



*Part 2A for Form ADV: Firm Brochure*

***Revision 3/27/2012***

**Spectrum Financial, Inc.**  
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This brochure provides information about the qualifications and business practices of Spectrum Financial, Inc. If you have any questions about the contents of this brochure, please contact us at 757-463-7600 or [info@InvestSpectrum.com](mailto:info@InvestSpectrum.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Spectrum Financial, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

This Brochure dated March 27, 2012 has been updated materially to include the following information:

1. Fee Structure – Fees were reduced for Sector traded accounts to 1.9%
2. Service Fee received directly from the Hundredfold Select Funds were reduced to .25%.
3. Other Financial Activities and Affiliations were updated to include:
  - a. Service Agreement Relationship with Ceros Financial Services, Inc.
  - b. Broker licensing information updated for key employees
  - c. Business development with investment trading platforms.

Currently, our Brochure may be requested by contacting us at (757) 463-7600. Our Brochure is also available on our web site [www.InvestSpectrum.com](http://www.InvestSpectrum.com).

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## Item 3 – Table of Contents

• Item 1 – Cover Page.....	1
• Item 2 – Material Changes.....	2
• Item 3 – Table of Contents.....	2
• Item 4 – Advisory Business.....	3
• Item 5 – Fees and Compensation.....	4
• Item 6 – Performance Based Fees .....	6
• Item 7 – Types of Clients.....	6
• Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	6
• Item 9 – Disciplinary Information.....	6
• Item 10 – Other Financial Industry Activities and Affiliations.....	6
• Item 11 – Code of Ethics, Client Transactions/Personal Trading.....	7
• Item 12 – Brokerage Practices.....	8
• Item 13 – Review of Accounts.....	8
• Item 14 – Client Referrals and other Compensation.....	8
• Item 15 – Custody.....	8
• Item 16 – Investment Discretion.....	8
• Item 17 – Voting Client Securities.....	9
• Item 18 – Financial Information.....	9
• Other Disclosure Information (Supervised Persons) .....	9

## Item 4 – Advisory Business

A – Spectrum Financial, Inc. (a sub-s corporation) was formed in 1986 and registered with the SEC in 1988. The firm is solely owned by Ralph J. Doudera who serves as CEO. The primary objective of Spectrum Financial, Inc. (Spectrum Financial) is to achieve consistent rates of return that are in excess of a buy/hold strategy over a complete market cycle and provide liquidity by preserving the purchasing power of the assets under management. Strategies designed and implemented strive to avoid declining markets and strive to participate in rising markets.

B – Spectrum offers three types of services: SecurityMaxx, AssetMaxx, and WealthMaxx (currently inactive). These services all provide the same underlying philosophies Spectrum strives to provide its clients. The description of these services and related information is outlined below:

