A Best Idea: Spectrum Macro Equity Environment Model

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Investment Strategy: Generally applies a top-down technical approach to understand and gain insight into the markets

A standard, and really demand, in our industry today is to showcase differentiation. Differentiation comes down to knowledge and insight, and more specifically the methodology used to attain that knowledge and insight. The diversification of methodology is just as important as diversification of sectors. Spectrum Financial's best idea for 2019, and 2018, is not a specific stock pick or market sector but a model. Spectrum has been managing assets since 1988 through separately managed account strategies and 40 act mutual funds. We are a technical firm, that generally applies a top-down technical approach to understand and gain insight into the markets. It is easiest to first think of us as researchers and analysts and then as money managers. Within our equity and fixed income research there are countless models that we use, and our best idea for both 2018 and 2019 is just one of many: the Macro Equity Environment Model. This model identifies 3 different types of equity environments: Bull Environment, Bear Environment and a Transition Environment. Instead of relying on media-like definitions of bull and bear markets, this model has four components for detecting environment changes.

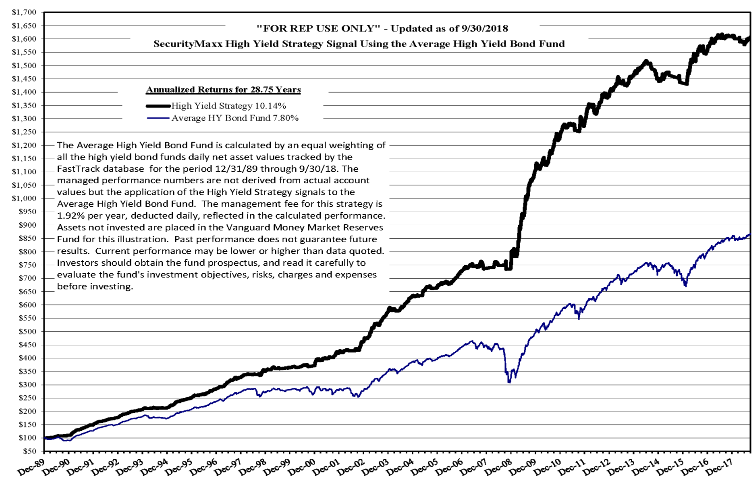
1. **There are various ways in the industry to label bull or bear markets.** The Spectrum Funds investment team takes various methods and applies them to multiple indices and market sectors to obtain a net message of the current environment. This is done daily and is only step one in determining the overall environment.

METHODS

	A	B	C	D	E	F	G
Sector 1	Bear	Bear	Bear	Bear	Bear	Bear	Bear
Sector 2	Bear	Bear	Bear	Bear	Bear	Bear	Bear
Sector 3	ntl	Bear	Bull	Bull	ntl	Bull	ntl
Sector 4	Bull	Bear	Bull	Bull	Bull	Bull	Bull
Sector 5	Bear	Bear	Bull	Bull	Bear	ntl	ntl
Sector 6	Bear	Bear	Bull	Bull	ntl	ntl	ntl
Sector 7	Bear	Bear	Bull	Bull	Bull	Bull	Bear
Sector 8	ntl	Bear	Bull	Bull	Bull	Bull	Bull
Sector 9	Bull	Bull	Bull	Bear	Bear	Bear	Bull
Sector 10	Bear	Bear	Bear	Bear	Bear	Bear	Bear
70	Boxes						
26	Bull	**37.14%**					
35	Bear	**50.00%**					
9	ntl	**12.86%**					

