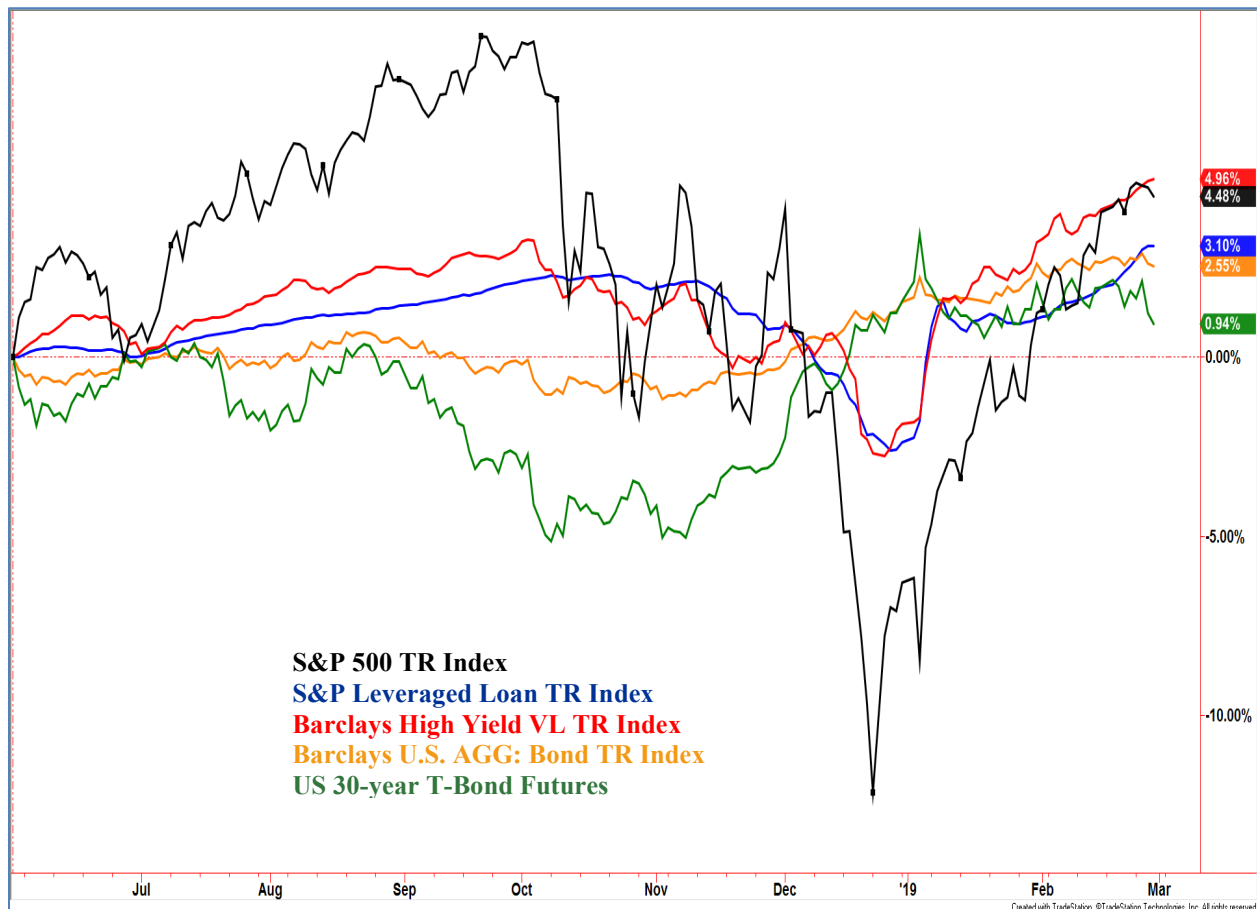
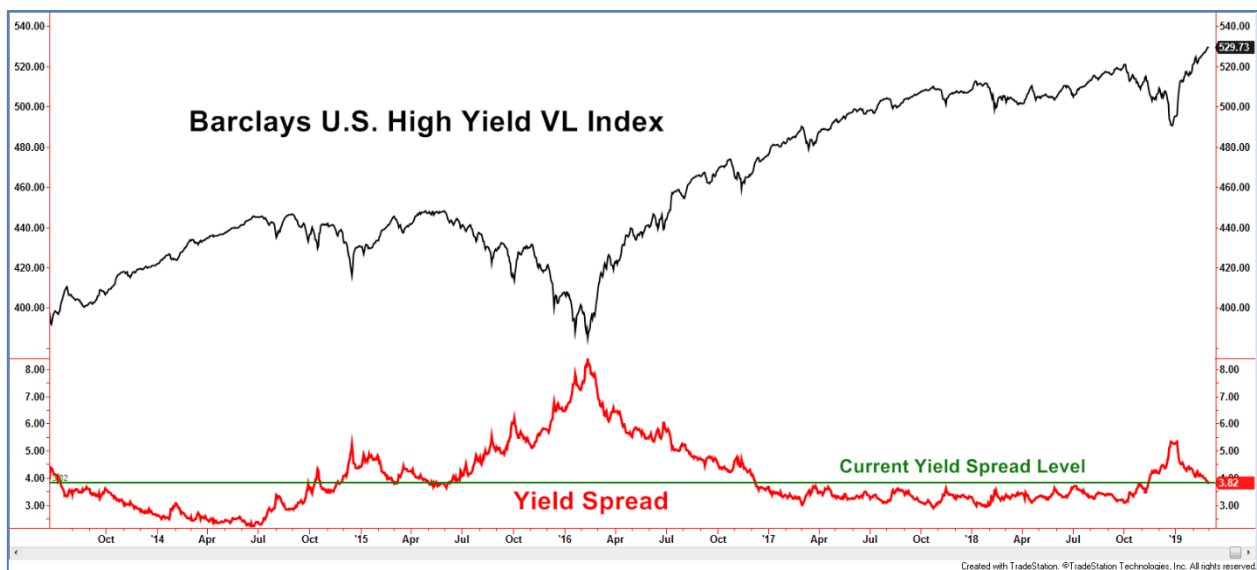


