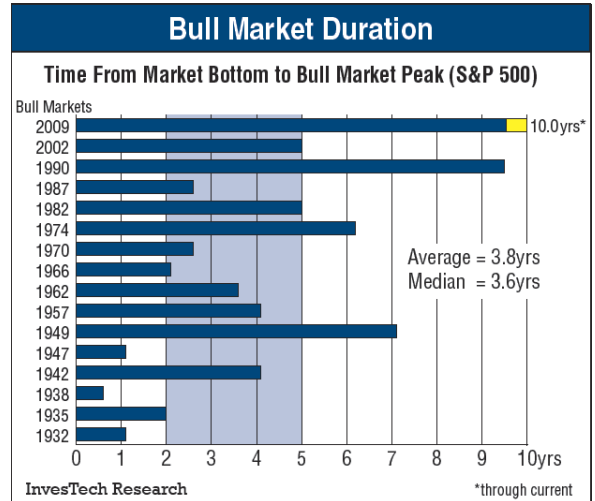


## GENERAL MARKET COMMENTARY

The market just celebrated the 10<sup>th</sup> birthday of the longest running bull market in Wall Street history. The dramatic reversal in Federal Reserve stance in January to end any further interest rate increases for the foreseeable future bought this bull market additional time. Bull markets do not end on certain time frames, but rather when market conditions begin to overheat and inflation causes the Fed to raise interest rates, slowing the economy and ruining the party.

The substantial 13.6% return of the S&P 500 in the first quarter of this year only gets back the decline of 13.5% for the last quarter of 2018, so this is not a new bull market, only a continuation of the current one. Enough time has passed since the last bear market, that many investors don't remember what can happen without a risk management philosophy. While we do not see anything on the horizon this year, the next recession and bear market may not be too far away.



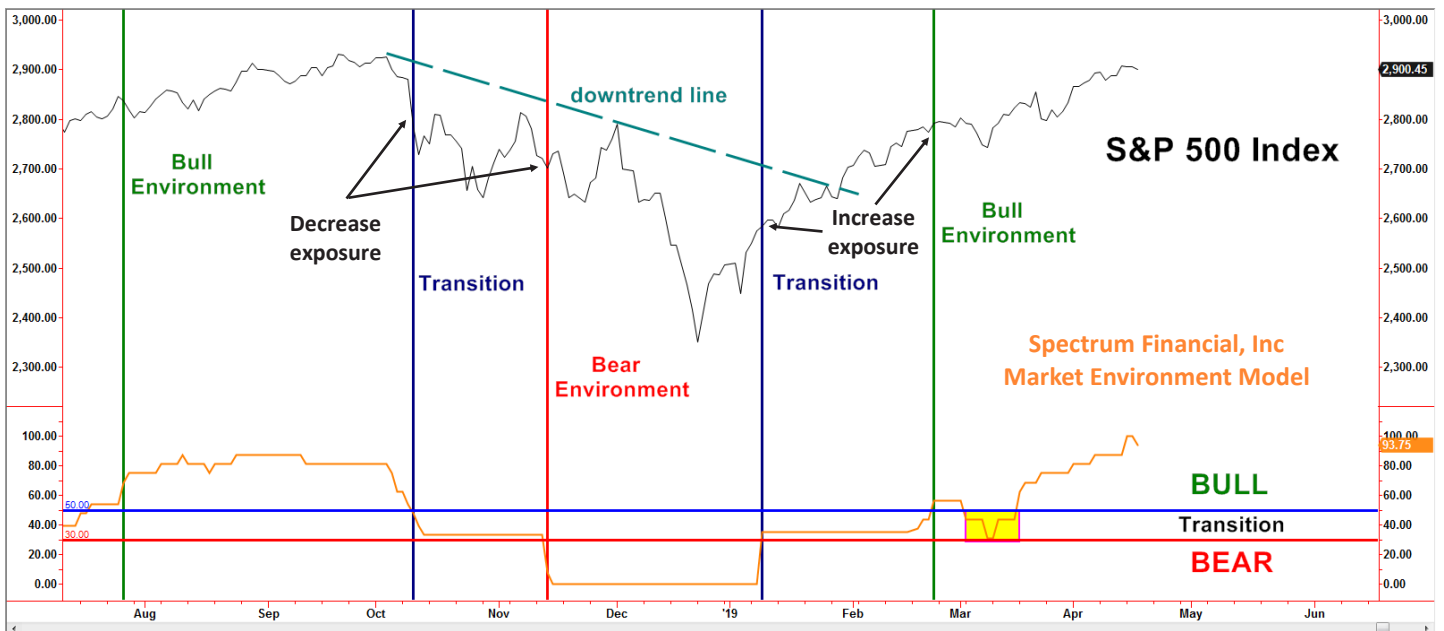
## MARKET TRANSITION

Spectrum's proprietary Market Environment Model does not attempt to predict where the market will go. Sometimes environments can temporarily change, as marked by the yellow box in March (below), but the Model is not used as a black and white trading system. This Model is important in helping us determine which trading systems and/or techniques to use in environments identified as Bull, Transitional, and Bear. More specifically, in bear environments, techniques tend to be faster and focus on extremes that may result in mean reversion. Techniques in bull environments tend to be less sensitive to market dips, allowing for the more common outcome of recovery and trend-following.

