

# THE FULL SPECTRUM

Spectrum Financial, Inc.

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## GENERAL MARKET COMMENTARY

2023 proved to be an unusual year as both stocks and bonds experienced a mixture of significant volatility and various trends, with the final quarter ending positively for most investors. Despite rising interest rates, the "Magnificent 7" technology giants (Apple, Amazon, Microsoft, Alphabet, Meta, Tesla, and NVIDIA) pushed the S&P 500 higher. While the S&P 500 Index was up 26.3%, the unweighted S&P 500 was only up 13.87%, about half as much as the weighted index. The New York Stock Composite Index was up 13.8%. The bond market experienced an exceptional year in 2023, with the last two months being particularly noteworthy. All bond classifications, ranging from government bonds to corporate and municipal bonds, recorded historically strong returns, significantly outperforming money market investors.

As we move into 2024, here are some key points to reflect on:

- **Federal Reserve Policy:** The Federal Reserve's commitment to lowering interest rates in 2024 spurred demand for bonds which will likely continue into 2024. Lower rates increase the appeal of fixed-income investments, as they offer more attractive yields relative to alternative investments.
- **Flight to Safety:** Amidst uncertainties in the equity markets, investors sought safety in bonds. Government bonds, in particular, were seen as a haven for capital preservation.
- **Favorable Economic Conditions:** Stable economic conditions and declining inflation rates made bonds an attractive option for investors looking for more predictable returns.

## WHY BONDS ARE LIKELY TO OUTPERFORM HISTORICAL RETURNS

PIMCO, a leading bond manager, was interviewed in a recent report. "If current economic conditions persist, bonds have the potential to earn equity-like returns based on today's starting yield levels," the report says. In the event of a recession, bonds should outperform stocks, and even if inflation resurges, "high starting yields can provide a potential cushion for bonds." Investors hiding out in money market funds will likely be disappointed again in 2024, as bond prices lock in a higher yield, plus appreciate in value as the Fed drops rates.

With the Federal Reserve's plan to decrease interest rates in 2024, the bond market is poised for continued outperformance. Historically, bonds have tended to

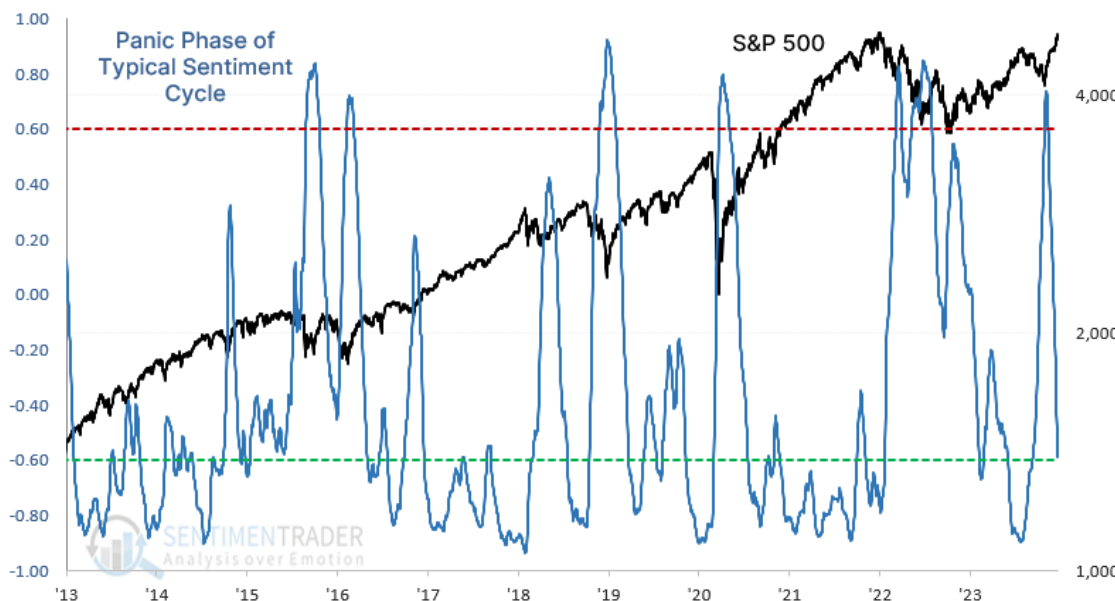
outperform stocks during periods of falling interest rates for several reasons:

1. **Higher Relative Yields:** As interest rates decline, the yields offered by existing bonds become more attractive, potentially driving up bond prices.
2. **Equity Exposure:** Falling interest rates can lead to reduced appetite for equities, increasing demand for bonds as a relatively safer investment.
3. **Income and Stability:** Bonds provide a predictable income stream, making them attractive for income-focused investors seeking stability.

