

Spectrum Investor® 3rd Quarter 2007 Investment Review

Enclosed are your investment returns for the third quarter ending September 30, 2007. It was a rocky ride, but the average US diversified stock fund eked out a .94% positive return for this quarter, a better outcome than many anticipated as the sub-prime mortgage crisis dominated headlines. Sub-prime mortgages make up only about 15% of all mortgages (*Fortune*, 8/20/07). The biggest third quarter gains were concentrated in portfolios holding large multinational companies. The **large cap growth** category (red), which has underperformed the market for the past seven years, was up 5.43%. The worst performer was **small cap value** (orange), one of the top performing categories for the seven year period ending in 2006, down 6.13% (*WSJ*, 10/2/07). Despite the troubling housing sector we are experiencing a “**global economy**” with robust growth in China, India and Latin America. This should provide an important counter-balance to lingering weakness in the United States and other developed countries.

The Federal Reserve came to the market’s rescue by its surprising decision to cut rates in mid August by half a percentage point, demonstrating a clear shift from tight money to easy money. This is bullish in the short-term for stocks and natural resources, but inflationary in the long-term (*Forecasts & Strategies*, 10/07). In comparison, when the global economy was reeling from the impact of currency turmoil in Asia when Russia defaulted on its debt payments, the Alan Greenspan-led-Fed first responded with only a modest cut in benchmark rates. Unimpressed, investors continued to sell in ‘98 with the market declining about 20% before Greenspan responded with an inter-meeting rate cut. However, as inflation rises and the dollar continues to lose value, the Federal Reserve may not have the long-term luxury of continuing to lower interest rates (*Historical Perspectives*, 10/07).

Market sectors changing leadership from winners to losers and vice versa, is part of the normal business cycle. Historically, when a sector underperforms for five to six years, it is generally followed by a period of stronger performance and vice versa for the winning investment styles. **Natural resources** (black) and **international** (white) stock funds, both strong performers due to a weaker dollar and strong global demand, appear to be in the middle innings of the current business cycle. A sector to watch is **bonds** (aqua), which has been the worst performing category for almost five years, which means it could be due to be a potential strong performer by the end of the decade. As Bob Landaas from Landaas & Company says, “The reason you own bonds, is to give you the courage to own stocks.” Past performance is not an indication of future results.

As you can see by the table, triple digit moves, once a rarity, have now become a common occurrence. For example, a 100-point swing in the Dow in 1988 had a change in value of 4.9%. Today, a 100-point swing in the Dow has a change in value of only 0.8%. If the graph on the right teaches us anything it’s the following: **first, the worst way to invest is to buy when optimism fills the air or to sell when everyone’s predicting the end of the world. The goal is to buy low and sell high, not the other way around. Second, don’t “freak out” when you see triple-digit moves on the Dow, either up or down.** The first triple-digit Dow move came in October, 1987. Since that time, a 100-point move has become less significant over time (CNNMoney.com, 8/07).

Jonathan Clements (WSJ) states that what is important in investing is to keep your emotions in check. “When the market turns wild, folks are often tempted to flee hard hit sectors. Rebalancing forces you to grit your teeth and invest more in funds that are suffering, while easing up on those that have fared well. Result: you buy low and sell high, turning the market’s mayhem into a money making opportunity” (*WSJ*, 8/07). Long-term, stay diversified with a balanced portfolio of stocks, bonds and cash based on your age and risk tolerance and **stay the course**.

Thanks for your business.

Sincerely,

James F. Marshall
President

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Spectrum Investor® Update 9/30/07 Total Return			
Category Average	3 rd Qtr	1 Year	3 Year
Int.-Term Bond	2.13%	4.24%	3.35%
Balanced (Mod. Alloc.)	1.81%	12.89%	10.31%
Large Cap Value	-0.52%	14.44%	13.52%
Large Cap Blend	1.64%	16.48%	13.10%
Large Cap Growth	5.43%	20.57%	12.93%
Mid Cap Value	-3.27%	14.76%	14.14%
Mid Cap Blend	-1.63%	17.61%	14.72%
Mid Cap Growth	3.62%	24.64%	16.49%
Small Cap Value	-6.13%	9.12%	11.72%
Small Cap Blend	-3.68%	13.61%	13.54%
Small Cap Growth	0.84%	20.32%	14.19%
Foreign Large Blend	3.30%	26.18%	23.06%
Natural Resources	7.75%	39.14%	27.45%

Source: Morningstar, 3 Year Return is annualized.
Past performance is not an indication of future results.

Triple Digit Dow Days

Year	Up 100s	Down 100s	Total	Value of 100 Point Move
2007	15	14	29	0.8%
2006	19	14	33	0.9%
2005	15	20	35	0.9%
2004	22	24	46	1.0%
2003	38	27	65	1.1%
2002	51	67	118	1.1%
2001	49	50	99	1.0%
2000	53	53	106	0.9%
1999	52	36	88	1.0%
1998	37	25	62	1.2%
1997	27	25	52	1.3%
1996	2	4	6	1.7%
1995	0	1	1	2.2%
1994	0	0	0	2.6%
1993	0	0	0	2.8%
1992	0	0	0	3.0%
1991	1	1	2	3.4%
1990	0	0	0	3.7%
1989	0	1	1	4.0%
1988	0	2	2	4.9%

Source: *Fortune* 7/3/07

9/30/07

Dow: 13,895

NASDAQ: 2701

Barrel of Oil: 81.66

Source: *USA Today* 10/1/07

S&P 500: 1526

10Yr T-Note: 4.84%

Inflation Rate: 2.0%

(Aug 07)