



# THE FULL SPECTRUM

Spectrum Financial, Inc.

April 2020

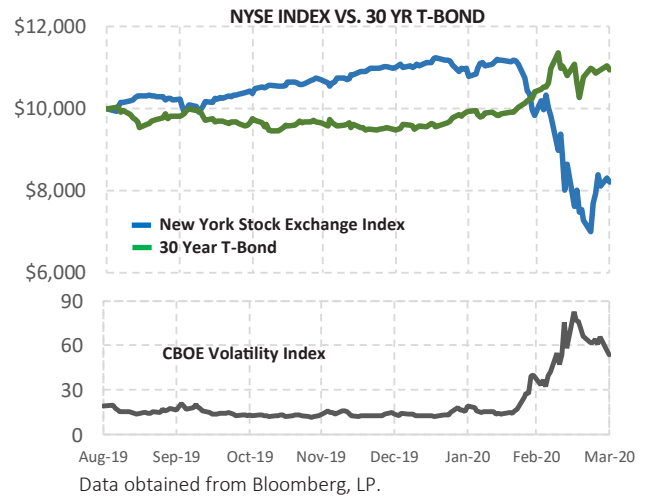
## VOLATILE MARKETS

The quarter started with investor sentiment very bullish, as the stock market's Q4, 2019 rally continued with another new high in January in major equity indices and another in February if focusing on the S&P 500 Index. Government treasuries crept higher in January, possibly due to overseas investors seeking safety in response to the COVID-19 virus.

In the last week of February, domestic equity markets began to pull back and treasuries accelerated higher. Given the close proximity in time to having set new highs, the initial correction in equities seemed similar and expected, in many ways, to other pullbacks experienced in the current bull market. It was not surprising that investors viewed the pullback as an opportunity to step back in, thinking the market would likely rebound. However, sharper losses were seen as volatility increased dramatically, breaking out to all time highs.

A popular measure of volatility is the CBOE Volatility Index, commonly called the "VIX". It is known as the "Fear Index". As fear ramped up in early March, treasury bonds initially acted as a safe haven. However, during the sharpest equity declines in mid March even the government treasuries were sold. This forced selling phenomenon is common during panics as investors sell most anything in

their portfolio, simply to meet margin calls. Later in the month, the VIX began to fall, telling of a modest easing in fear, resulting in a momentary bounce higher in the stock market. The VIX is still at a very high level, coinciding with ongoing wide daily swings in the markets. Evaluating price action and investor sentiment remains a valuable tool for analyzing the market's opportunities and risk during this unprecedented time.



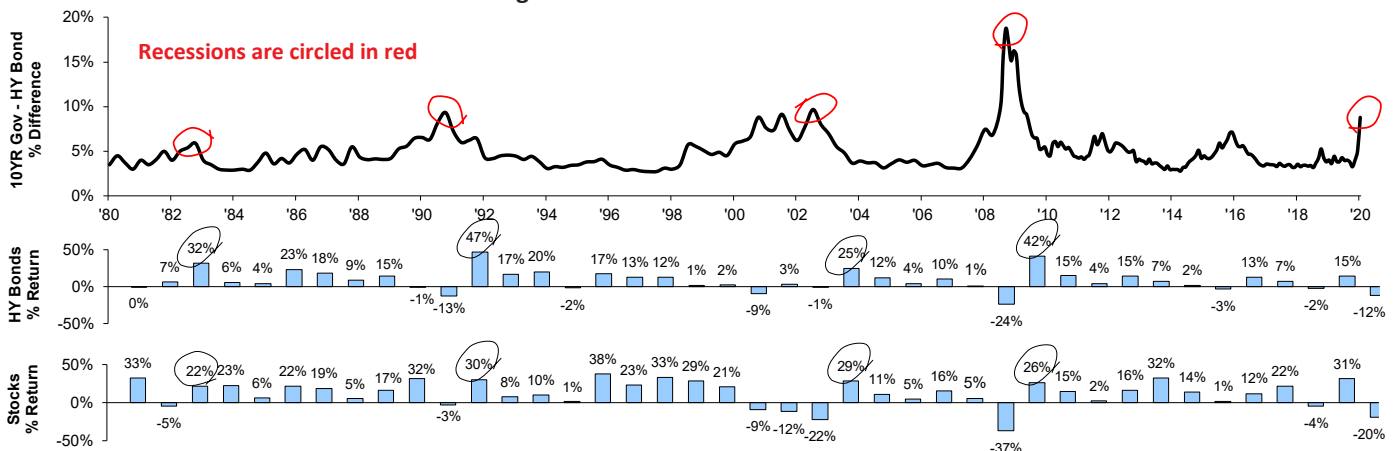
## HIGH YIELD BONDS, STOCKS, & RECESSIONS

As active managers, we love recessions. During the last recession in 2008 we wrote a letter to all clients and addressed a once in a decade opportunity for high yield bonds. These bonds are debt securities with lower credit ratings that offer a higher yield for the increased risk of future default. Default becomes more likely in a recession. As the economy improves, the yield on these bonds decline and the bonds increase in value. The yield spread shown below illustrates the historical difference between the yield of low risk government bonds compared to the riskier high yield bonds. The charts below it show the economic cycle every 8

to 10 years, and the investment returns comparing high yield bonds and stocks, in the year before and after a recession.