According to the publication *Sentimentrader*, investor sentiment hit peak "panic phase" in October 2023 and

then retreated significantly in historically quick fashion (see the blue line in the chart below). While this graph shows it compared to the S&P 500, this is another reason to be optimistic going into 2024 as positive investor sentiment is usually a good thing for both bonds and equities. If the Fed follows through on lowering interest rates, bonds are poised to take advantage of both the current economic conditions and positive investor sentiment.

## Sentiment has cycled from Panic to not



# AssetMaxx<sup>SM</sup>—Actively Managed Mutual Fund Performance Review

## The Spectrum Funds

### Spectrum Low Volatility Fund - SVARX

As of 12/31/2023	Quarter	YTD	Annualized				Since Inception <sup>1</sup>
			1 Year	3 Year	5 Year	10 Year	
SVARX	8.46%	9.68%	9.68%	2.98%	8.20%	6.72%	6.72%
Morningstar LSTA US Lev Loan TR <sup>5</sup>	3.21%	13.17%	13.17%	5.19%	5.77%	4.00%	4.01%
50/50 iBoxx USD Liquid HY Index/Morningstar LSTA US Lev Loan 100 TR Index <sup>7</sup>	5.21%	13.03%	13.03%	3.46%	5.28%	4.00%	4.01%
Portfolio Composition			9/30/2023		12/31/2023		
High Yield			0.00%		59.59%		
HY Credit Default Swaps			0.00%		0.00%		
Floating Rate			32.40%		14.32%		
Municipal			0.00%		42.53%		
Government			0.00%		0.00%		
Mortgage-Backed			12.45%		0.00%		
Bond - Other			0.00%		5.00%		
Preferred			0.00%		35.46%		
			44.85%		156.90%		

<sup>1</sup>Inception date: 12/16/2013

Expense Ratio: 2.67%

### Spectrum Active Advantage - SAPEX

As of 12/31/2023	Quarter	YTD	Annualized			
			1 Year	3 Year	5 Year	Since Inception <sup>2</sup>
SAPEX	11.15%	12.11%	12.11%	-6.65%	6.84%	5.12%
S&P 500 TR <sup>4</sup>	11.69%	26.29%	26.29%	10.02%	15.70%	12.02%
New York Stock Composite TR Index (NYSE) <sup>8</sup>	10.09%	13.77%	13.77%	7.58%	10.82%	7.64%
Portfolio Composition			9/30/2023		12/31/2023	
S&P 500 Index Exposure			12.40%		23.36%	
NASDAQ 100 Index Exposure			17.04%		21.10%	
Russell 2000 Index Exposure			15.47%		10.51%	
Equity Other			10.05%		48.73%	
Cash Management			6.19%		12.87%	
			61.15%		116.57%	

Expense Ratio: 1.69%

<sup>2</sup>Inception date: 6/1/2015. The Fund changed from the Spectrum Advisors Preferred Fund on April 14, 2022.

## The Hundredfold Select Alternative Fund

### Hundredfold Select Alternative Fund

As of 12/31/2023	Quarter	YTD	Annualized					Since Inception <sup>3</sup>
			1 Year	3 Years	5 Years	10 Years	15 Years	
SFHYX	9.97%	9.94%	9.94%	2.15%	9.87%	6.47%	8.31%	6.38%
S&P 500 TR <sup>4</sup>	11.69%	26.29%	26.29%	10.02%	15.70%	12.03%	13.97%	10.02%
Bloomberg Agg Bond TR Index <sup>6</sup>	6.82%	5.53%	5.53%	-3.32%	1.10%	1.81%	2.68%	3.12%
Portfolio Composition			9/30/2023		12/31/2023			
High Yield			0.00%		49.31%			
Floating Rate			40.24%		14.14%			
Bond Other			5.84%		58.98%			
Managed Futures (net)			0.00%		16.02%			
Alternative			0.00%		0.00%			
Equity			17.43%		20.99%			
			63.51%		159.44%			

