# The Full Spectrum

Spectrum Financial, Inc.

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## STOCK MARKET PERFORMANCE AND RISKS

The stock and bond markets have shown impressive recoveries over the past two years. Since the lows of 2022, equities have surged, with major indices like the S&P 500 up 68%. Similarly, after a turbulent 2022 driven by aggressive interest rate hikes, the bond market has largely stabilized, benefiting from reduced inflationary pressures and a more cautious Federal Reserve. However, after such a strong run in the stock market, investors may want to reconsider the true risks of equities and focus on a diversified allocation to bonds for more balanced portfolio growth in the near term.

The stock market's strong performance over the last two years has been fueled by a combination of factors: corporate earnings resilience, improving economic conditions, and the perception that inflation has been tamed. This optimistic environment has led to a substantial increase in stock prices. However, the stock market's past performance should not be interpreted as a guarantee of future results, particularly after markets have experienced significant gains.

Historically, after periods of rapid stock market growth, there has usually been a pullback. For example, following the 1990s bull market, the S&P 500 saw a sharp 47% drop from its peak in 2000 to the bottom of the dot-com crash in 2002. The Nasdaq 100 fell 82%. Similarly in the great recession in 2008 the S&P 500 dropped 55%. Those declines required a gain of about 100% to get back to even, which changed the lives of many who may have wanted to retire. Historically bear markets eventually reclaim about half of bull market gains.

With stock valuations elevated compared to historical norms and much of the "easy growth" already realized, conservative investors may want to tread carefully. Even if the economy remains resilient, stocks are more vulnerable to corrections when they are priced at a premium, as has been the case recently. What risks do we see going into 2025?

1) Inflation reacceleration may force the Fed to raise rates again causing a recession.
2) Supply shocks and shortage of labor due to immigration reform.
3) Excessive stock valuations and irrational investor exuberance.
4) Washington policy changes: the first year of a new president historically is not a good one for markets.
5) Extremely heightened geo-political risks (China, Middle East, Russia, North Korea)
6) Major coordinated attacks on software, power grid issues, or EMP nuclear device.
7) A black swan event that no one sees coming.

## THE CASE FOR BONDS IN 2025

Conservative investors who may have been underweight in bonds during the ultra-low interest rate environment of the past decade are now faced with a more favorable bond market.

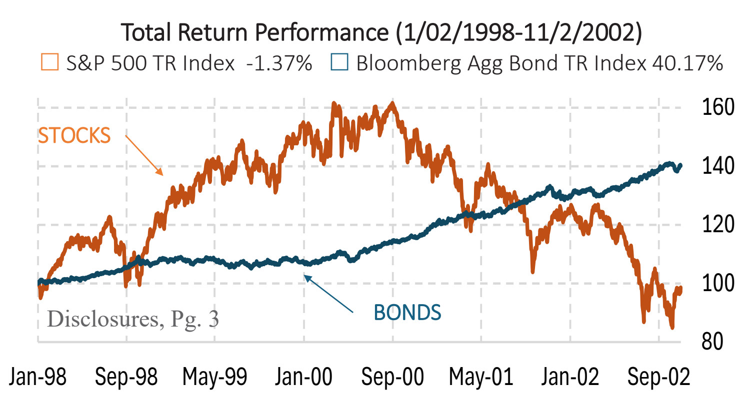
Bonds serve as a stabilizing force in portfolios. With interest rates potentially holding steady or possibly declining in 2025, bond prices could appreciate further, providing a counterbalance to the riskier stock market. Moreover, bonds tend to be less volatile than stocks, making them a suitable choice for conservative investors looking to preserve capital while earning predictable returns.

For all investors, 2025 presents an environment where a focus on bonds may be a prudent strategy after a robust run-up in equities. While the stock market could continue its upward trajectory longer term, the risks of a significant pullback in the near term are tangible. Thus, diversifying into bonds, especially with favorable yields and reduced inflationary pressures, offers a way to reduce risk and preserve capital while still benefiting from the stability of fixed-income investments.

Spectrum's Low Volatility Bond fund continues to lead all its competitors in its Morningstar category for the past decade, and is up 97.5% since inception. (see pg 3 for standard performance.)