Here are some observations to study. Stocks and high yield bonds have substantial losses just prior to when the recession arrives. But more importantly, after the recession, high yield bonds have outperformed stocks by a substantial amount with much less risk. That is why we love trading high yield bonds instead of stocks. Higher return, less risk. This is our kind of investment. Yes, we received client thank-you letters after the last recession.

Top Chart: Yield Spread (HY Bond Yield in Excess of Government Bond Yield)  
Bottom Charts: DWS High Income Fund and S&P 500 TR Index Annual Performance



Annual return performance numbers for DWS High Income (KHYAX formerly Scudder-Kemper High Yield) and S&P 500 TR Index were obtained through Bloomberg, LP. Dividends reinvested sales loads not included. Past performance does not guarantee future results.

# AssetMaxx<sup>SM</sup>—Actively Managed Mutual Fund Performance Review

## The Spectrum Funds

### Spectrum Low Volatility Fund - SVARX

As of 3/31/2020	Quarter	YTD	Annualized			
			1 Year	3 Year	5 Year	Since Inception <sup>1</sup>
SVARX	1.60%	1.60%	5.39%	4.93%	6.56%	5.96%
S&P Lev Loan TR <sup>5</sup>	-9.88%	-9.88%	-5.12%	0.53%	1.62%	1.78%
50/50 Barclays VLI HY/S&P Lev Loan TR Index <sup>7</sup>	-11.10%	-11.10%	-5.80%	0.71%	2.08%	2.30%
Portfolio Composition			12/31/2019	3/31/2020		
High Yield			42.74%	12.62%		
HY Credit Default Swaps			19.55%	0.00%		
Floating Rate			59.58%	15.27%		
Municipal			0.00%	0.00%		
Government			0.00%	0.00%		
Mortgage-Backed			55.21%	0.00%		
Bond - Other			4.83%	0.00%		
Preferred			23.83%	0.00%		
			205.74%	27.89%		

<sup>1</sup>Inception date: 12/16/2013

Expense Ratio: 2.95%

### Spectrum Advisors Preferred Fund - SAPEX

As of 3/31/2020	Quarter	YTD	Annualized		
			1 Year	3 Year	Since Inception <sup>2</sup>
SAPEX	-13.02%	-13.02%	-0.83%	5.43%	4.28%
S&P 500 TR <sup>4</sup>	-19.60%	-19.60%	-6.98%	5.10%	6.42%
60/40 NYSE TR & Barclays US AGG TR <sup>8</sup>	-14.01%	-14.01%	-6.47%	1.26%	2.13%
Portfolio Composition			12/31/2019	3/31/2020	
Preferred Advisors			43.43%	0.00%	
Tactical Equity			65.56%	107.65%	
Fixed Income			39.76%	15.55%	
			148.75%	123.20%	

<sup>2</sup>Inception date: 6/1/2015

Expense Ratio: 2.45%

## The Hundredfold Select Alternative Fund

### Hundredfold Select Alternative Fund

As of 3/31/2020	Quarter	YTD	Annualized					
			1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception <sup>3</sup>
SFHXY	4.40%	4.40%	8.11%	5.29%	5.13%	5.98%	5.95%	5.66%
S&P 500 TR <sup>4</sup>	-19.60%	-19.60%	-6.98%	5.10%	6.72%	10.52%	7.57%	7.82%
Barclays Agg Bond Index <sup>6</sup>	3.15%	3.15%	8.93%	4.82%	3.35%	3.88%	4.40%	4.28%
Portfolio Composition			12/31/2019	3/31/2020				
High Yield			63.95%	13.43%				
Floating Rate			49.47%	0.00%				
Bond Other			64.11%	9.93%				
Managed Futures (net)			15.32%	14.24%				
Alternative			0.00%	0.00%				
Equity			30.43%	15.01%				
Expense Ratio: SFHXY 2.93%			223.27%	52.60%				

<sup>3</sup>Inception date: 9/1/2004, fund name changed from Spectrum High Yield Plus on June 11, 2008. Additionally, the Fund was reorganized on October 3, 2011 from a predecessor fund (the "Select Alternative Predecessor Fund") to a series of Northern Lights Fund Trust II, a Delaware statutory trust (the "Reorganization"). The Fund is a continuation of the Select Alternative Predecessor Fund and, therefore, the performance information includes performance of the Select Alternative Predecessor Fund.

The performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate, so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted and assumes the reinvestment of any dividend or capital gains distributions. For performance current to the most recent month end, please call 1-888-572-8868. An investor should carefully consider the investment objectives, risks, charges and expenses prior to investing.

The prospectus and summary prospectus contain this and other information about the Funds and should be read carefully prior to investing. To obtain a prospectus and summary prospectus, please call Gemini Fund Services at 855-582-8006 or access [www.thespectrumfunds.com](http://www.thespectrumfunds.com) or [www.hundredfoldselect.com](http://www.hundredfoldselect.com).

The Funds are distributed by Ceros Financial Services, Inc. (Member FINRA/SIPC). Ceros and Spectrum Financial, Inc./ Hundredfold Advisors are not affiliated entities. Advisors Preferred, LLC, the Funds' advisor is a commonly held affiliate of Ceros. **Date of first use: 4/17/2020**

<sup>4</sup>S&P 500 TR Index is a capitalization weighted index of 500 stocks representing all major domestic industry groups and assumes the reinvestment of dividends and capital gains. It is not possible to directly invest in any index.

<sup>5</sup>S&P/LSTA U.S. Leveraged Loan 100 Index: This benchmark is designed to reflect the performance of the largest facilities in the U.S. dollar leveraged loan market. Term loans from syndicated credits must meet the following criteria at issuance to be eligible for inclusion. 1) senior secured 2) minimum initial term of one year 3) minimum initial spread of LIBOR +125 basis points 4) U.S. dollar denominated 5) all constituents must have a publicly assigned CUSIP (Short Name: S&P Leveraged Loan Index)

<sup>6</sup>Barclays U.S. AGG: Bond Index: The Barclays U.S. Aggregate Bond Index measures performance of the total U.S. investment grade bond market. It is a market value-weighted index that tracks the daily price, coupon, pay-downs, and total return performance of fixed-rate, publicly placed, dollar-denominated, and non-convertible investment grade debt issues with at least \$250 million par amount outstanding and with at least one year to final maturity.

<sup>7</sup>50/50 "Barclays US High Yield Very Liquid TR Index"/ "S&P/LSTA U.S. Leveraged Loan 100 Index": This benchmark gives 50% weight to the Barclays VLI HY Index and 50% weight to the S&P Leveraged Loan Index. Barclays High Yield VL Index 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.

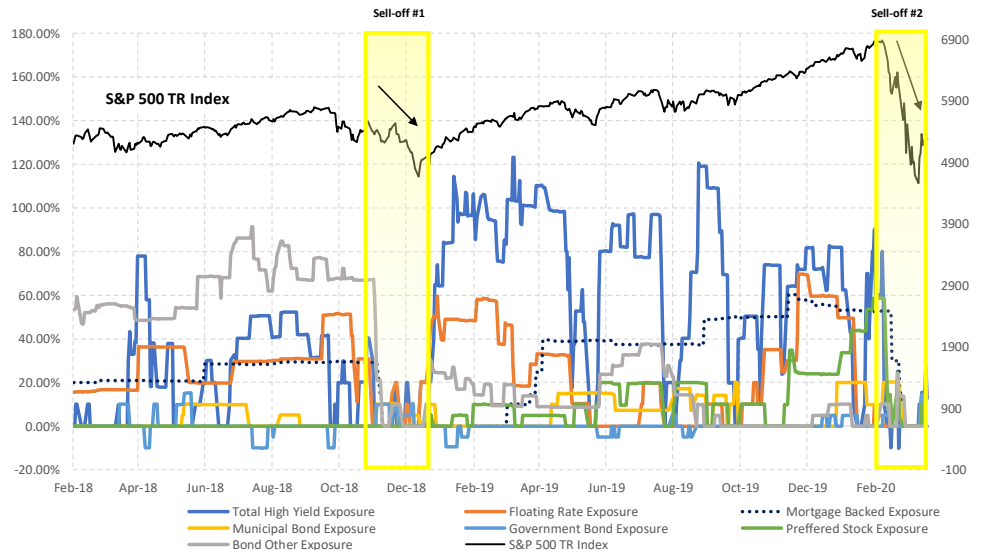
<sup>8</sup>60/40 NYSE Composite/Barclays U.S. AGG Bond Index: This benchmark gives 60% weight to the NYSE Composite Index and 40% weight to the Barclays U.S. Agg. Bond Index. The NYSE Composite Index (NYA) measures the performance of all stocks listed on the New York Stock Exchange. It includes more than 1,900 stocks, of which over 1,500 are U.S. companies. Its breadth therefore makes it a much better indicator of market performance than narrow indexes that have far fewer components. The weights of the index constituents are calculated on the basis of their free-float market capitalization. The index itself is calculated on the basis of price return and total return, which includes dividends.