The late December rally had enough traction to change the environment to transition. In this environment, price

action is often very jagged with rallies and sell-offs that fail to find traction beyond short periods. In late January and early February of this year, the transition environment was not very jagged but did connect the bear environment to the bull environment as the market moved through the downtrend line and potential resistance zones. In late February, a bull environment emerged. These periods are characterized by resilient price action as dips tend to be short-lived, used as buying opportunities for eager bulls.

Knowing when to use specific trading techniques as well as level of exposure can enhance the probability of success. Patience, however, allows for staying in trends that can last for lengthy periods as compared to the shorter moves in the other environments. "You've got to know when to hold 'em, Know when to fold 'em, Know when to walk away, And know when to run". Where have I heard this before?



## THE LOTTERY EVERYONE CAN WIN (or THE MILLION DOLLAR CAR?)

Albert Einstein once said that compound interest is the greatest mathematical discovery of all time, not his nuclear physics formula  $E = mc^2$ . It is a secret to wealth that very few people understand, but getting wealthy is available to anyone willing to understand and use this discipline. The key to having compound interest work on your behalf is time.

Here is an example that every high school graduate should study before purchasing a first car: Investor B opens an IRA retirement account at age 19, and invests \$2,000 into it each year for only seven years until age 25, and then stops any additional investment from that time until retirement at age 65. Let's assume a 10% annual rate of return, which is approximately what the stock market returns have been this century. The balance would be nearly one million dollars, or 66 times the investment. But, Investor "A" purchases a car at age 19, and then starts to invest in an IRA at age 26 instead, and invests \$2,000 every year (for 40 more years). Who will have more money at retirement? The result in this chart will surprise you.

The two keys to compound interest are: start to invest early and avoid large losses. A 50% loss will require a 100% gain to get back to even. Spending investment principal also produces poor results. We have received many favorable comments over the years from retired employees and clients for explaining this simple but powerful concept. When you borrow money, compound interest works against you, and will make you poor. Don't ever borrow money to buy a depreciating asset.

Age	Investor A		Investor B	
	Contrib	Yr-End Value	Contrib	Yr-End Value
19	0	0	2,000	2,200
20	0	0	2,000	4,620
21	0	0	2,000	7,282
22	0	0	2,000	10,210
23	0	0	2,000	13,431
24	0	0	2,000	16,974
25	0	0	2,000	20,872
26	2,000	2,200	0	22,959
27	2,000	4,620	0	25,255
28	2,000	7,282	0	27,780
29	2,000	10,210	0	30,558
.	.	.	.	.
.	.	.	.	.
61	2,000	658,079	0	645,203
62	2,000	726,087	0	709,723
63	2,000	800,896	0	780,695
64	2,000	883,185	0	858,765
65	2,000	973,704	0	944,641
Less Total Invested:		<u>(80,000)</u>		<u>(14,000)</u>
Equals Net Earnings:		\$ 893,704		\$ 930,641
Money Grew:		11-fold		66-fold

### PERSONAL PERSPECTIVE by Ralph Doudera

A year ago, my daughter gave me a book entitled *A Praying Life* by Paul Miller. This was not just some religious book, but a practical guide on how to effectively change not only my life but others also. Since then I have been working on spending a significant amount of time every morning praying for specific things, and seeing major changes take place, most of which are out of my control. When I can't control things, I am able to drop them in God's lap and watch Him work. By being specific, I can keep my list up-to-date and see things begin to change. It has been quite amazing to me to observe these changes, so I just wanted to report my discovery. This has been a grand experiment, and when I first began spending time each morning, I created a long list of people and situations to pray for and spent most of the time doing all the talking. But I have been realizing that a relationship needs two-way communication. And you can't listen very well when you are talking, so lately I started to spend more time listening. I discovered that He has a lot to say about many things both big and small. The more time I

spend communicating with Him, the more His character is revealed to me giving me "inside information" about many of life's issues. This usually causes me to change my "stinkin' thinkin'" and begin to change my heart and take on God's thought process, which is considerably different than mine. Like "*Love your enemies, bless them that curse you, do good to them that hate you, and pray for them which despitefully use you, and persecute you.*" (Matthew 5:44) This is not something I have a natural inclination to do without His help. But He will give me grace to forgive if I am willing.

Since I can only control my own behavior and may want changes for someone else, I need to pray and watch God do to work. If I try to change someone, it never works. Actually, it works in reverse. Applying the principles in Paul Miller's book helps me organize my thoughts and observe actual results. When I see results, it builds my faith which encourages me to do it more often. Anyone who may be up for some changes in their situation can request a complementary copy of this book from our office.

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

Spectrum Financial, Inc. is a Registered Investment Advisor. The Full Spectrum is published quarterly for its investors and account executives. This publication is not intended to offer or solicit investment advice, nor should anyone act upon any suggestions made herein, without individual counseling from your account executive regarding risks involved. There is no guarantee that the recommendations of management will prove to be as profitable in the future, as they have in the past. The information presented in this issue has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. A copy of Spectrum's current written disclosure statement discussing advisory services and fees is available upon request. *All rights reserved, please notify when quoting.*

