

October 2008

Dear Investor:

Since our regular newsletter does not go out until the end of this month, we thought it would be appropriate to give a brief update of the financial markets in view of recent market conditions. We have all witnessed one of the most volatile financial markets since the early 20th century, although price declines have so far been only of average bear market proportions.

In a series of unprecedented and aggressive moves, the US Treasury, SEC, Federal Reserve and US Congress have employed dramatic measures in an attempt to avoid greater damage to the global markets to prevent an economic meltdown. Legislation passed October 3rd will eventually begin to alleviate some of the liquidity crisis so that businesses and consumers can borrow money again. Meanwhile there will be no assurance that the delay of this legislation has avoided a serious recession risk or stock price adjustment.

Spectrum accounts have been only partially invested throughout 2008 since we received our bear market signal in January, so although we have modest losses for most of our trading accounts, we have had a large portion of clients' investments in a cash position. Where possible, these cash positions are in the safety of US Government money market mutual funds or the equivalent.

In spite of all the doom and gloom that is being spread by the news media, this is just another bear market that will eventually lead to the next bull market. The S&P is now down over 35% from its peak last October. That is about typical for a run-of-the-mill bear market so far, but no one really knows how long this may continue. I think it is fair to say that we are a lot closer to a buying opportunity than we have seen for a long time, but do not want to be premature and take excessive risk at this point in time. This does feel like it has the potential of being a more severe bear market than past ones, but will not be the financial Armageddon that many would have you believe. As is the case for every bear market, easy monetary policy, lower interest rates, and more attractive stock valuations will set the stage for the next bull market to follow—but only after most investors have become convinced that they will lose everything. They will not.

In order to take full advantage of the next bull market, it is essential to get through this bear market with our capital intact and in position to reenter the markets in a more aggressive manner when the time is right. Experience has shown us that people who cash out of the financial markets with their long term investable capital will eventually put their funds back to work at a much higher price, after the market turns up for an extended period of time and they "feel good". Investing is not about feeling good, but about discipline, and emotions are always wrong when it comes to investing.

The following illustrates recent bear markets and recoveries shortly thereafter:

<u>Year</u>	<u>Bear Market Decline S&P 500*</u>	<u>Subsequent Rally</u>
1987	-35%	+23% in 1 ½ months
1990	-20%	+33% in 6 months
1998	-23%	+39% in 3 months
2003	-50%	+47% in 10 months (+75% for Russell 2000)
2008	-35%	?

* *Numbers obtained through Bloomberg*

As far as High Yield Bonds are concerned, I am about as excited as ever on their potential coming out of this crisis. We have been in the safety of a cash position watching them drop like bricks. They currently pay 11% more than Government Bonds, nearing an historic high, and when the credit crisis end is in sight, they should be quite profitable. More about this will be written in the month end newsletter.

Meanwhile try to relax and leave the investing to us. The current crisis will eventually prove to offer a great buying opportunity. We encourage clients to stay the course and possibly increase their investment dollars under Spectrum's management. At Spectrum, we have proven that we are able to navigate well through market times such as these. By remaining in the safety of money markets, we will be in a position to reallocate to investments that are more aggressive when the appropriate conditions warrant. We have seen these kinds of markets before, and will continue to deal with them in a responsible and conservative manner. Please call our office and find out how you can help your friends, family, and others to safely prepare for the next bull market.

Your Representative and our Client Service Team are available to answer specific questions regarding your portfolio and it is always appropriate for you to call if you need more information about your investment.

Sincerely,
Ralph Doudera, CEO

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