

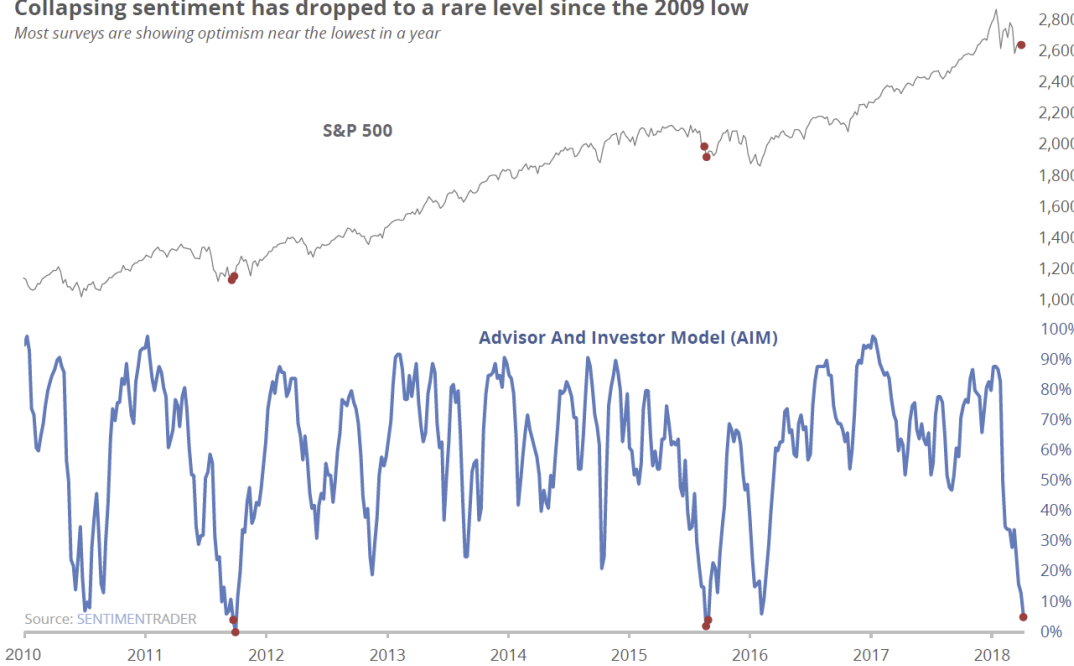
GENERAL MARKET COMMENTARY

What a difference the first quarter of 2018 makes... We noted in our last newsletter in January that it was time to be cautious, as the *Investor's Intelligence* survey of newsletter writers showed the fewest bears in 30 years, and excessive optimism always ends badly for investors. Within two weeks of those words the S&P 500 dropped

over 10%. So what is happening now? Like a herd of sheep, investors are moving in the pessimistic direction, which may be good for stocks. The volatility that stocks have suffered over the past month has had a definite impact on investors. According to a variety of surveys that poll a wide array of investor groups, sentiment is now near the lowest it has been in a year.

