SECURITYMAXX℠

Spectrum FINANCIAL

High Yield Bond Insights

Spectrum Financial has managed investors funds for over 25 years and values the trust our clients have placed in us to protect and grow their investment portfolios. Our active portfolio management philosophy incorporates two elements essential to a viable long-term investment plan—preserving client's capital and participating in market appreciation.

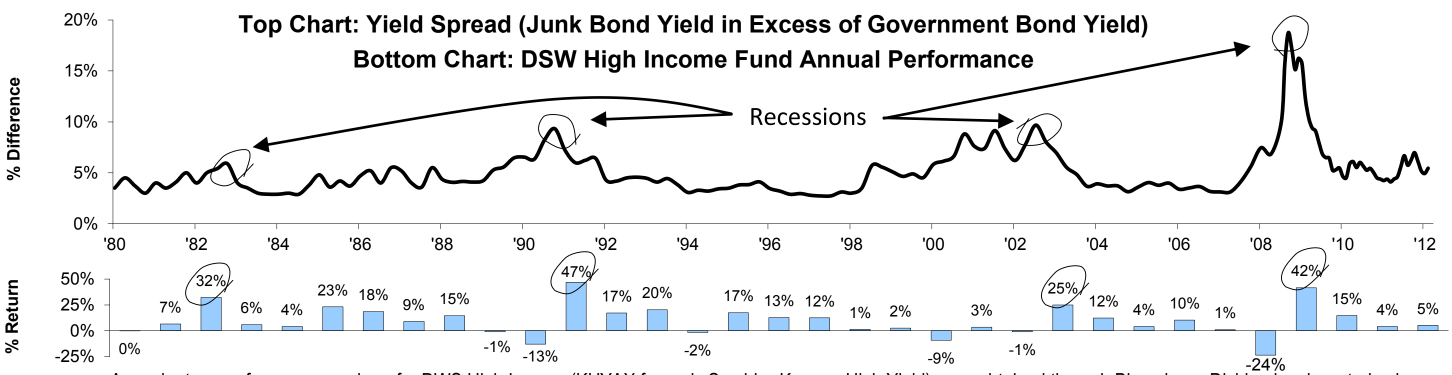

Figure 1 Annual return performance numbers for DWS High Income (KHYAX formerly Scudder-Kemper High Yield) were obtained through Bloomberg. Dividends reinvested sales loads not included. Past performance does not guarantee future results.

Over the years Spectrum has written many articles on high-yield bonds. Our commentary has been quite accurate and straightforward. The following commentary is from our quarterly newsletter—*The Full Spectrum*. Managed High Yield Bonds have always been one of our favorite investment vehicles due to their excellent returns and lower risk.

October 2008 – The Full Spectrum

HIGH YIELD OPPORTUNITY

Occasionally we see an investment opportunity that comes along once in a decade. High yield bonds are investments that we have been trading for nearly 30 years. They are somewhat like a combination of stocks and bonds that react differently than high quality bonds. Since they are bonds that are backed by companies, and are less financially secure than a government bond, they pay a higher return. In periods of economic uncertainty, security conscious investors move their funds to high quality bonds, since they do not want to be investing in companies that may not survive a long economic slowdown.

If a government bond is paying a yield of 4% and a high yield corporate bond is paying a yield of 8%, there is a yield "spread" of 4%. In normal times, this spread is around 4%. This week it exceeded 15%, an unprecedented number. This means dividend yields exceed 18%! The top chart illustrates the yield spread (% difference in yield between high yield bonds and government 10-year treasury bonds) peaking during the recession in 1982,1990, and 2002 (circled). Now look at the return of a high yield bond fund (lower chart) during the following 12-month period, which had a minimum return of 25%each time. As the yield spread goes back to a normal 4%,high yield bonds should be thought of as a compressed spring with energy waiting to be released. Investors will be holding bonds that have a dividend yield nearly 15% greater than government bonds. This is creating a once-in-a-lifetime opportunity to lock in high yields and participate in what could potentially be the most profitable high yield bond market rally in history, with returns that could exceed stock market returns with much less risk. Spectrum's managed accounts for this strategy have been in a money market account for most of this year waiting for the right time. Contact your marketing rep to position a part of your investment portfolio for this opportunity.