The positive factors that began to form in late December, and remained throughout January, accumulated in February. Fed Chairman Jerome Powell confirmed the dovish tone of the Federal Reserve's position, going so far as to use the word "patience" which stimulated markets even more. Positive progress regarding trade talks between the United States and China served to further stoke investor excitement. Fourth quarter earnings came in strong, with over 70% of companies beating expectations, although future guidance estimates continue to come in cautious as signs of a potential global slowdown begin to emerge.



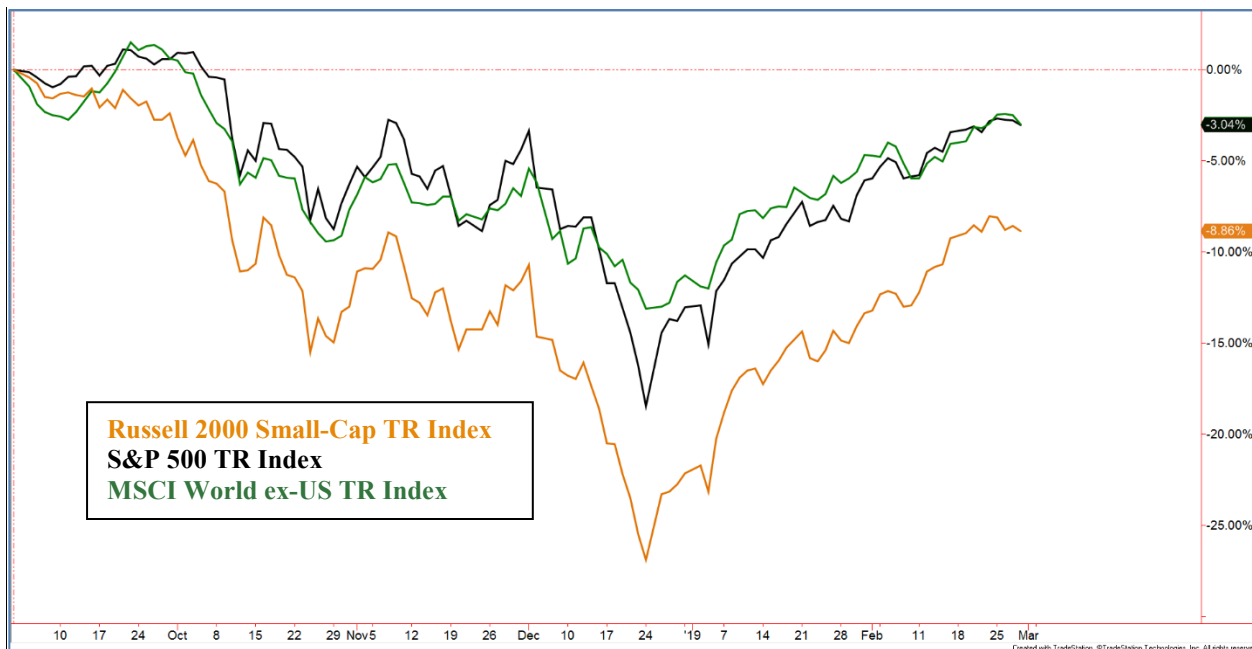
Risk-off assets such as treasury bonds and investment grade bonds continued to consolidate after gaining ground in late 2018, remaining mostly range-bound. However, treasury bonds have been under greater pressure. Conversely, risk-on fixed income areas such as high yield and floating rate pushed higher in low volatility uptrends. The softer Fed stance, along with supportive economics and a strong rally in equities, has proved to be a solid environment for risk-on fixed income classes, and in particularly credit. Sentiment remains favorable for riskier assets moving into March.