### SECURITYMAXX

This program aids clients in effecting buy/sell transactions between defensive (money market) funds and aggressive (bond or stock) funds in the same mutual fund family, variable life or annuity contract, or custodian/platform. Exchanges may result in short-term capital gains or losses and dividends may vary depending on investment strategies. Large quick profits are not the primary goal of these investment strategies. **3<sup>rd</sup> Party Custodians:** Certain strategies of Spectrum Financial may only be offered through specific custodians. Spectrum Financial has arrangements with third party custodians that allow Spectrum Financial to choose between several fund families on a non-commission basis. Spectrum Financial has discretion over the fund(s) purchased or sold without obtaining the consent of the client and may also recommend the sale or redemption of fund shares other than for exchange, if, in its opinion, the fund shares are not conducive to management. Statements usually are generated from the custodian on a monthly basis but will not be generated less than quarterly. There may be transaction charges involved when purchasing or selling the funds as well as custodial fees payable to the third party custodian. The client is made aware of these charges when the custodial account is established. Spectrum Financial does not participate in these fees. **Contract Processing:** A client should understand that Spectrum Financial might require 2-4 weeks to establish an account, i.e., review the documents for proper form, setup computer records, and implement other procedural tasks. Delays may occur due to an improper account number, spelling of name or other matters. If a signal is generated during the initial processing, a client may or may not be moved into the signaled position and thus possible losses may occur during this period for which Spectrum Financial assumes no responsibility in the implementation of these initial trades. Spectrum Financial attempts to process all trade orders within 24-hours of generating a buy/sell signal. In the event that a Spectrum Financial administrative error occurs and it is not corrected within the 24-hour period, Spectrum Financial will evaluate the error as follows: 1. Accounts with actual losses above 25 basis points, a credit will be applied to future management fees. 2. Accounts with lost opportunity above 25 basis points, a credit will be applied in the amount of an annualized rate of 6% of the account value and will be based on the number of days the error was not corrected outside the 24-hour period. 3. Accounts that benefit from the error will not be adjusted. If a client cancels all management, the offset of fees would be negotiated. If resolution is not obtained, the arbitration clause in the contract would apply. Delays could occur due to circumstances beyond Spectrum Financial's control, such as restrictions imposed by funds or custodians, natural disasters, internet interruptions, etc. In such event, Spectrum Financial assumes no responsibility for any possible losses. Spectrum Financial will not honor any request to move an account contrary to its current recommended signal position unless the client terminates the contract and provides specific instructions to Spectrum Financial. The client agrees not to cause or permit any exchange to be made in the account that is inconsistent with a recommendation of Spectrum Financial. Any acts inconsistent with the foregoing shall relieve Spectrum Financial of any liability. Clients should carefully review the prospectus for possible fund restrictions on exchanges, as Spectrum Financial will not be responsible for losses resulting from any such restriction.

### **ASSETMAXX**

In this program, Spectrum Financial builds client's portfolios using actively managed mutual funds. The active management is done internally within the fund giving the client the benefits of risk reduction. Spectrum Financial will aid the client in determining a portfolio mix of these mutual funds based on their client profile. The client's mix of mutual funds is designed and intended to be held long-term with periodic rebalancing among the client's holdings. Annual reporting of the assets held and ongoing servicing for the account will be provided under this service. This service is entered in to by a Letter of Engagement (LOE).

### **WEALTHMAXX (currently inactive)**

In this service, Spectrum Financial creates a portfolio of alternative investments for qualified or accredited investors only. The investor must provide information which will then verify what type of investor they will be classified. The service includes alternative investment research, client risk analysis and annual performance reviews but primarily provides a liaison service between the investor and individual alternative investments. This will give the client consolidated information for their portfolio on a quarterly basis. Recommended alternative investments will likely invest in a wide range of investment vehicles and strategies, which may involve a high level of risks. Spectrum Financial will provide an annual review to determine if the portfolio is in line with the client's objectives. Recommendation for changes in allocation may be made by Spectrum Financial; however, the client must provide written consent to implement changes. Spectrum Financial or its officers or directors do not manage the alternative investments used in building the clients portfolio. Clients are encouraged to understand the risks involved in alternative investment investing.

C- The strategies utilized are based on the client's objectives and risk tolerance. Several strategies may be used to diversify a client's portfolio such as bond, US stock, international, or sector. There is no provision for clients to restrict funds used by the strategies.

D-N/A: Spectrum Financial does not participate in wrap fee programs.