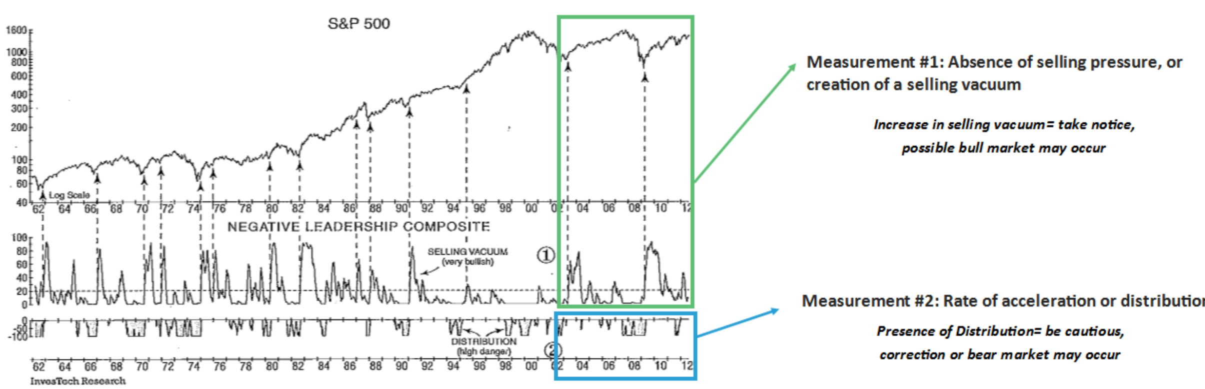
2. **Outside confirmation of environment from High Yield Bonds**. High Yield bonds are something that Spectrum has invested in for 28+ years. The signal has a lengthy track record and has been used in Spectrum High Yield Bond SMA Strategy since 1990 (request performance 1). High yield bonds tend to precede equity market movements due to their sensitivity and historically being an institutional playground.

Spectrum Financial's High Yield Bond Signal

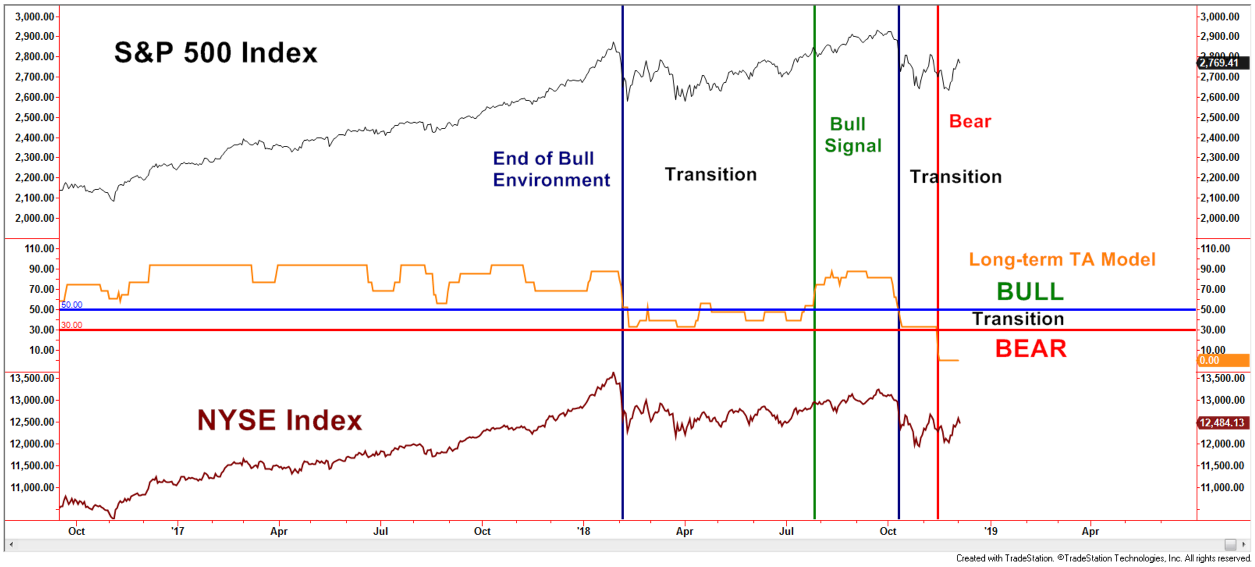


3. **Determining the quality of current trends and their consistency is a key message for validating a market environment.** The Directional Movement Index (DMI) is applied to the equity markets to evaluate the consistency of either higher highs or lower lows.

4. **Measuring bellwether leadership gives additional data** to signal the onset of a new major bull market or a full-scale bear market because it looks at one of the most valuable technical tools in the stock market: the number of stocks hitting new year lows, or downside leadership.



Determining the overall macro environment allows Spectrum's management team to adapt exposure ranges, investment holdings and trading techniques to fit the current environment. As Spectrum heads into 2019, this model and the net message it generates will continue to guide the investment team in making portfolio decisions for its clients. Below is the Macro Environment Model as of 11/30/2018.



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S&P TR 500 Index is a capitalization weighted index of 500 stocks representing all major domestic industry groups. The S&P 500 TR assumes the reinvestment of dividends and capital gains. It is not possible to directly invest in any index.

The NYSE Composite Index (NYA) 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.

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