THE FULL SPECTRUM

Spectrum Financial, Inc.

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GENERAL MARKET COMMENTARY

The latest stock market rally has slowly and steadily taken almost every stock market index to new all-time highs. This includes Dow Jones Industrials, Russell 2000 Small-Cap Index, S&P 500 TR Index, and the Dow Transportation Index. This has been confirmed by Barclays High Yield VL Index, which also is at an all-time high. We have observed that as long as the high yield bonds are above their 50-day moving average and the ISM Manufacturing Index remains above the 50% growth threshold, the markets should remain healthy. These are key factors that give warning signs of a potential recession. But according to the Sentiment Trader Report (sentimenTrader.com), whenever this has occurred since 1978, stock prices were up 30 days later only 12 of 22 times. Also noteworthy is that when the S&P 500 hits a multi-year high and the President's approval rating was below 40%, as it currently is, it returned an annualized -1.3% versus +27.8% when his approval was above 60%.

STOCKS VS BONDS, A SPECTRUM LONGER-TERM PERSPECTIVE

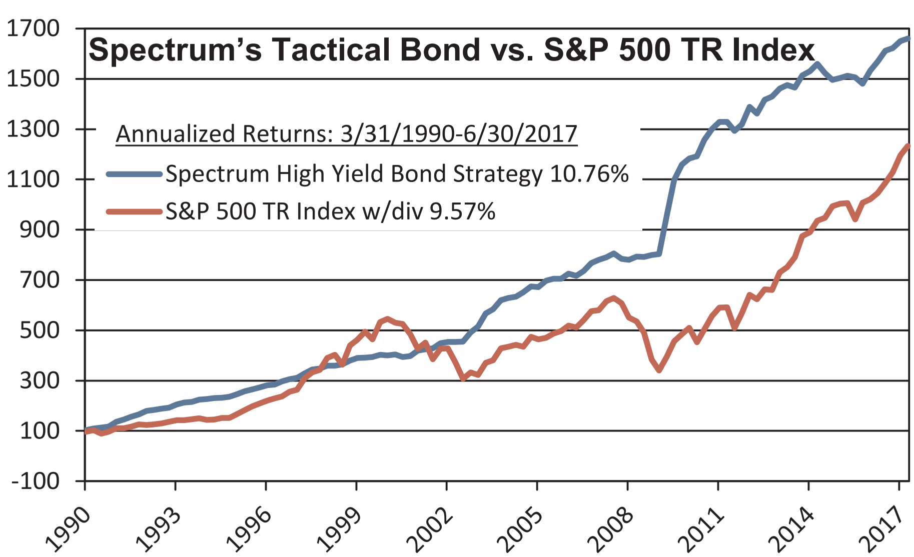
With the stock market hitting new highs, investors are beginning to get overly-excited about this bull market. Since 1932, there have been 16 bull markets, the average of which lasted 3.8 years. The current one is 8.4 years old and is approaching the longest one of 9.4 years in the 1990s. Investors tend to forget about risk when they are making money. We always think about risk, and remember quite well 1987 when the market corrected 30% in two weeks. That changed a lot of plans for a lot of people.

The chart below illustrates the actual long-term performance of Spectrum's High Yield Bond Strategy since inception as compared to a buy/hold approach of the S&P 500 TR Index. We use strategies with the objective of making money consistently and keeping it. With an annualized return of 10.76% for 27 years, we have outperformed the stock market without drama, which makes clients feel more secure.

Some of our observations from the chart:

1. Spectrum's $100 would have grown to over $1600 due to tactical management and compound interest.
2. Spectrum had only three down years, the worst of which was a return of -1.8%.
3. Spectrum's bond strategy can go up much faster than stocks at times.
4. An unmanaged investment in the S&P 500 TR Index in 1999 was still down 40% a decade later, and had drawdowns of 12% in 2015 and 12% again in 2016 (seen when viewing a daily return chart).

Experience, Risk, Performance, and Giving Back defines the four-legged table on which Spectrum's philosophy stands. Age and experience is an asset in investing. We have seen all kinds of markets. Risk management is key to our success, and we continue to refine methods designed to keep clients' anxiety levels low. Producing consistent performance compared to unmanaged investments, and giving back to society a significant portion of our profits helps us make a difference to both our clients and to the needy.