## BEEN HERE BEFORE?

The stock market in the last few years of the 1990's was in a strong bull market, while the bond market showed very modest gains. We remember quite well some bond investors who felt left behind by the speculative action in stocks and changed to a more aggressive investment strategy at a time which felt good to them. We understand our investors may feel this way currently given this year's performance.




Looking back, it wasn't a good idea to do what "felt good". The chart below illustrates what happened to stocks compared to bonds after the market runup in 2000. This is not a prediction, but it could be an illustration of a similar environment. The Fed began to lower the Fed Funds rate from 6% to 2% in 2001. The S&P 500 declined nearly 50% while the Agg Bond Index was up 22%. Often investing requires the discipline of doing what feels uncomfortable and avoiding "feel good" investing.

# AssetMaxx℠—Actively Managed Mutual Fund Performance Review

## The Spectrum Funds

**Spectrum Low Volatility Fund - SVARX**

| | | | | Annualized | | | |
|---|---|---|---|---|---|---|---|
| As of 12/31/2024 | Quarter | YTD | 1 Year | 3 Year | 5 Year | 10 Year | Since Inception[1] |
| SVARX | -1.45% | 2.59% | 2.59% | 2.48% | 6.81% | 6.73% | 6.33% |
| Morningstar LSTA US Lev Loan TR[5] | 2.49% | 8.76% | 8.76% | 6.91% | 5.40% | 4.77% | 4.43% |
| 50/50 iBoxx USD Liquid HY Index/Morningstar LSTA US Lev Loan 100 TR Index[7] | 1.32% | 8.35% | 8.35% | 4.87% | 4.46% | 4.67% | 4.39% |

| Portfolio Composition | 9/30/2024 | 12/31/2024 |
|---|---|---|
| High Yield | 78.67% | 26.82% |
| HY Credit Default Swaps | 0.00% | 0.00% |
| Floating Rate | 1.29% | 33.64% |
| Municipal | 19.66% | 10.50% |
| Government | 9.92% | 0.00% |
| Mortgage-Backed | 9.79% | 11.19% |
| Bond - Other | 39.08% | 16.76% |
| Preferred | 43.66% | 0.00% |
| [1]Inception date: 12/16/2013 | 202.08% | 98.90% |

Expense Ratio: 2.62%

**Spectrum Active Advantage - SAPEX**

| | | | | Annualized | | |
|---|---|---|---|---|---|---|
| As of 12/31/2024 | Quarter | YTD | 1 Year | 3 Year | 5 Year | Since Inception[2] |
| SAPEX | -2.49% | 5.27% | 5.27% | -9.92% | 2.79% | 5.13% |
| S&P 500 TR[4] | 2.41% | 25.02% | 25.02% | 8.93% | 14.51% | 13.29% |
| New York Stock Composite TR Index (NYSE)[8] | -1.67% | 15.79% | 15.79% | 6.09% | 9.04% | 8.45% |

| Portfolio Composition | 9/30/2024 | 12/31/2024 |
|---|---|---|
| S&P 500 Index Exposure | 50.84% | 45.95% |
| NASDAQ 100 Index Exposure | 32.15% | 16.11% |
| Russell 2000 Index Exposure | 5.10% | 0.00% |
| Equity Other | 40.66% | 5.12% |
| Cash Management | 15.00% | 0.00% |
| Expense Ratio: 1.83% | 143.74% | 67.18% |

[2]Inception date: 6/1/2015. The Fund changed from the Spectrum Advisors Preferred Fund on April 14, 2022.