Expense Ratio: SFHYX 2.32%

<sup>3</sup>Inception date: 9/1/2004, fund name changed from Spectrum High Yield Plus on June 11, 2008. Additionally, the Fund was reorganized on October 3, 2011 from a predecessor fund (the "Select Alternative Predecessor Fund") to a series of Northern Lights Fund Trust II, a Delaware statutory trust (the "Reorganization"). The Fund is a continuation of the Select Alternative Predecessor Fund and, therefore, the performance information includes performance of the Select Alternative Predecessor Fund.

The performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate, so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted and assumes the reinvestment of any dividend or capital gains distributions. For performance current to the most recent month end, please call 1-888-572-8868. An investor should carefully consider the investment objectives, risks, charges and expenses prior to investing.

The prospectus and summary prospectus contain this and other information about the Funds and should be read carefully prior to investing. To obtain a prospectus and summary prospectus, please call Ultimus Fund Solutions, LLC. at 855-582-8006 or access [www.thespectrumfunds.com](http://www.thespectrumfunds.com) or [www.hundredfoldselect.com](http://www.hundredfoldselect.com).

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**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. It is not possible to directly invest in any index.

**Morningstar LSTA U.S. Leveraged Loan 100 Index:** This benchmark is designed to reflect the performance of the largest facilities in the U.S. dollar leveraged loan market.

**Bloomberg U.S. AGG Bond Index:** The Bloomberg U.S. Aggregate Bond Index measures performance of the total U.S. investment grade bond market. It is a market value-weighted index that tracks the daily price, coupon, pay-downs, and total return performance of fixed-rate, publicly placed, dollar-denominated, and non-convertible investment grade debt issues with at least \$250 million par amount outstanding and with at least one year to final maturity.

**50/50 "iBoxx USD Liquid HY Bond TR Index/Morningstar LSTA US Lev Loan 100 TR Index":** 50/50 iBoxx USD Liquid High Yield Bond TR Index/Morningstar LSTA U.S. Leveraged Loan 100 TR Index: This benchmark gives 50% weight to the iBoxx USD Liquid High Yield Bond TR Index and 50% weight to the Morningstar LSTA U.S. Leveraged Loan 100 TR Index. The iBoxx USD Liquid High Yield TR Index: is market-value weighted with an issuer cap of 3% and consists of liquid USD high yield bonds, selected to provide a balanced representation of the high yield corporate bond universe. Morningstar LSTA U.S. Leveraged Loan 100 TR Index is designed to reflect the performance of the largest facilities in the leveraged loan market.

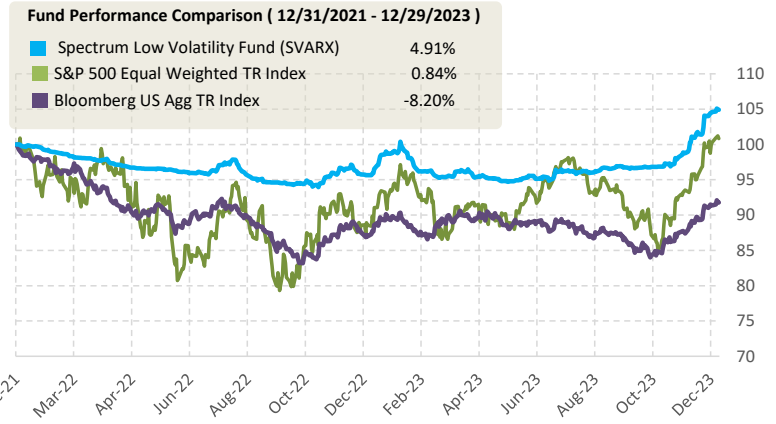
**New York Stock Composite Index (NYSE):** The NYSE Composite Index (NYATR) measures the performance of all stocks listed on the New York Stock Exchange. It includes more than 1,900 stocks, of which over 1,500 are U.S. companies. Its breadth therefore makes it a much better indicator of market performance than narrow indexes that have far fewer components. The weights of the index constituents are calculated on the basis of their free-float market capitalization. The index itself is calculated on the basis of price return and total return, which includes dividends.