E-Assets under management FYE 12-31-2011

Discretionary Amount	\$216 million
Discretionary Accounts	1143

## **Item 5 – Fees and Compensation**

### **SECURITYMAXX (A-E)**

This service is marketed directly by officers and employees of Spectrum Financial and through solicitors termed "Representatives" who may be associated with an advisory firm, brokerage firm or Investment Company affiliated brokerage firm. A solicitor's fee is paid to Representatives ranging from 25 basis points of total assets to 50% of the total fee collected. The fees charged the client for Spectrum Financial services are not increased because of this arrangement. Often, the Representative is also a licensed sales person with a broker/dealer. As such, the representative may receive or have received commissions for the client's initial purchase of the particular securities and subsequent commissions (sometimes referred to as 12b-1 charges) depending on the program entered into by the client. Spectrum Financial may also recommend these types of funds to their clients but does not receive any portion of these commissions under the SecurityMaxx program. All fees paid to Spectrum Financial for advisory services are separate from the fees and expenses charged to shareholders of mutual fund shares, variable life or variable annuity contracts. A complete explanation of expenses charged by the mutual fund or insurance product contracts is contained in its prospectus and should be reviewed by the client prior to investing. Since the Representative may also be affiliated with a broker/dealer handling the client's account, there may be a potential conflict of interest.

**Fee Structure:**

<u>Investment Amount</u>	<u>Annual Fee</u>
Amounts under \$100,000	2.5%
Amounts \$100,000 and over	1.9%
Leveraged High Yield Bond	2.5%
Market Phase Plus	1.5%

In addition to the above fee structure, each account will also be charged a \$100.00 administrative retainer fee annually. The retainer fee will be reduced to \$50.00 for multiple accounts after the initial fee of \$100.00 is satisfied. Fee percentage range is for strategy specific fee structures. It is the opinion of the SEC that annual management fees in excess of 2% are considered excessive and other advisors provide similar services at lower rates. The higher 2.5% fee for accounts under \$100,000 allows Spectrum Financial to accept accounts smaller than our recommended minimum investment. Although Spectrum Financial reserves the right to accept accounts below \$50,000, the recommended minimum account size per contract is \$50,000. The 2.5% fee for the Leveraged High Yield Bond Strategy is due to a higher degree of investment management skill, as well as a substantial increase in trading activity and operational overhead. The first year fee is due upon signing the contract. If additional money is contributed to an existing account, a monthly pro-rata fee will be due at the time of the deposit or on the next anniversary date of the agreement. Spectrum Financial fees will not be based upon a share of capital gains or capital appreciation of the funds or any portion of the funds of an advisory client. For renewal accounts, a billing will be generated on the anniversary date and will be based on the market value of the account. Payment of fees may be made by check or liquidated with prior written customer authorization from the account. Fees may be reduced by Spectrum Financial in certain situations such as, but not limited to employee or representative related accounts, adjustments due to administrative error, or situations where there is a conflict of interest. However, generally fees are not negotiated. A performance report for the 12-month period and the current holdings will be reported to the client along with the renewal invoice by the Representative. **Termination:** The agreement shall remain in effect until either party to the agreement receives written notice from the other party of their desire to cancel the agreement. The withdrawal of funds from the account being managed does not constitute giving notice. Non-payment of fees by the client does not serve as notification of cancellation. Spectrum Financial will make reasonable efforts to inquire whether services are still required by the client. Spectrum Financial reserves the right to continue managing the account for up to thirty days following the anniversary date. After the 30-day period, Spectrum Financial has the option to give written notice to the client terminating the contract. Upon written cancellation of the agreement, all funds will be exchanged to the defensive (money market) position unless otherwise instructed in the written notification of cancellation. In the event of termination, the retainer fee charged is not refundable. The percentage fee will be refundable on a pro-rata monthly basis. If terminated within the first 5 days of the month, no fee is charged for that period. Notwithstanding anything else with the agreement, the investor has the unilateral, uncontrolled right to terminate the agreement within 5 business days of its execution without penalty. Fees will be refunded in full if the termination of the agreement is requested within 5 business days of the agreement date.

**ASSETMAXX (A-E)**

The actively managed funds will pay Spectrum Financial a .25% servicing fee (12b-1) as an expense of the fund, which eliminates additional fees, paid to Spectrum Financial by the client. The managed mutual funds will be sub-advised by an advisor (owned by a charitable foundation) that receives donated services from a Spectrum Financial principal. Spectrum Financial also provides donated back office services to Hundredfold Advisors, LLC. **Termination:** Services provided under the AssetMaxx program are automatically terminated without penalty when a client closes or withdraws all funds from the actively managed mutual funds.

