THE FULL SPECTRUM

Spectrum Financial, Inc.

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GENERAL MARKET COMMENTARY

The S&P 500 Stock Index has declined 45% from the 2007 peak and 44% below its 2000 peak. It is highly unusual for the stock market to be down over any 5-year period, not to mention an 8-year period. If the bear market low occurred this October, the S&P 500 would have to gain over 80% just to get back to where it was a year ago and 8 years ago. Some of the inflated emerging markets have performed shockingly poorly with Russia and China dropping 80% (requiring a 400% gain to get back to even), and India down by 65% (requiring only a 185% gain to break even). Risk management and avoiding steep losses during bear markets is absolutely necessary for long-term success in investing, not to mention emotional health. An investment plan is not something that should be haphazardly determined and changed when the unexpected occurs. Things like this will occur, and everyone's portfolio needs to be invested uniquely for each individual with investment goals and time frames in mind.

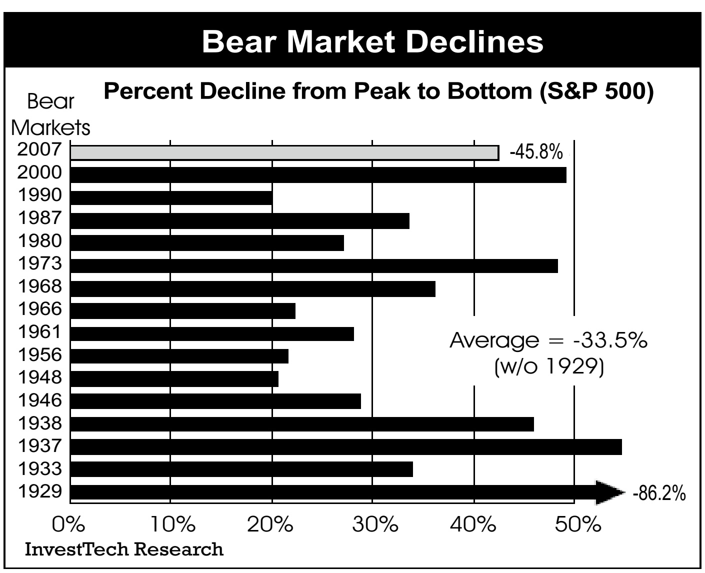
We have noted over the years in this newsletter various opportunities, as well as potential hazards in the investment scene. Recently, we have written articles including "China and the Emerging Market Bubble" in April 2007, "the real estate bubble to avoid" in April 2004 and July 2005, and "the commodity speculative bubble" in April 2008. These all ended poorly as you already know.

However, there is a time when depressed markets become great buying opportunities. We are close, if not already there. It is time to begin to look forward and not back. It is difficult to maintain perspective when it seems that investors are becoming irrational. Liquidation from hedge funds may continue through the year-end causing continued volatility, but normalcy will return and present a great buying opportunity. Investors need to remember that they are investing not for a year or two, but for the rest of their lives.

BEAR MARKET DECLINES

Without question, this bear market has been one of the most severe of this century with a 45.8% loss in the S&P 500 Index, closing in on the near 50% declines of 1973-74 and 2000-02. However, no bear market in the past 70 years has declined over 50%

Moreover, even with this severe market decline, the annualized return on the S&P Stock Index for the past 74 years has averaged 10% per year, better than gold, bonds, real estate, commodities, and other assets. Sometime the news media should be replaced with the history channel to keep a proper perspective.



RECOVERY AFTER BEAR MARKET

Let's look back on history to see how many years had returns in excess of 25% since the depression (see table to right). The best returns all come after a bear market correction. Remember that the stock market is a leading indicator, and it projects what the actual economy will be doing six to nine months from today. Waiting for good news to invest will always prove futile.

Investors need to make a plan and stick with it, and not cash out just because of market declines.