TRANSFORMING THE *way* YOU INVEST

Our commentary in *The Full Spectrum* nine months later confirmed our analysis and projected the continued possibility of double-digit returns in the high-yield bond market over the next year.

July 2009—The Full Spectrum

THE CASE FOR BONDS

After an amazing high yield bond market rally last quarter, many are asking if there is more to come. We mentioned in our last two newsletters that the case for bonds was better than the case for stocks over the near term. While the easy money may have been made this past quarter on high yield bonds, there should be much more to come. Three factors will determine high yield bond returns going forward. The first is the current yield of the bonds, now at about 13%. Secondly, adjustments for loan defaults should slightly drop the yield. However, the third and most profitable factor should be due to price appreciation of the bond portfolio coming back into a more normal yield spread as the recession ends. While there are no guarantees, we expect double-digit returns going forward 12 months, regardless of what the stock market does for the remainder of this year.

In the most recent issue of *The Full Spectrum* we continue to support the position of steady gains for the High Yield Bond market in the near-term.

April 2012—The Full Spectrum

HIGH YIELD UPDATE

High yield bonds are corporate debt securities with lower ratings. These bonds offer a higher interest rate to compensate investors for higher risk. Because these companies tend to be more vulnerable to the economic cycle, the prices tend to trend in a predictable direction, making them less volatile, and therefore, less risky to trade. By maintaining exposure in the high yield market during favorable market conditions and moving to the safety of cash in negative environments, we are able to capture the gains without subjecting investors to major losses.
High yield bonds continued to provide profitable returns even after the recessions of 1983, 1991, 2002 and 2009. (Page 1) The chart illustrates what happened since 1980 after the substantial gains in the year following a recession. We expect history will repeat with modest but steady gains from here, because the current yield on high yield bonds is about 7.4%, or 5.4% more than 10-year Government bonds.

Spectrum Financial is committed to providing alternative money management to our clients to grow their investment portfolios and preserve their capital through the use of Active Management. Avoiding portfolio drawdowns enables our clients to compound their earnings on a yearly basis to provide for a secure retirement or other financial goals.

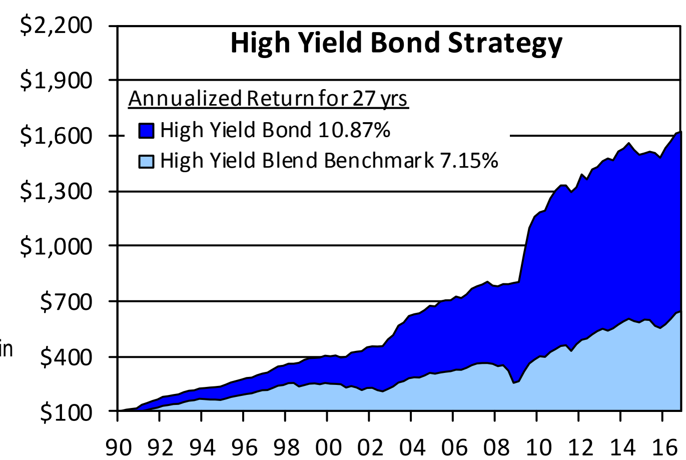

Figure 2

Disclosure for High Yield Bond Strategy Chart

Performance calculations are based on actual client accounts having dividends reinvested, no purchases or withdrawals during the period, and may have been obtained from personal or related accounts. The management fee for the High Yield strategy is .48% per quarter beginning 12/31/10 to present, prior .50% and is reflected in the calculated performance. The initial commission on funds is not taken into account but could reduce performance. Some performance may vary due to fund restrictions and/or limitations imposed by the mutual fund families. Past performance does not guarantee future results. Current performance may be lower or higher than data quoted. Investors should obtain the fund prospectus and read it carefully to evaluate the fund's investment objectives, risks, charges and expenses before investing. The High Yield Blend Benchmark uses the Barclays US High Yield Very Liquid Index from present back to 12/31/2010, then Lipper High Current Yield (provided by Lipper) back to 12/31/1989. Barclays US High Yield Very Liquid 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.

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