**WEALTHMAXX (currently inactive) (A-E)**

The fee for this program will be 1% of the assets placed in this allocation service and is payable in advance. Fees may be offset by compensation received by Spectrum Financial directly from alternative investment (in certain arrangements), which the client is invested, up to the 1% billed. Renewals are done annually and it is recommended the client not liquidate from the alternative investments owned in the portfolio due to possible

restrictions. In special circumstances (such as: charities, employee/rep accounts, accounts over \$5 million), Spectrum Financial reserves the right to waive or negotiate fees. **Termination:** The client can cancel this service at any time, however, there will be no refunds for Spectrum Financial service fees since the research and other preliminary work is done in advance. Spectrum Financial will assist the client in processing the paperwork to withdraw invested funds unless otherwise requested by the client.

#### **Item 6 – Performance Based Fees and Side-By-Side Management**

Spectrum Financial does not charge any performance based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

#### **Item 7 – Types of Clients**

Spectrum Financial provides portfolio management services to individuals, IRAs, corporate pension, profit-sharing, 401K, charitable institutions, foundations, endowments, and trusts. See account minimum information under Item 5 above.

#### **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

Spectrum Financial obtains analytical data from many sources including daily monitoring of prices of stocks, bonds, oil, US dollar, gold and many other investments to determine low risk entry and exit points for mutual funds. Information is collected and assimilated from various computer databases, newspapers, magazines, newsletters and research materials by the manager or other qualified employees of Spectrum Financial to develop different management strategies. Other factors considered in analysis include continuous monitoring of mutual fund performance and relative strength, technical and fundamental analysis, market sentiment, and access to other leading professional investment advisors. Reviews of investment strategies are done on a daily basis based on the analysis and information gathered as explained above. A quarterly newsletter is provided which shows the average performance for management strategies on a quarterly, 12-, 24-, 36-, and 48-month period. **Risk of Loss** - Investing in securities involves risk of loss that clients should be prepared to bear. Risk is viewed almost exclusively from a portfolio perspective rather than on an individual security basis. There are two important reasons for this. First, Spectrum uses mutual funds in the strategies that are relatively broadly diversified so the risk of loss to the portfolio from any one security in the mutual fund tends to be minimal. Second, to add further diversification, it is recommended that each client has a portfolio that utilizes more than one actively managed investment Strategies. Spectrum does have strategies which may fall in the following scenarios which will inherently increase risk. Strategies that use more volatile funds, including enhanced beta funds, are considered as having more risk than strategies that use low volatility Funds. Strategies that tend to be invested for longer time frames are considered as having more risk than those that are only invested for a short period when invested. Strategies that borrow money to purchase funds on margin are considered as having more risk than those that do not use margin.

#### **Item 9 – Disciplinary Information**

Spectrum Financial has no information applicable to disciplinary information events material to a client or prospective client's evaluation of its advisory business. Please reference Item #11 for further discussion on best business practices. Spectrum Financial has established policy and procedures to comply with SEC rules and regulations. The Policy and Procedures manual is reviewed on an annual basis by the compliance officer.

#### **Item 10 – Other Financial Industry Activities and Affiliations**

- A. Spectrum Financial has entered into a services agreement with Ceros Financial Services for dully employed individuals. Ceros Financial Services is a broker-dealer registered with the SEC and member of FINRA. This agreement outlines certain expenses incurred as a result of wholesaling and generally promoting the distribution of Hundredfold Select Funds to institutions and financial intermediaries.

