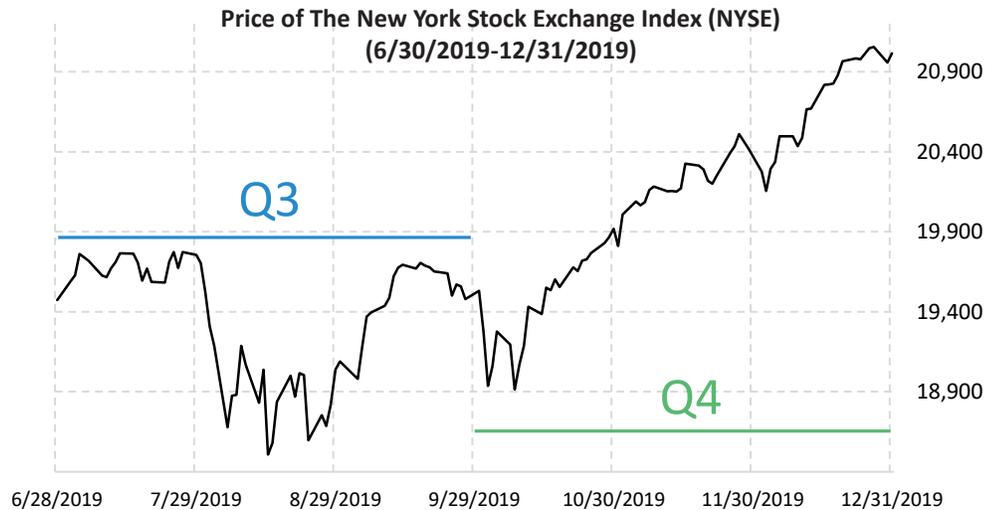
January 2020

## GENERAL MARKET COMMENTARY

In the last quarter of 2019 sentiment shifted dramatically, becoming more bullish which resulted in a low volatility rally in risk assets such as equities and select bond classes. This is contrasted by the back and forth sentiment in the previous quarter between fear and enthusiasm.

Headlines related to politics, stock valuation, and the global economy continued, however, investors appeared to lose interest or at least became used to the rhetoric and thus desensitized. The transition in sentiment is reminiscent of “Peter Wolf” in which the crowd went through a series of emotional reactions until finally ignoring Peter’s claims. This is illustrated when the NYSE saw decreased volatility and began a well-organized uptrend. It is easy to get caught up in taking sides, whether the economy will strengthen or weaken, if

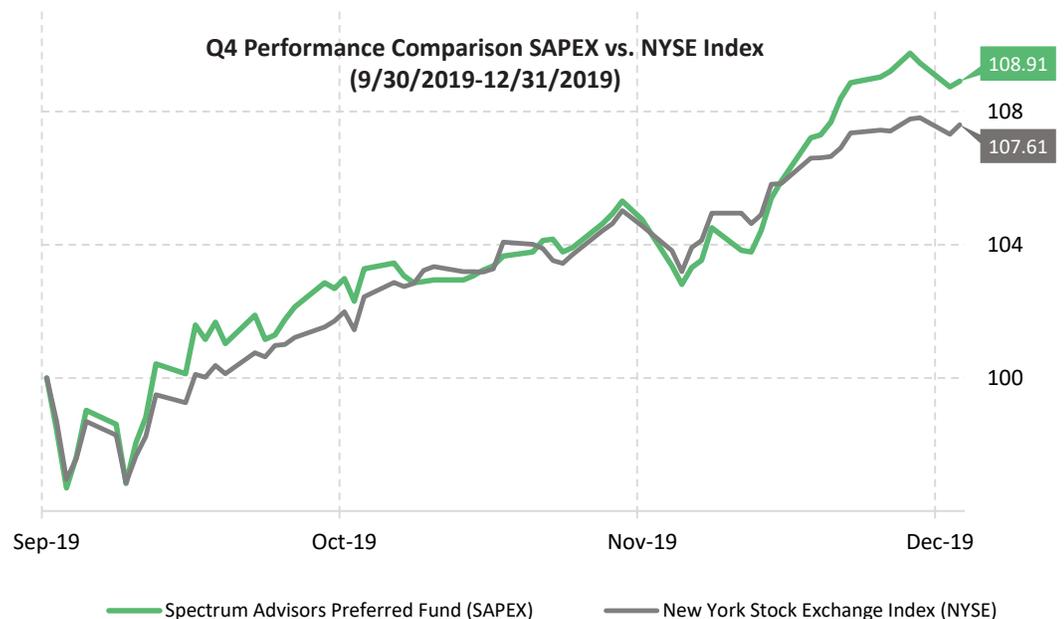
stocks are over or under valued, or the sides of politics. The importance of tracking changes in overall investor attitudes versus micro analysis of these categories may seem logical at first but often prove futile. Investor sentiment creates the trends and opportunistic directional changes important to our portfolio management style.



## A STRONG WIN FOR SPECTRUM EQUITIES

The Spectrum Advisors Preferred Fund (SAPEX) finished the quarter up 8.91%, up 27.65% for 2019, and had a 3-year annualized return of 12.04%. That was enough to place the Fund in the top 2% within Morningstar’s Tactical Allocation category in 2019 and the top 4% in its 3-year annualized ranking. Early in the 4<sup>th</sup> quarter, the Fund added positions in large-caps, primarily through NASDAQ 100 and S&P 500 futures. Russell 2000 (small-cap) and emerging markets were periodically traded. Late in the quarter, equities began to wave warning flags of being extended though our momentum indicators still showed strength. Stretched investor enthusiasm, however, can lead to increased volatility which led the Fund to take small steps to address such risks while maintaining the desired exposure and portfolio mix to respect the stock market’s major uptrend. This nimble management style contrasts with buy and hold portfolios. With the bull