## The Hundredfold Select Alternative Fund

**Hundredfold Select Alternative Fund**

| | | | | Annualized | | | | |
|---|---|---|---|---|---|---|---|---|
| As of 12/31/2024 | Quarter | YTD | 1 Year | 3 Years | 5 Years | 10 Years | 15 Years | Since Inception[3] |
| SFHYX | -1.30% | 2.79% | 2.79% | 0.46% | 8.52% | 6.56% | 6.62% | 6.20% |
| S&P 500 TR[4] | 2.41% | 25.02% | 25.02% | 8.93% | 14.51% | 13.09% | 13.87% | 10.71% |
| Bloomberg Agg Bond TR Index[6] | -3.06% | 1.25% | 1.25% | -2.41% | -0.33% | 1.35% | 2.37% | 3.02% |

| Portfolio Composition | 9/30/2024 | 12/31/2024 |
|---|---|---|
| High Yield | 50.31% | 20.70% |
| Floating Rate | 23.16% | 56.29% |
| Bond Other | 81.48% | 10.34% |
| Managed Futures (net) | 4.01% | 0.00% |
| Alternative | 7.01% | 4.09% |
| Equity | 30.47% | 21.15% |
| Expense Ratio: SFHYX 2.32% | 196.43% | 112.58% |

[3]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 Ultimus Fund Solutions, LLC. at 855-582-8006 or access www.thespectrumfunds.com or www.hundredfoldselect.com .*

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Russell 2000 Small-Cap TR Index: measures the performance of the small-capitalization sector of the U.S. equity market.

MSCI Emerging Markets TR Index: is a capitalization weighted index that is designed to measure the equity market performance of emerging markets.

iBoxx USD Liquid High Yield TR Index: measures the USD denominated, sub-investment grade, corporate bond market. The index includes bonds with minimum 1 year to maturity, minimum amount outstanding of USD 400 mil. Bond types include fixed-coupon, step-up, bonds with sinking funds, medium term notes, callable and puttable bonds.

T-Bill (3-month): rates are comprised of Generic United States on-the-run government bill/note/bond indices. These yields are based on the ask side of the market and are updated intraday. The curve is comprised of US dollar denominated US Treasury active securities. The 1 month, 3-month, 6 month and 1-year maturities are the most recently auctioned 4 week, 8 week, 13 week, 26 week and 1 year US Treasury bills. The 2-year, 3-year, 5-year, 7 year and the 10-year maturities are the most recently auctioned US Treasury notes. The 30 Year maturity is the most recently auctioned 20-year US Treasury bond. The curve is updated on each auction day with effective data of the next market day.

S&P US Treasury Bond Current 10-Yr TR Index : a one-security index comprising the most recently issued 10-Year US Treasury note or bond.

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.

Morningstar 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.

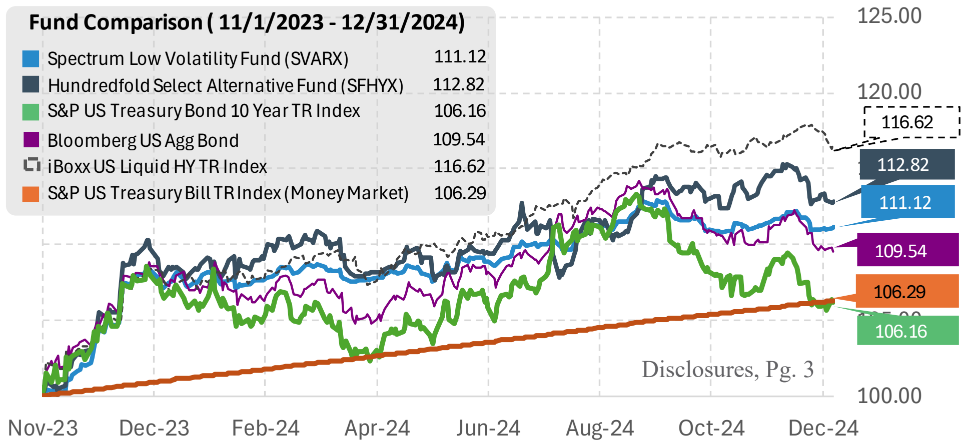
Bloomberg U.S. AGG Bond Index: The Bloomberg U.S. Aggregate Bond Index measures performance of the total U.S. investment grade bond market. It is a market value-weighted index that tracks the daily price, coupon, pay-downs, and total return performance of fixed-rate, publicly placed, dollar-denominated,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

50/50 "iBoxx USD Liquid HY Bond TR Index/Morningstar LSTA US Lev Loan 100 TR Index": 50/50 iBoxx USD Liquid High Yield Bond TR Index/Morningstar LSTA U.S. Leveraged Loan 100 TR Index: This benchmark gives 50% weight to the iBoxx USD Liquid High Yield Bond TR Index and 50% weight to the Morningstar LSTA U.S. Leveraged Loan 100 TR Index. The iBoxx USD Liquid High Yield TR Index: is market-value weighted with an issuer cap of 3% and consists of liquid USD high yield bonds, selected to provide a balanced representation of the high yield corporate bond universe. Morningstar LSTA U.S. Leveraged Loan 100 TR Index is designed to reflect the performance of the largest facilities in the leveraged loan market.