B. n/a

C. Mr. Ralph Doudera (Spectrum's CEO) has a 100% interest in Spectrum Financial and his primary role is that of investment manager for which he is compensated. Mr. Doudera also owns Financial Technology Associates, Inc., which specialized in life insurance products. Renewal commissions are paid directly to Financial Technology Associates, Inc. Current insurance licenses are not held by Mr. Doudera or the company. Mr. Doudera has written and published a book Wealth Conundrum, which discusses a biblical perspective on the accumulation of wealth and the responsibilities related to it. The book is not intended to provide investment advice. Mr. Doudera and Mary Collins (Spectrum's President) are managing members of Hundredfold Advisors, LLC (HFA) that manages three mutual funds used by the Spectrum Financial's AssetMaxx program. HFA is solely owned by a public charity and any compensation it receives is distributed specifically among referenced charities. Mr. Doudera and Mrs. Collins are not personally compensated from services he donates to HFA.

Spectrum Financial retains the right to enter into agreements with third party money managers for investment advice on management strategies it offers under its SecurityMaxx program. The advice obtained by these managers may or may not be used by Spectrum Financial and do not affect the fees charged to the client for services. Spectrum Financial retains the right to review and use third party managers for all its management strategies without the consent of the client.

Spectrum Financial retains the right to enter into signal agreements with other RIA firms for strategies it offers under its SecurityMaxx program. Spectrum will be compensated for the signal agreement based on the assets under management and the fee negotiated. These arrangements will not be a conflict of interest or affect the fees charged to Spectrum clients for services.

- AlphaSource Investment Counsel (WE2) – Variable Annuity Solutions – Spectrum provides an investment signal service which generates buy/sell orders for WE2 clients. The agreement is for strategy signals only, Spectrum does not have any contact directly with clients. Fees for these signals are negotiated and may be less than direct clients of Spectrum due to limited services provided.
- Placemark Investments, Inc. (Placemark) – Spectrum provides model portfolio investment signals which generate buy/sell orders for client on the Placemark trading platform. The agreement is for strategy signals only. Spectrum does not have any contact directly with clients. Fees for these signals are negotiated and may be less than direct clients of Spectrum due to limited services provided.

D. n/a

#### **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading (A-D)**

Code of Ethics – Spectrum Financial requires all employees/access persons to adhere to the Code of Ethics adopted. This document outlines policy and procedures to avoid conflicts of interest and places the interest of clients first. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest. Violations are handled by disciplinary actions. A copy is available at our website [www.investspectrum.com](http://www.investspectrum.com) or by calling our office (757) 463-7600.

Best Execution – Spectrum Financial seeks to obtain best execution for client transactions even though clients are purchasing mutual funds with end of day pricing. Brokerage/Custodial relationships are reviewed periodically to evaluate transaction, custodial or other fees, which are charged to the clients. Spectrum Financial does not participate in any fees charged by these firms.

Privacy Notice - Spectrum Financial's policy is to protect personal client information. Spectrum Financial does not sell or maintain lists for any outside nonaffiliated marketing firms.

Disaster Recovery - Spectrum Financial maintains disaster recovery procedures for operational and investment management system emergencies to ensure client services are maintained.

## **Item 12 – Brokerage Practices**

Spectrum Financial may recommend a brokerage firm to hold the assets for client accounts. There are no benefits received from the brokerage firm to Spectrum or its related parties. The arrangement is for the convenience of the client and trading the accounts. Brokerage/Custodial relationships are reviewed periodically to evaluate transaction, custodial or other fees, which are charged to the clients. Spectrum Financial does not participate in any fees charged by these firms. Most transactions are end-of-day mutual funds.

1. Soft Dollar Policy – Spectrum does not engage in soft dollar activity with broker-dealers or third party providers.
2. Brokerage for Client Referrals – Spectrum does not engage in any client referral programs offered by brokerage firms or broker-dealer firms. Spectrum does have solicitors to market its services. For additional information on the solicitor arrangement see Item #5 SecurityMaxx.
3. Direct Brokerage – Spectrum does not engage in direct brokerage activities.

## **Item 13 – Review of Accounts (A-C)**

Strategies are reviewed on a daily basis using charting, fundamental, technical, cyclical analysis. The use of external newsletters, periodicals, and databases are also incorporated. This information triggers the buy/sell signals for all strategies. (Additional information explained in #8 above)

Clients will receive a 12-month anniversary portfolio review as well as a quarterly newsletter with average data for all strategies. Our Client Services Team provides client portfolio reviews annually and upon request of the client. Clients have direct access to quarterly statements directly with the Brokerage Company, mutual fund family or insurance company holding custody of the assets.