YEARS	S&P 500 Up +25%
1928	37.9%
1933	44.1%
1935	41.4%
1936	27.9%
1945	30.7%
1954	45.0%
1955	26.4%
1958	38.1%
1975	31.6%
1980	25.8%
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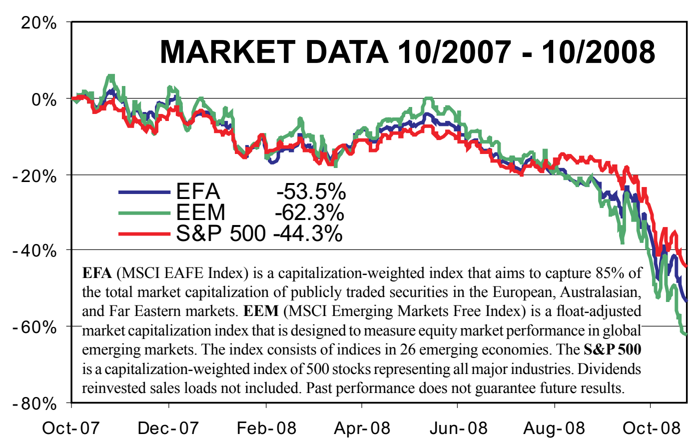
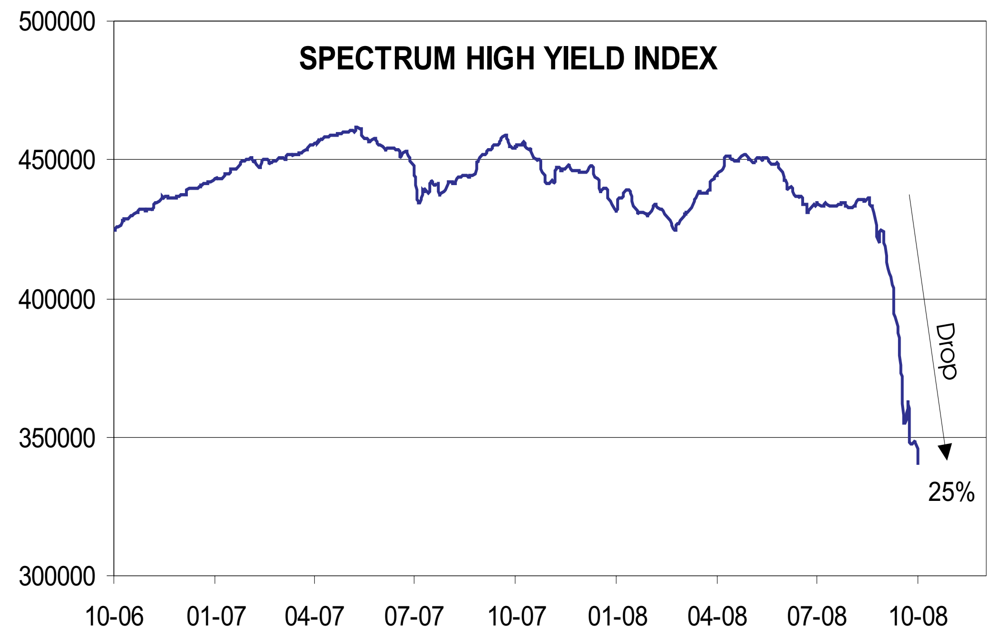
1995	34.1%
1997	31.0%
1998	26.7%
2003	26.4%



HIGH YIELD

The high yield bond opportunity at hand is of historic proportions due to the credit squeeze, and we are getting in position for an amazing rally in high yield bonds. We have never seen a scenario with this much profit potential, but there are hedge funds still in forced liquidation and no one knows when this liquidation will be over. When it is finally over, high yield bonds will rally substantially. High yield bonds now yield 15% MORE than US treasury bonds.

I remember quite well 1990 and 1991 when this yield spread was extreme (but only about 10% more than treasury bonds). Shortly after the US invaded Iraq, the new bull market began (a matter of months). I remember that high yield bonds had rallied 50%, about the same as technology stocks, but with much less risk. This upcoming rally will in all likelihood surprise many people, since I do not believe we shall ever see it happen to this extent again in our lifetimes.