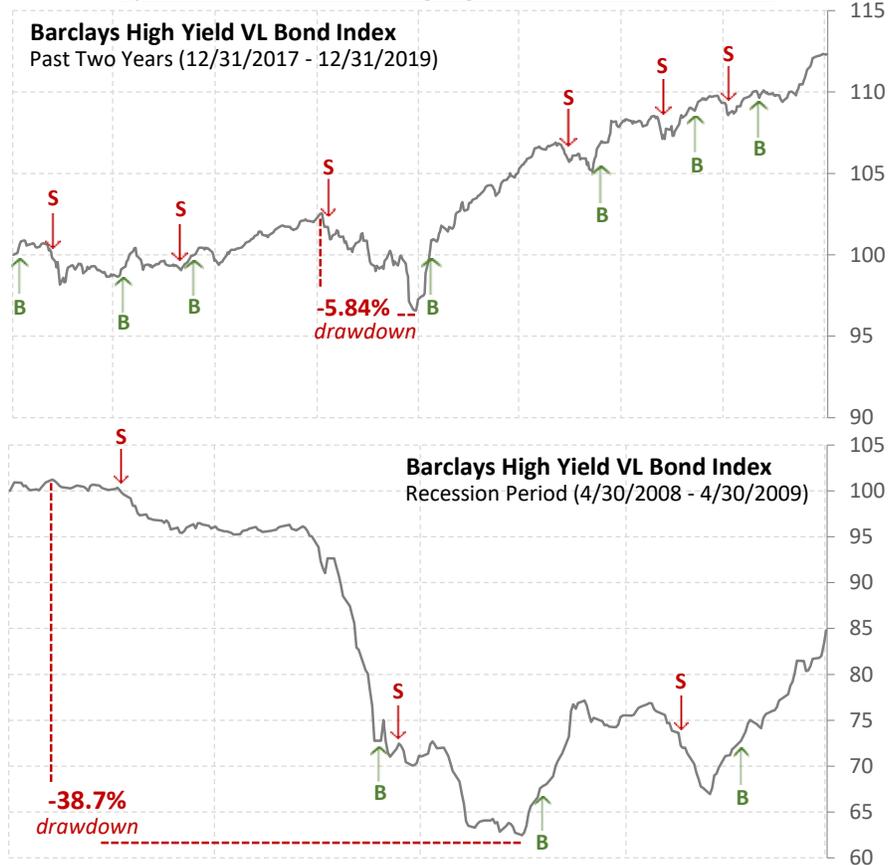
market going into its 12<sup>th</sup> year, the next bear market is looming. Losses can be quick and deep. You may recall the S&P lost 37% in 2008 alone and that was not even the entire bear market which lost more than 55%. The Fund’s objective is to balance return with risk management. Shorter-term tactical moves allow this fund to navigate market changes without sacrificing its objective.



## HIGH YIELD BOND NOSTALGIA

Spectrum has been successfully trading high yield bonds for over 30 years now, and occasionally we underperform the high yield index we track for short periods of time, but not for longer periods. Last year was one of those years when the index was up more than our performance. We want clients to note that our primary objective are steady returns with limited risk. These charts illustrate our strategy of risk reduction by comparing the past two year's signals (top right chart) with those of the recession in 2008 (bottom right chart). Recessions cause high yield bonds to drop in price due to increasing defaults, and as the chart illustrates, the Barclays High Yield VL Bond Index dropped by -38.7% for buy and hold investors at that time. This is why we are not buy and hold investors. Spectrum's High Yield Bond Strategy made money even in the 2008 meltdown. A recession shows up about every decade, so we are awaiting our next opportunity to take advantage of it.

## Spectrum's Actual Trading Signals Over 2 Time Periods



## PERSONAL PERSPECTIVE by Ralph Doudera

Sitting overlooking the beach in Costa Rica, I get great insight for future challenges and reflect on past failures and successes of the past decade. This morning I've been reflecting on God's faithfulness in my financial affairs. As a steward of what God has placed in my hand, I remember that a "steward" maintains a very powerful position; access to everything, while actually owning nothing. I remember my mentor, Pastor Tommy Tyson having a conversation with God. Prompted to take his wallet out of his pocket and count the money inside, he acknowledged that it was a gift from Him. God said to him "If you will accept everything as a gift from Me, and you are willing to use it as I guide you, I don't mind if you carry it in your pocket." I have seen God work in my finances time and time again, even when I mess up. In the great recession I overextended myself with debt on a real estate development project. The bank called in my loan which I was unable to pay since it was tied up in illiquid assets. I also had two other properties which I put up for sale with no buyers. One was paid off, and the other was financially upside down with a very large loan. It was listed for sale for two years searching for a buyer. I was very concerned and had to seriously adjust my standard of living. Continuing to pray for resolution, the answer came one

day when I received two email offers from two different realtors within a one-hour period. This was not a coincidence. Both houses sold and the funds from one sale was exactly the amount to pay off the other house loan, ending up with no houses but no debt. I have seen this happen on many occasions under circumstances which one might find unbelievable. God is never early and never late. This is only one of many faith building exercises I have walked through over the past several decades. Holding everything I own loosely in my hands helps me acknowledge the true ownership of all my possessions. God does not care if I have wealth or not. He just wants a personal relationship. And exercising my faith in Him is exactly what He wants. That pleases Him.

*"And without faith it is impossible to please God, because anyone who comes to him must believe that he exists and that he rewards those who earnestly seek him."* Hebrews 11:6 NIV

Faith and worry cannot coexist. Worry comes when I try to take control of something that I can't. I heard it said that worry is paying interest on someone else's loan. God usually has a solution more creative than mine. I just need to sit back, relax, and watch Him at work.

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

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