## **Item 14 – Client Referrals and Other Compensation**

This service is marketed directly by officers and employees of Spectrum Financial and through solicitors termed "Representatives" who may be associated with an advisory firm, brokerage firm or Investment Company affiliated brokerage firm. A solicitor's fee is paid to Representatives ranging from 25 basis points of total assets to 50% of the total fee collected. The fees charged the client for Spectrum Financial services are not increased because of this arrangement. Often, the Representative is also a licensed sales person with a broker/dealer. As such, the representative may receive or have received commissions for the client's initial purchase of the particular securities and subsequent commissions (sometimes referred to as 12b-1 charges) depending on the program entered into by the client.

## **Item 15 – Custody**

Spectrum is deemed to have custody of assets by the SEC due to the deduction of management fees from the client's account. Practically the direct custody of the asset is held with the brokerage firm, mutual fund or insurance company. The client will receive or have direct access to quarterly statements with detailed transaction information directly from the custodian holding the funds.

## **Item 16 – Investment Discretion**

Spectrum Financial receives discretionary authority from the client when the contract or Letter of Engagement (LOE) is signed and executed. The contract or LOE outlines the strategy requested and the type of securities to be used. Specific fund selection is determined by the portfolio manager but must follow the objectives of the strategy



selected. Discretion may be limited by the mutual fund or insurance company restriction guidelines which are out of the control of Spectrum Financial.

### **Item 17 – Voting Client Securities**

Proxy Voting – Spectrum Financial does not provide services for proxy voting to its clients. All proxies are sent directly to clients from the custodian. Spectrum periodically reviews client options at each custodian to ensure proper coding is maintained on all client accounts.

### **Item 18 – Financial Information**

Spectrum Financial is required to provide a third party financial audit due to its requiring clients to pay a management fee more than 6-months in advance. The audited financial statement is an attachment.

### **Other Disclosure Information**

#### **Portfolio Manager (Bio)**

Ralph J. Doudera (DOB: 5-10-46), CEO of Spectrum Financial, is a graduate of New Jersey Institute of Technology where he received an undergraduate degree in Mechanical Engineering (1969) and a Masters of Science in Management and Finance (1972). He was employed as an Account Executive with CIGNA Corporation for 10 years beginning in 1973, where he specialized in investment and estate planning. During this period, Mr. Doudera received his certification as Chartered Life Underwriter (1976) and Chartered Financial Consultant (1979) from the American College. He has also been a registered representative and had his securities license since 1973. In 1991, Mr. Doudera completed the Series 24 and became a registered principal for Royal Alliance Associates, Inc (Royal). Effective October 2000, Mr. Doudera terminated his relationship with Royal and does not retain his security license through any independent broker-dealership. Mr. Doudera manages his personal assets through various brokerage firms and mutual fund companies, which may be invested in similar funds as clients and could be considered a conflict of interest. Employees of Spectrum Financial may trade personal accounts, which are monitored by Spectrum Financial on a quarterly basis. Mr. Doudera has been investing in many investment vehicles since 1979, but has offered services to the public since 1988 when Spectrum Financial, Inc. was registered as an Investment Advisor under the Investment Advisors Act of 1940.

**Spectrum Financial Officers** – Mary K. Collins (DOB: 8-1-60), President/Compliance Officer of Spectrum Financial is a graduate of Old Dominion University where she received an undergraduate degree in Business Administration (1982) with a concentration in corporate finance. She was employed with FTA, Inc (1983) as a financial planner where she earned the Chartered Financial Consultants designation (1988). Ms. Collins began working with Spectrum in 1986. She does not meet directly with clients and is compensated on a salary basis. Ms. Collins is currently pursuing a securities license through Ceros Financial Services; however, this is not associated with Spectrum Financial's clients who may have assets held by this brokerage firm.