**S&P 500 Equal Weight TR Index:** is the equal weight version of the widely-used S&P 500 TR. The index includes the same constituents as the capitalization weighted S&P 500 TR, but each company in the S&P 500 TR is allocated a fixed weight, or 0.2% of the index total at each quarterly rebalance.

## SPECTRUM LOW VOLATILITY FUND NOW HAS A 10 YEAR TRACK RECORD

The chart (right) illustrates the past two years performance of the Spectrum Low Volatility Bond fund (SVARX), measured against the equal weighted S&P 500 Stock Index, and the Aggregate Bond Index while the Federal Reserve has been raising interest rates. As you can see the fund's primary investment objective is risk reduction, but was still able to produce positive returns by reducing risk in down markets and increasing exposure when market conditions improve. The fund was created for investors seeking lower risk but steadier returns. This fund now has a 10-year track record and is the top performing fund in Morningstar's Non-Traditional Bond category over

both a 5-year and also a 10-year period (see pg. 2&3 for disclosures).



### PERSONAL PERSPECTIVE by Ralph Doudera

After two years of modest investment returns, I started to question myself on whether I might have lost the ability to meet the objective of our strategies. This objective is found in a proverb which has been printed in every newsletter we have published over the past 35 years: *“Steady plodding brings prosperity, hasty speculation brings poverty”* Proverbs 21:5. Navigating the financial markets over the past two years probably could be likened to swimming upstream in class 5 rapids.

In his book *Trading to Win* Ari Kiev, M.D., a stock trading coach and consultant, says that investors eventually get the performance that they expect and think they deserve. He also says, “the market is linked to so many independent events that probability theory doesn’t apply, it is necessary to master your automatic defensive responses to the uncertainty of the market in order to improve decision making, particularly in light of the stressful nature of the market.” Winning traders view the results over a longer time frame. They have faith that if they do the right thing, over time they will profit. Kiev compares it to golf where a pro golfer has one bad hole, but instead of focusing on the bad shot he pours all his focus on the *next* shot. Aggressive investing to make up for losses will eventually bring disaster. One of his key principles is “keep in mind that humility is helpful too, especially in a market that is changing and where you have to admit that what you knew and did before might not work today.”

Two of the most influential books which have helped me succeed greatly over my business career are *The Magic of Thinking Big* by David Schwartz, (which I read 49 years ago) and the *Bible*, which I have studied for even longer. Schwartz emphasizes the importance of setting ambitious goals. I still do this. I monitor my competition and review it on a daily basis. Other keys Schwartz mentions are:

1. Mental imaging and positive thinking.

2. Overcoming fear, both of success or failure. I need to make decisions decisively and not emotionally. Money and emotions are often connected, so I do not allow myself to think *money*, but strategy--like playing Pacman, Chess or Hearts. I have always invested clients’ funds the same way I would do my own. The more emotional investors are, the worse they do.

3. Continuous learning and adaptability. Markets continually morph, just like computers and artificial intelligence changes how we perform tasks, do our jobs, etc.

4. Ability to take action and acting boldly when the odds favor increasing exposure. I EXPECT superior returns from my decisions, hopefully it is not ego driven, but a result of being the best I can be as a portfolio manager.

The Bible has several teachings that can be related to these principles of mental focus. James 1:5 states: *“If any of you lacks wisdom, you should ask God, who gives generously to all without finding fault, and it will be given to you.”* Do I ask? Yes, almost every morning I set aside time before the sun comes up to talk and more importantly, to listen. Proverbs 16:3 says *“Commit to the Lord whatever you do, and he will establish your plans.”* Matthew 6:33 advises *“But seek first his kingdom and his righteousness, and all these things will be given to you as well.”* He has been very faithful to me for this promise as well. And as the lyrics say in Keith Green’s classic song (*O Lord, You’re Beautiful*): *“And when I’m doing well help me to never seek a crown, for my reward is giving glory to You.”*

What is your goal for this year? Why not think bigger? Let’s set a goal that is bigger than we expect and ask God to show up. But remember when the excess comes our way we need to recognize who it belongs to, and not just consume it on ourselves. Being generous is one of life’s natural highs.

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

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