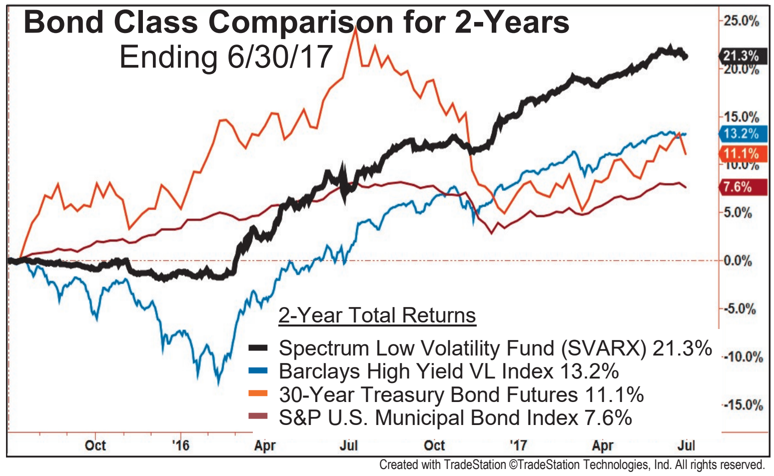
Quarterly performance calculations for the High Yield Bond Strategy are based on actual client accounts having dividends reinvested, no purchases or withdrawals during the period, and may have been obtained from personal or related accounts. The management fee for the High Yield Strategy is .48% per 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. **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.

Spectrum Low Volatility Fund Remains On Top
Returns of 13.00% return for the past 12 months, and 22.77% return for the past 36 months has kept us in the top 1% ranking of performance for all 237 Nontraditional Bond funds tracked by Morningstar as of June 30, 2017. (*Morningstar disclosure on page 2.*) Spectrum has been investing in bonds for nearly 30 years. We have found that trading bonds is more profitable than just holding them. We have also discovered that there are many classes of bonds available and that they do not all move in the same direction at the same time. Yes, bonds are exciting for us.

Some bonds go down when interest rates rise. Some don't. High yield bonds do well when the economy is strong, but they have credit risk. Government bonds can lose money when rates rise. If an investor holds a 30-year maturity government bond for a one-year period, when the interest rates go from 3% (where it is today) up to 4%, the value of the bond drops approximately 17%. However that loss is offset slightly by receiving a 3% dividend. Municipal bonds have their own agenda affected by tax law changes, supply and demand, and the direction of interest rates. International bonds have currency risk as well as credit risk and the direction of interest rates.

In the Low Volatility Fund, SVARX, all these bond classes are monitored using strategies designed to catch directional moves of the bonds, and change allocations of which kind of bonds to own, and how much of each to own. Sometimes we sell short bonds to take advantage of price declines, or hedge one bond class with another to reduce risk. We often may increase exposure above 100% when opportunities arise.

This chart illustrates the volatility of several bond classes compared to the returns of SVARX. This is a fund that has the potential of making money in all kinds of markets, and keeping principal when investment risk increases. ***Standardized performance and disclosures are on SVARX fact sheet.***



Total Returns are not annualized. For standardized performance see page 3. Assumes reinvestment of dividends. Past performance does not guarantee future results. **Barclays US High Yield Very Liquid TR Index**: See disclosure on page 2. **30-Year Treasury Bond Futures** (Continuous Contract). Historical representation of the front month, active futures contract of the 30-year U.S. Government Treasury Bond. **S&P Municipal Bond Index TR** is a broad, market value-weighted index that seeks to measure the performance of the U.S. municipal bond market.

PERSONAL PERSPECTIVE *by* Ralph Doudera
Solomon was probably the wisest man who ever lived. He was also the wealthiest. He wrote the book of Proverbs: 31 chapters of practical advice, a chapter for every day of the month. We have quoted him in every quarterly newsletter we have published; 118 of them since 1987: *"Steady plodding brings prosperity: hasty speculation brings poverty."* (*Proverbs 21:5*). We have noticed over the years that investors often change their strategy based on the current market environment—to their detriment. Recently I wrote a note to a long time family member and client who still has a portion of retirement funds managed by another advisor in a more aggressive strategy. She indicated that year-to-date returns on those funds were doing slightly better than those with me. I still encouraged her to move all accounts to our management because I know her risk tolerance. In a note I reminded her of some of the past events:

In the first half of 1987 the stock market had a nice gain. In October, it dropped 32%. We made money. Mrs. P. (a mutual friend) called me in tears at home the night of the crash to see if she had any money left. I told her she was up nicely for the year, as I had moved her to cash the previous week. In 2001, stocks were down over 25%, our High Yield Bond Strategy was down about 1%;one of only three years where we lost money (the worst year was a loss of less than 2%). In the great recession of 2008, the stock market had a drawdown of over 50%. We were up 1.9% that year. Our compound rate of return, annualized over the past 27 years, has been over 10% per year.

Several years ago, we put our best trading ideas into a mutual fund format with an unrestricted selection of bond funds, with the goal of increasing returns through financial leverage, while maintaining low drawdowns. We remain at the top of the performance list of all Nontraditional Bond funds.

This stock market is one of the longest bull markets of the century; eight years now. When it corrects, I suspect that your trusted advisor will tell you: "Hey, just hold on, and it will come back". Of course, he may be right, but we may all be dead by then. Even your advisor will agree that the market will crash again, but what we have accomplished is minimizing risk and drawdowns, yet still providing acceptable investment returns.

Hey, since this is our family money, ask them who should invest it.

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

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