#### **Supervised Persons**

Mary Fulford (YOB 1948)-Client Services Team Leader. Mrs. Fulford is qualified for State Security Law license and well as general security licenses. With 21 years plus with Spectrum, she provides clients with portfolio development and general administrative support. She is well versed in the strategies that Spectrum has developed and is able to use them effectively in developing client portfolios which reflect client's objectives and risk tolerance. There is no disciplinary information or action taken against her in her 21- year tenure. She is considered a valued employee of Spectrum Financial and is compensated based on salary. There are no outside business activities which would be considered a conflict of interest. Mary is supervised based on Compliance Policies and Procedures.

Christopher Hendrix (YOB 1969)–Investment Services Team Leader. After graduating from Florida State University in 1991 with a B.A. in Social Science/Economics, Mr. Hendrix became a stockbroker with a large regional brokerage firm in Florida. In 1993, he shifted to a national brokerage firm and later became the founder and Senior Technical Analyst of the technical analysis department. During the eleven year stay, he worked

closely with representatives and traders, teaching basic and advanced methods designed to enhance investment returns using charts and statistics. In 1998, Mr. Hendrix earned the Chartered Market Technician designation from the Market Technicians Association. In 2005 he established his own firm publishing daily market commentaries as well being a regular contributor to a national magazine. During this time, he also worked with individuals and institutions, advising matters related to technical analysis trading methods. Mr. Hendrix has developed numerous proprietary indicators and analysis techniques that attempt to enhance portfolio returns in various investments and market cycles. His role at Spectrum Financial is to review market data, trends, sentiment and evaluate investment strategies for effectiveness in meeting the objects of Spectrum's investment philosophy. He does not meet directly with our clients and is compensated on a salary basis. He does hold a securities license through Ceros Financial Services; however, this is not associated with Spectrum Financial's clients who may have assets held by this brokerage firm.

Gregory French (YOB 1958) – Marketing Services Team Leader – Mr. French earned a Bachelor of Science in Commerce degree from the University of Virginia (1980) as well as a Masters in Business Administration from The George Washington University (1985). Mr. French has years of employment experience with Fortune 500 corporations and began his financial career with Morgan Stanley (2002). Mr. French earned his Chartered Financial Consultant (ChFC) designation (2008) specializing in estate planning and retirement income planning. His role at Spectrum primarily is developing and managing Spectrum Financial's marketing activities and services to both financial institutions and intermediaries. He does hold a securities license through Ceros Financial Services; however, this is not associated with Spectrum Financial's clients who may have assets held by this brokerage firm.

### **Arbitration Clause**

Client and Spectrum Financial agree that all controversies between the parties concerning any transaction or the construction, performance or breach of this or any agreement between us, whether entered into prior, on, or subsequent to the date hereof, shall be determined by arbitration within the Commonwealth of Virginia. Client understands that this agreement to arbitrate does not constitute a waiver of the right to seek a judicial forum where such waiver would be void under the federal securities laws.

Such arbitration shall be held before three arbitrators and conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association then applying. The arbitrators will have no authority to award punitive or other damages not measured by the prevailing party's actual damages, except as may be required by statute. The award of the arbitrators or the majority of them shall be final. Judgment upon any arbitration award rendered may be entered in any court, state or federal, having appropriate jurisdiction.

**CMT** – Chartered Market Technician – This program is a certification process in which candidates are required to demonstrate proficiency in a broad range of technical analysis subjects. It is administered by the Accreditation Committee of the Market Technicians Association (MTA), Inc. There are three levels that must be mastered and at least 3 years of employment experience as a professional analyst or investment manager.

**CLU** – Chartered Life Underwriter – This program is a certification which provides an in-depth knowledge on the insurance needs of individuals, business owners, and professional clients. It is administered by the American College and consist of 8 areas of course study. Recipients must have at least 3 years of employment experience in the areas of insurance/health care or financial services/employee benefits. Recipients must earn 30 hours of continuing education credits every two years unless the designation was earned prior to 6/89.