New York Stock Composite Index (NYSE): The NYSE Composite Index (NYATR) 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.

**PERSPECTIVE AND PATIENCE**

Although clients' portfolios in Spectrum Low Volatility Bond Fund and Hundredfold Select Alternative Fund were profitable in 2024, some investors might have expected higher returns this past calendar year within the fixed income market. Our trading strategies are designed to preserve principal as the most important parameter yet participate more aggressively when we have the wind at our back. 2024 was not that year. Several factors influenced our priority for caution: an election year, geo-political tensions, and an uncertain Fed path and its effects on the bond market. As the Fed lowered short term interest rates late in the year by 100 basis points (1%), the yield on the 10-year Government Bond increased from 3.6% to 4.7%. This result is abnormal and has caused a trend reversal with higher interest rates on bonds, which in turn caused bonds to go down in value. A trend which changes direction often signals caution and can often reduce trading profits. Portfolio diversification, while a tool for risk management, also leads to muted performance if only one market segment performs. While high yield bonds did slightly outperform our funds, government bonds, aggregate bonds and money market funds underperformed our returns. Perspective and patience can be forgotten qualities for investors looking at a short time frame of a calendar year, yet both of those qualities are key when staying the course of any investment plan. A three-year evaluation is considered a more meaningful period. We continue to be diligent and attentive to both market opportunities and risks and use our nearly 35 years of experience to navigate markets well for our clients. Looking at the last 13 months our funds are up double digits, and we see opportunities on the horizon for this year once rates stabilize. (see chart below)




**PERSONAL PERSPECTIVE** *by* Ralph Doudera

About 25 years ago when working on my estate planning, I took my 5 children around the world to see firsthand the ministries where I was investing "their" inheritance. It was an eye opener for them, as well as for me. I struggled with the culturally acceptable thought of leaving everything to my children. As a Christian my considerations in leaving an inheritance should reflect a balance of care of our loved ones and a commitment to fulfilling the Great Commission of Jesus last words:

*Therefore, go and make disciples of all the nations, baptizing them in the name of the Father and the Son and the Holy Spirit. Teach these new disciples to obey all the commands I have given you."* Matthew 28:19-20.

What key issues should I evaluate when considering his teachings? Stewardship means it all belongs to God, so I must view assets from His perspective. Accumulating wealth and focusing on it can divert attention from spiritual priorities. When planning an inheritance, it is important to consider whether leaving wealth would encourage materialism or detract from your children's ability to live with a proper reliance on God alone as their provider. Who needs God if I am a "trust fund baby"?

Leaving an inheritance of values is critical for leaving anything to our children. They need to understand that the role of money is a tool for God's work, not as an end in itself. A balance of the practical with spiritual well-being should be a top priority and a work ethic instilled in our children gives them an incentive to be productive and produces the joy of achievement. I also believe equal distribution is not ideal, as needs may vary.

Jesus praises generosity in many of his teachings. The tithe, or first 10% of our income is just the start of living a generous life. Have we been successful in teaching them that? If so, maybe they could inherit more.

Considering Jesus' teachings, our estate plan should prioritize eternal values, spiritual growth, wise stewardship, generosity, and the advancement of God's Kingdom—all of which are more important than wealth accumulation.

*"Now it all goes back in the box. All those houses and hotels, all the railroads and utility companies, all that property and all that wonderful money - now it all goes back in the box.*
*None of it was really yours. You got all heated up about it for a while but it was around a long time before you sat down at the board, and it will be here after you're gone. Players come and players go. But it all goes back the box." -When the game is over it all goes back in the box,* by John Ortberg

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



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