Spectrum High Yield Index is an equal weighting of 15 of the largest high yield bond funds' daily net asset values as tracked by FastTrack database. Numbers are adjusted for dividends, and sales loads are not included.

Our index of 15 high yield bond funds is down an unprecedented 25% since June (see chart). The last leg down may be nearing completion, but I don't want to participate yet as it could get even uglier before it is over. However, when it is over, we need to be in position to invest quickly.

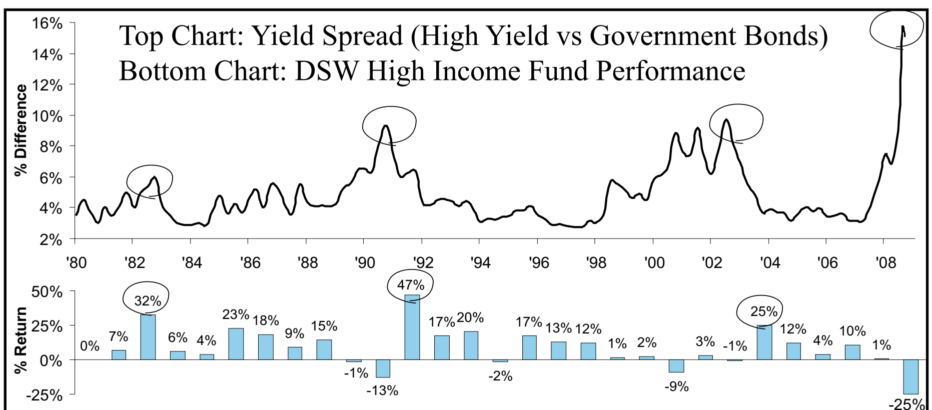
Our Dynamic High Yield Bond Strategy has space available for clients wishing to find a place to await the final stages of this bear market. The performance year-to-date (10/18/08) for this strategy including fees shows a modest loss of only 2.5%. We suggest that you consider putting funds in this money market position awaiting our signal.

HIGH YIELD OPPORTUNITY – SUPER SIZED

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



Annual return performance numbers for DWS High Income (KHYAX formerly Scudder-Kemper High Yield) were obtained from Bloomberg. The 2008 performance is year-to-date. Dividends reinvested, sales loads not included. Past performance does not guarantee future results.

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.

PERSONAL PERSPECTIVE *by* Ralph Doudera

There are advantages of being older. There are also advantages of being a student of history. The bottom line is that history continues to repeat itself. Older people learn that. Human emotions will always be the same across generations and cultures.

When things get out of whack, I occasionally refer to a book in my library entitled "Extraordinary Popular Delusions and the Madness of Crowds" by Charles Mackay. Originally written in 1852, the author might have had something interesting to say about this last century, with a chapter likely on the Internet bubble, real estate, crude oil, or the Chinese stock market.

Various chapters are devoted to amazing true stories of incredible stupidity caused by crowd psychology. Tulipmania, for example, hit Holland in 1636, pushing the price of a single tulip bulb to the equivalent value of 50,000 pounds of cheese. "Investors" who bought tulip bulbs on the way up viewed themselves as brilliant investors, and real estate values dropped greatly as people sold their houses to get funds for tulip bulb investments.

This mania happened a year ago in China as I watched day traders on their computers in the local Starbucks coffee shop in Beijing. The Shanghai market index then dropped 80% in the last year.

But market cycle psychology goes both ways. The majority opinion is always wrong. People forget their long term investment strategy and move their money to cash after the market drops due to lack of knowledge and foresight. Emotions are always wrong. When you feel least like investing, that is usually the best indicator. Remember the euphoria of the new millennium? Good time to sell. Remember the crash of 1987 and the 1990 recession and Gulf War? Good time to buy!

October 2008 will likely go down in history as an opportunity of a lifetime to invest, since I have not seen this much fear "out there" since 1987, and it was not even as bad then as it is today.

Sometimes it is good to be older…having experienced the past. There is more perspective, less emotion, and more wisdom. The investment opportunities I see going forward dwarf any I have seen in my 30 years in this business.

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

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