The charts above represent several categories within the high yield market. By looking at multiple categories, information regarding risk can be assessed which plays a role within Spectrum strategies.

Products such as the iShares iBOXX High Yield Bond ETF (HYG) and Credit Default Swaps tend to be more sensitive to changes in investor sentiment as seen in the sharp declines during December. Volatility and trends are monitored to assess the odds of a continued bullish outcome. The yield spread is another measure of investment risk. It measures the difference in yield between treasury bonds and high yield bonds. Spreads widen when investor fear is heightened, sometimes for valid longer-term reasons, and sometimes for short-lived more emotional reasons. A favorable environment is characterized by declining yield spreads. Spreads have begun to ease in January and February as fearful sentiment abates. Despite high yield bonds trading near highs, the yield spread is well above the lows of its multi-year range.

Our strategies have various requirements before taking positions. The High Yield Strategy generally waits for lower volatility and more discernable positive trends. Leveraged High Yield Strategy incorporates such factors for core positions while assessing shorter-term, more tactical methods for margined exposure.



Global equity markets in February were mainly characterized by low and declining volatility. Small-caps and technology led domestic markets. In foreign markets developed nations outperformed emerging. Momentum slowed as the month progressed, but uptrends have been maintained.

## SecurityMaxx Strategies – An Inside Look

### **HIGH YIELD BOND**

Favorable trends in high yield during January continued throughout February. Yield spreads have declined, but are still above the average 2018 levels.

### **LEVERAGED HIGH YIELD BOND**

Leveraged positions were added during February as positive trends in high yield bonds were maintained.

### **INTERNATIONAL SECTOR**

Emerging markets continued to trade in choppy trading ranges while developed markets gained ground. This warranted modest levels of rotation within the strategy.

### **CORE FOCUS**

The Major Trend Index (MTI) remained negative during February, limiting exposure to U.S. stocks to 32%. The MTI's stubbornness during the current rally suggests that cyclical risks for U.S. equities remain high. Core added a 20% position in two alternative sectors, REITs & Precious Metals with the balance in fixed income and money market.

| BENCHMARK PERFORMANCE                   | TOTAL RETURN | TOTAL RETURN |
|---|--------------|--------------|
|   | Feb          | YTD          |
| Barclays High Yield VL TR Index         | 1.69%        | 6.96%        |
| Wilshire 5000 TR Index                  | 3.47%        | 12.42%       |
| NASDAQ Composite TR Index (w/dividends) | 3.60%        | 13.74%       |
| S&P 500 TR Index (w/ dividends)         | 3.21%        | 11.48%       |
| MSCI World ex USA TR Index              | 1.98%        | 9.71%        |

This report is not meant for general public distribution. It is written for internal use by Spectrum Financial, Inc., its staff and representatives. This report is not written as a guide for anyone to use in their own investment management. Therefore, this report is not formatted, proofed, or reviewed for broad distribution.

**Barclays U.S. AGG: Bond TR Index** is a market capitalization-weighted index comprised of USD-denominated, investment-grade, fixed-rate, taxable bonds. The index includes government securities, mortgage-backed securities, asset-backed securities and corporate securities all with a maturity of greater than one year.

**Barclays High Yield VL TR Index** includes publicly issued U.S. dollar denominated non-investment grade, fixed-rate taxable corporate bonds that have a remaining maturity of at least one year, regardless of optionality.

**S&P/LSTA U.S. Leverage Loan 100 TR Index** comprised of the 100 largest bank loans with floating rate coupons.

**iShares iBoxx High Yield Corporate Bond ETF (HYG)** which seeks to track the investment results of an index composed of U.S. dollar-denominated, high yield corporate bonds.

**CDS (Credit Default Swaps)** a financial contract whereby a buyer of corporate or sovereign debt in the form of bonds attempts to eliminate possible loss arising from default by the issuer of the bonds. This is achieved by the issuer of the bonds insuring the buyer's potential losses as part of the agreement.

**Standard and Poor's 500 TR Index (S&P500)** is a capitalization weighted index of 500 stocks representing all major domestic industry groups and assumes the reinvestment of dividends and capital gains.

**NASDAQ Composite TR Index** is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market, and Capital Market.

**Wilshire 5000 TR Index:** measures the performance of all U.S. equity securities with readily available price data.

**Russell 2000 Small-Cap TR Index** measures the performance of the small-capitalization sector of the U.S. equity market.

**MSCI World ex USA TR Index (MXWDU)** is a capitalization weighted index that monitors the performance of stocks from around the world other than the US.

**Major Trend Index (MTI, developed by The Leuthold Group LLC)** is designed to recognize major market trends rather than intermediate moves, combining over 180 individual components to assess the overall health of the stock market. It includes Intrinsic Value Indicators, Supply/Demand Tools, Market Action Tools, Attitudinal Gauges, and Economic/Interest Rates/Inflation Measures. Revisions and weighting adjustments are made from time to time.