Collapsing sentiment has dropped to a rare level since the 2009 low

Most surveys are showing optimism near the lowest in a year

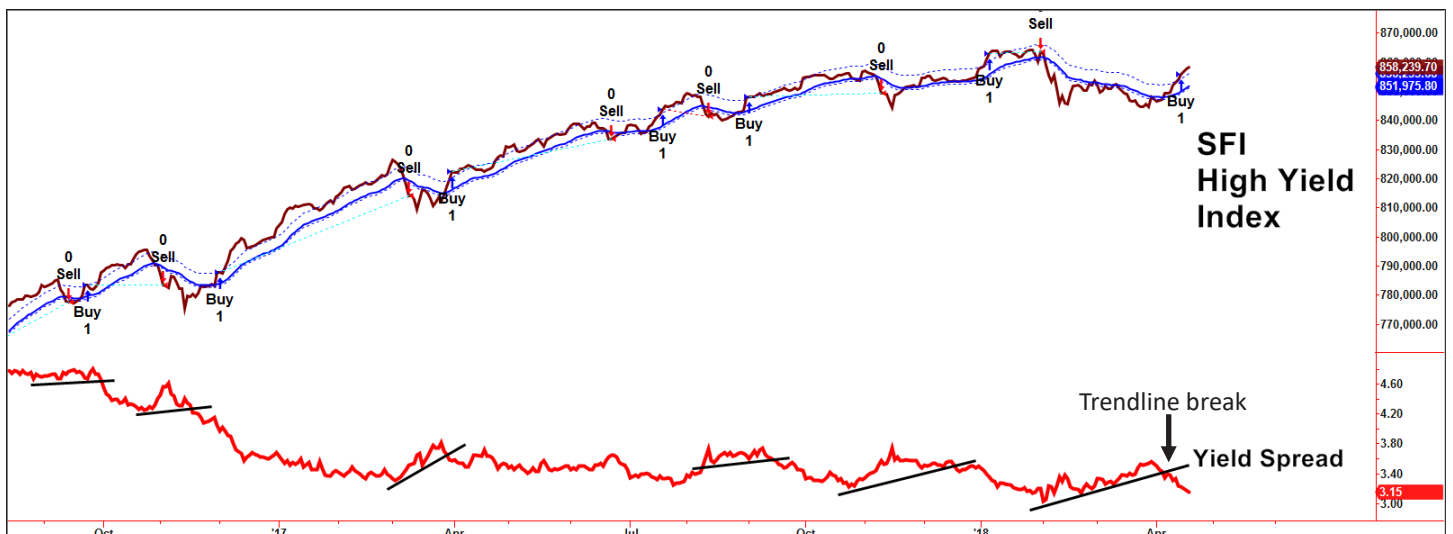


According to *Sentiment Trader's* "Sentiment Backtesting Engine", when the survey from the American Association of Individual Investors (AAII) Bull Ratio gets this low while the S&P 500 is trading above its 50-week moving average, returns over the next three months are very good, with positive returns 86% of the time, even during bear markets. This 5% reading is the lowest we have seen in recent years. Of course, the chart will show that further corrections are possible before a sustained uptrend.

