

GENERAL MARKET COMMENTARY

Stock markets around the world declined again in the third quarter as inflation remained near multi-decade highs, geopolitical tensions escalated further, and the Federal Reserve continued to aggressively hike interest rates signaling future rate increases will be larger than previously expected.

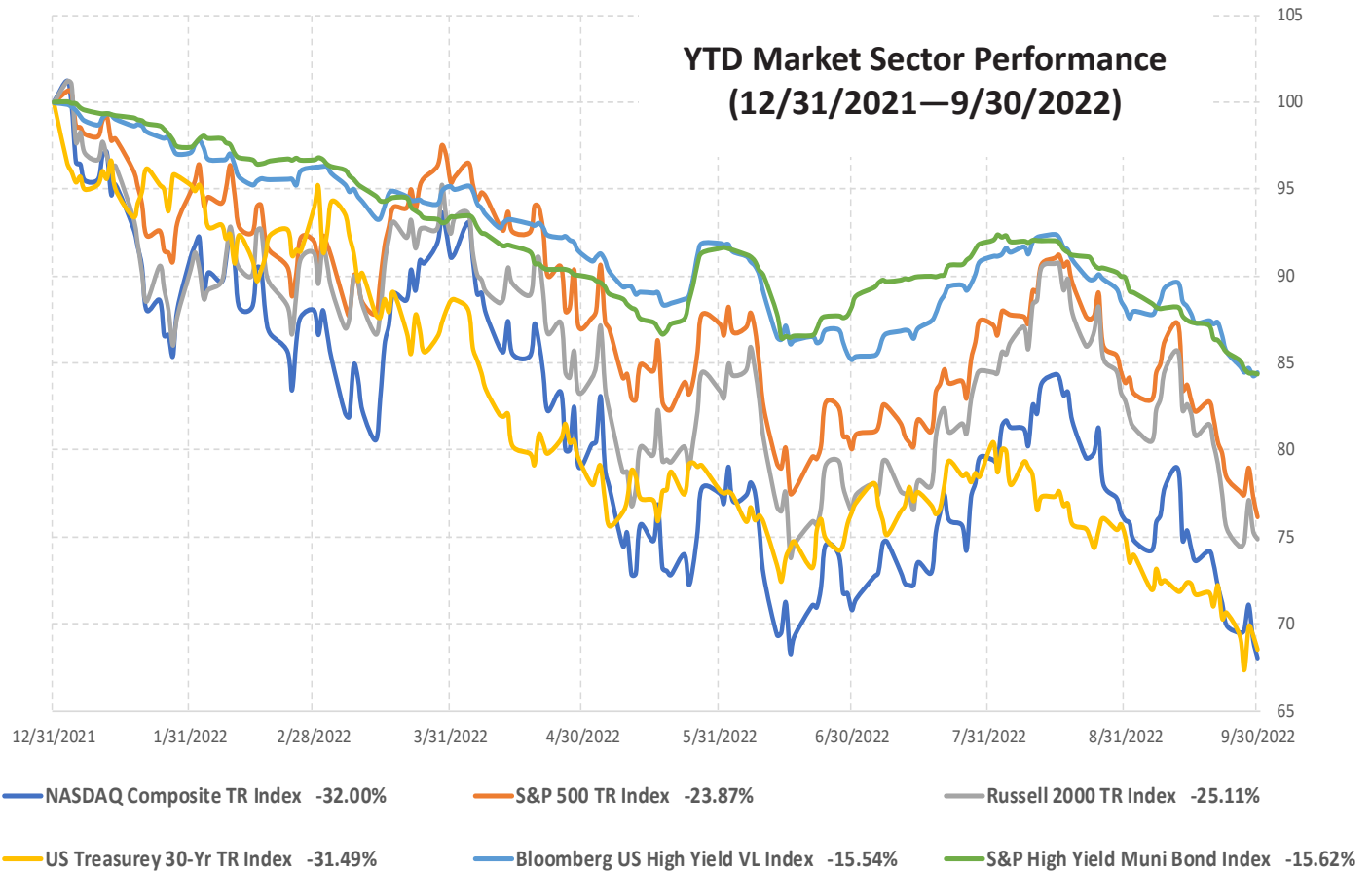
The third quarter started with a solid rebound in stocks and bonds that was driven by resilient corporate earnings and signs of a possible peak in inflation. Corporate earning results for the second quarter were much better than feared. Despite high inflation and lingering supply chain issues, the majority of Q2 earnings reports beat estimates. The solid performance by corporate America showed investors that, despite numerous macroeconomic challenges, U.S. earnings were holding up much better than expected.

On inflation, several survey-based economic reports showed price declines in June and offered hope that inflation pressures were peaking. Finally, in late July the Federal Reserve raised interest rates by another 75 basis points. In Fed Chair Powell’s press conference he stated that, at some point in the future, it’d be necessary for the Fed to slow the pace of interest rate increases. Investors

interpreted that comment as a signal that the end of the rate hike cycle may be closer than previously thought.

Ultimately, the move higher in July and early August was nothing more than a “Bear Market Rally”. Investor hopes plummeted as Fed Chair Powell dismissed the idea of a looming Fed pivot to less-aggressive policy during the Jackson Hole Economic Symposium. Powell warned that the U.S. economy will likely feel some “pain” from the Fed’s actions, and the markets sold off to break below the June low.