## ACTIVE MANAGEMENT

How does the Spectrum Low Volatility Fund (SVARX) remain a leader through all types of market conditions? This “Active Management” chart illustrates fund exposure for the past two years. By monitoring all bond classes daily (high yield, floating rate, mortgage backed, municipal, government, and preferred) investors can see how portfolio market exposure changes for all conditions. Note how risk exposure is reduced in market sell-offs (yellow), and expanded when bullish conditions return. This is how we have managed client assets for over 30 years.

Data obtained from Bloomberg, LP. For standard performance and disclosures details, see page 3

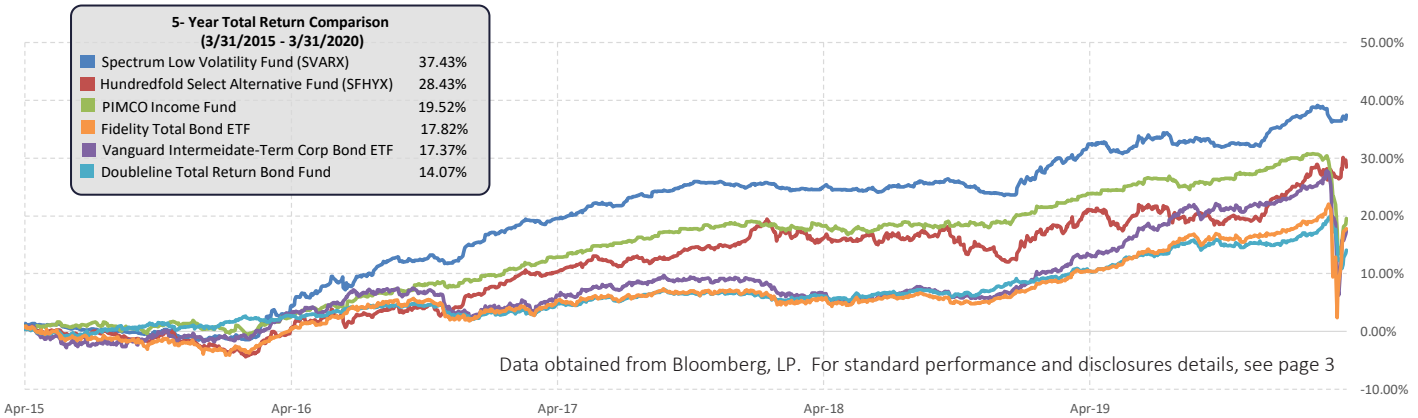
Spectrum Low Volatility Fund Exposure & S&P 500 TR Index  
(2/13/2018 - 3/31/2020)



## ACTIVE FUNDS CHALLENGE PEERS

The chart below illustrates the Spectrum Low Volatility Fund (SVARX) in blue, and Hundredfold Select Alternative Fund (SFHYX) in red, (both at all time highs) compared to more famous competitors at Vanguard, PIMCO, Fidelity and

DoubleLine for the past 5 years. Every investor should ask themselves if a buy-and-hold strategy makes sense when active management is available with potentially higher returns combined with lower volatility and risk.



## PERSONAL PERSPECTIVE by Ralph Doudera

I received a video post on social media last week which caught me by surprise. It was a video of my 14 year old grandson giving his insight into the current world crisis. This is what he said:

“Take a look at this: 2 Chronicles 7 verse 13-15 prophesies something that is happening right now. First God said “when I shut up the heavens so that there is no rain” what does that remind you of? It reminds me of the wildfires in Australia (background photo of fires). Then God said “or command locusts to devour the land” (photo of swarms of locusts). Look what’s happening right now in East Africa. “Or send a plague among my people” (photo of crowds with protective masks on). Oh yeah, that’s right-- Coronavirus. God says “if

my people who are called by my name, will humble themselves and pray, and seek my face, and turn from their wicked ways, then I will hear from heaven, and I will forgive their sin and will heal their land. Now my eyes will be open and my ears attentive to the prayers offered in this place.” Profound insight for us all to consider. Do I have an attitude of humility with all the relationships in my life? Have I forgiven those who trespass against me? Is my behavior in line with what God would like me to be doing? Am I praying for my authorities in local and national government even if I don’t like them? Sometimes a one paragraph sermon from a teenager is more than enough for me to meditate on this week. Let me examine my life, confess my wrong behaviors and pray for restoration.

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

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