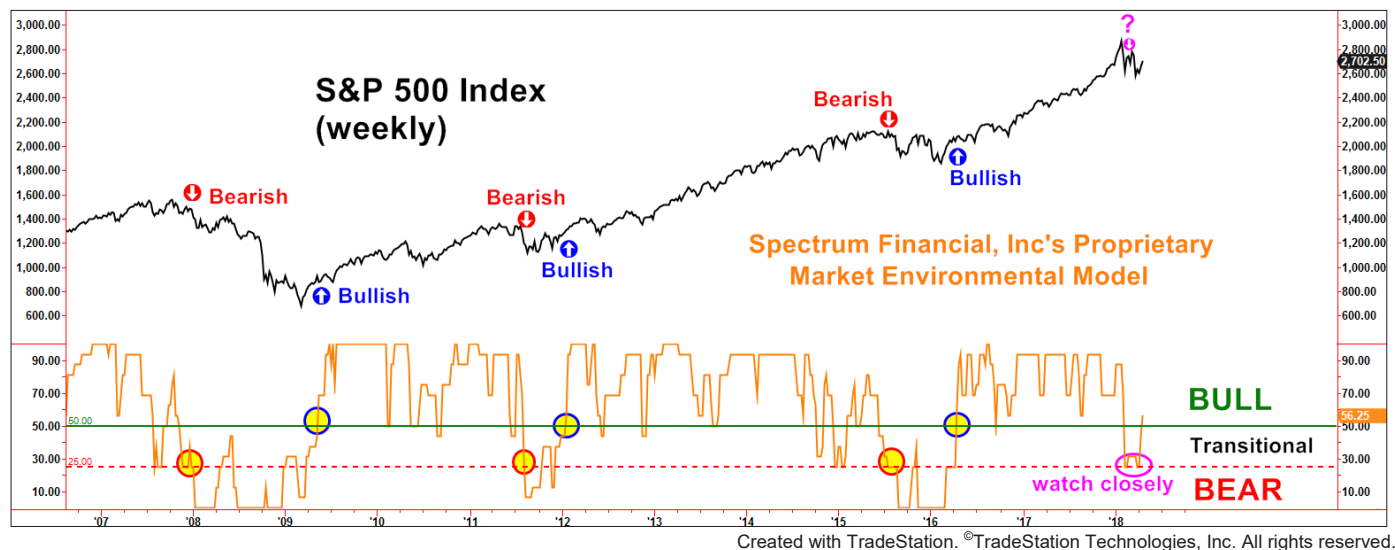
HIGH YIELD BOND UPDATE

This chart illustrates Spectrum's recent intermediate-term high yield exposure signals. By controlling drawdown, investor risk has been limited to provide more consistent

returns. Recent positive action has us invested once again with a confirmation trendline break of the yield spread as noted on the bottom of the chart.



BULL OR BEAR MARKET?



The chart above illustrates Spectrum’s proprietary Market Environment Model to determine if we are in a bull or bear market. This model has indicated a bull market environment since early 2016 following a market sell-off that began in mid-2015. The indicators that we utilize illustrate three phases of market conditions: Bull, Bear, and Transitional, giving clues for when to increase or decrease risk exposure to stocks. The four components used to calculate the environment are a combination of 1) Momentum and moving averages of major equity indexes, 2) Weekly Directional Movement Index, which defines the quality of the trend, 3) Negative Leadership Composite as defined by *Investech*, and 4) Spectrum’s high yield bond signal which may confirm a healthy economy. These four indicators are not a forecasting device, but they give us insight into levels of market risk to help us adjust

portfolios accordingly. Looking at the recent readings, we see the market being on the cusp of a bear market with a temporary reprieve into the transitional zone, very similar to the beginning of the devastating bear market in 2008. A new low for stock prices in the near term will likely confirm a bear market, while higher prices could put us back on track for a bull market high. Our long-term Market Environment Model has an actionable purpose—to tell us what playbook to run. It’s like a football coach that has diligently scouted the opposing team and then takes into account weather conditions and other factors before sending in the plays. We are doing the same thing, and it is paying off. Management of risk has always been a cornerstone of Spectrum’s investment philosophy. Active management always assists us in accomplishing this.

PERSONAL PERSPECTIVE by Ralph Doudera
Last month I had the opportunity to visit Israel again with a small group of friends to experience and better understand the geography and culture of where the Bible was written. Reading my Bible after returning gives me more insight and revelation to the stories and teachings which are revealed as I seek spiritual truth and look for answers to the mysteries of life. My favorite place is a garden where Jesus taught the Sermon on the Mount (Matthew 5-7) to followers, near Capernaum on the Sea of Galilee. His teachings are profound, and contrary to my fallen human nature. But if I could only have one small piece of Scripture to keep and memorize, this would be it.

After returning home I had the opportunity to celebrate a young man’s 13th birthday, the age that acknowledges turning from a boy to a man in many cultures. In Israel we experienced many lively celebrations of this tradition. What advice would I give to someone at this important point in life? “God knows all the stuff you need and want, but seek

first God and establish a good relationship with Him every day where He is the Boss of your life, and then all the stuff you need will be given to you.” Matthew 6:32-3 (Ralph’s paraphrased version)

So if this is good advice for someone else, why do I have trouble keeping this teaching close to my heart? Am I distracted by over-activity, relationships, entertainment, or one-click shopping? I am working hard at spending more time with Him but it is not easy.

The Sermon on the Mount teaching does not end well for everyone listening. “Whoever hears these words of Mine and does them is like a wise man who builds his house on the rock and the floods came and it did not fall because it was founded on the rock. But everyone who hears these words of mine and does not do them will be like a foolish man who built his house on the sand. And the floods came and the house fell, and great was its fall.” Matthew 7:24-7 Both of the builders are listening. Which one am I?

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

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