Year-to-date returns are quite painful with no place to hide as you can see on this chart. S&P 500 down 23.87%, NASDAQ down 32%, Russell down 25.11%, Bloomberg HY Bond index down 15.54%, US Treasury 30-Year down 31.49%, and HY Muni Bonds down 15.62%. Investors often try to have a balanced portfolio of both stocks and bonds because they don’t usually all move in the same direction. Not this year! Some investors still even believe that municipal bonds are safe. Spectrum believes that our active management can keep investors portfolios in a position to avoid life changing investment losses. Our primary investment objective is controlling risk.

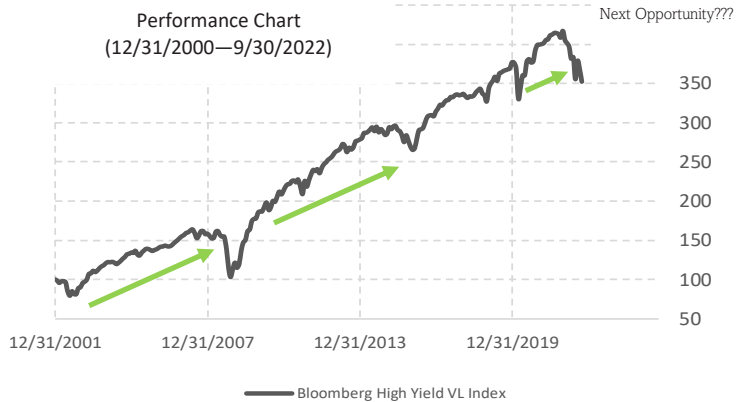


IS IT TIME FOR A BOND MARKET RALLY?

The two “Bond Kings” are beginning to agree on one thing lately. Jeffrey Gundlach of Doubleline Capital, and Bill Gross formerly of Pimco think it might be time to finally put some money to work in the credit markets after global fixed income sectors suffered an unprecedented 19% loss this year. Investors normally flee the stock market to the safety of U.S. treasury bonds during steep stock market declines. But this year is not normal since the long-term 20+ Year U.S. Treasury TR Index is down even more than the stock market indices.

The Bloomberg High Yield VL Index is down over 15% so far this year. Putting this loss into perspective, there have been three declines in the 26-year history of the High Yield Bond Index which have been worse: the 2020 pandemic panic sell off, the decline during the great recession of 2008, and the sell off in 2001. When these bear markets ended, in the months following, high yield bonds returned between 40-109%. About once every

decade, we have an opportunity to invest in high yield bonds at a bargain price, and we are once again planning on extraordinary return opportunities coming out of this bear market, being almost completely in a cash position as we wait.



See page 3 for Index Disclosures.

PERSONAL PERSPECTIVE by Ralph Doudera

As the sun came up over the ocean this morning and I contemplated what was on my mind, my thoughts were redirected to ask the question of what was on God’s mind for me today. He does speak if you really want to listen. And His ideas are so much better than mine. A spirit of gratitude overwhelmed me as I thought of how God changed my emotional life from my early investment days when the action of financial markets could either ruin or make my day great. Earlier in my life I felt entitled; I was cheap and occasionally dishonest. A taker, and, of course, an unhappy person. My high school yearbook photo stated my life aspirations “to be a highly paid engineer.” I believed money would give me control to do what I wanted. Some ego gratification also. It was a dead-end street. My life was miserable. As I studied my Bible, I started discovering the heart of God. He is a giver. I was a taker. But putting aside my fallen nature to receive his divine nature is a lifetime process. In my book Wealth Conundrum, I explained the painful process I went through to exchange my “taker” mindset to God’s “giver” mindset. The process continues as time goes by to become a giver not only in the financial areas but many others. Giving attention to listening and understanding others who may have a different opinion. Giving forgiveness is even harder. Giving space for another car cutting me off and wishing them well. Giving family and friends the freedom to make decisions with which we don’t agree. I need to remember that I can only control my own behavior and attempting to control others is the biggest stress producer in my life. Frustration is the byproduct of not getting what I want, when I want it. God wants me to give in every area of my life and will provide opportunities every day if I want to be aware of them. This is a never-ending process of looking

for opportunities each day.

Hundredfold Select Alternative Fund (SFHYX) was established in 2004 for investors and was structured for Hundredfold Advisors (a Spectrum affiliate adviser) to act as subadvisors and direct 100% of fees received to Simply Distribute Charitable Foundation. This has resulted in funding many organizations around the world and making a difference in children’s surgeries, training leaders, building churches and orphanages, making microloans to the poorest of poor, and evangelizing with the film of Jesus life. The highlight of the year for us is not our profit at year end, but how much we are able to give each year, which over the years has totaled \$12 million spread out in thirty-five different countries. Our investors are also happy, sitting on a profit of over 200% since the fund inception in 2004.

The late John Haggai introduced me to a book “The Supreme Beatitude” by EV Pierce, which he said was the best book he had read on giving. I concur it is an amazing book written in 1935 and out of print, but I purchased a few copies and have read it several times, each time gleaning more insights. He says that the central theme of the Bible is “It is more blessed to give than receive” (Acts 20:35). God is a giver and wants us to conform to His character. His stories are profound and insightful.

When I worked with Mother Teresa in Calcutta some years ago, she said it this way: “Everything that is not given is lost.” And in my book Wealth Conundrum I evaluate the issue of whether Christians should have wealth with some surprising conclusions. Anyone who would like a complimentary copy, just call our office and we can send you one. Meanwhile, become aware of how you can give today and see how it makes your day better.

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

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