**ChFC** – Chartered Financial Consultant – This program prepares the recipients in the area of advanced planning needs for individuals, professionals, and small business owners in the key financial areas of insurance, income taxation, retirement planning, investments, and estate planning. It is administered by the American College and consist of 9 areas of course study. Recipients must earn 30 hours of continuing education credits every two years unless the designation was earned prior to 6/89.

**Spectrum Financial, Inc.**  
**Balance Sheets**

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 24,359	\$ 3,431
Accounts receivable	514,390	529,564
Advances to brokers	366,204	360,956
Marketable securities	1,325,930	870,522
<b>Total current assets</b>	<u>2,230,883</u>	<u>1,764,473</u>
<b>Furniture and equipment</b>	919,770	919,471
Less accumulated depreciation	754,618	746,457
<b>Furniture and equipment, net</b>	<u>165,152</u>	<u>173,014</u>
<b>Total assets</b>	<u><u>\$ 2,396,035</u></u>	<u><u>\$ 1,937,487</u></u>
<b>Liabilities and Stockholder's Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 174,330	\$ 99,164
Deferred income	1,133,430	1,188,202
<b>Total liabilities</b>	<u>1,307,760</u>	<u>1,287,366</u>
<b>Stockholder's equity</b>		
Common stock, no par, 3,000 shares authorized and issued	402,000	402,000
Retained earnings	686,275	248,121
<b>Total stockholder's equity</b>	<u>1,088,275</u>	<u>650,121</u>
<b>Total liabilities and stockholder's equity</b>	<u><u>\$ 2,396,035</u></u>	<u><u>\$ 1,937,487</u></u>

**Spectrum Financial, Inc.**  
**Notes to Financial Statements**

**Note 1 – Nature of operations and summary of significant accounting policies**

*Nature of business* - Spectrum Financial, Inc. (the "Company") is a registered investment advisor under the Investment Advisors Act of 1940. Asset management service is provided to clients nationwide in the form of asset timing in the areas of bond and stock mutual funds.

*Revenue recognition* - The Company recognizes revenue on annual fee agreements ratably over the applicable periods of the agreements. Clients are generally charged an annual fee that is refundable on a pro rata basis upon termination of their agreement with the Company. Deferred income is recorded for the amount of the revenue not yet earned.

Commissions paid to brokers are charged to expense on the same basis that revenue is recognized. The unearned portion of their commission is included in advances to brokers.

*Cash equivalents* - For purposes of reporting cash flows, the Company considers all highly liquid debt instruments purchased which mature in three months or less to be cash equivalents.

*Accounts receivable* - Accounts receivable consist of trade accounts receivable and are stated at amounts billed less an allowance for doubtful accounts. Credit is extended to customers and generally collateral is not required. Management's determination of the allowance for doubtful accounts is based on an evaluation of the accounts receivable, past experience, current economic conditions, and other risks inherent in the accounts receivable portfolio. As of December 31, 2011 and 2010, no allowance is deemed necessary.

*Marketable securities* - The Company's securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Trading securities are recorded at fair value on the balance sheet in current assets, with the change in fair value during the

period included in earnings. Fair value is based on quoted market prices. Realized gains and losses are recorded at trade date and determined under the specific identification method. Unrealized gains on investments held at December 31, 2011 were \$1,397 (2010 unrealized gains of \$18,223).

*Furniture and equipment* - Furniture and equipment are stated at acquired cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Furniture and equipment have been depreciated over five-to-seven years and building improvements over forty years. Long-lived assets held and used by the Company are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable.

*Advertising costs* - Advertising costs are expensed as incurred and amounted to \$1,040 for 2011 (2010 - \$1,976).

*Use of estimates* - Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

*Subsequent events* - The Company has evaluated subsequent events through February 14, 2012 in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

#### **Note 2 – Income tax status**

The Company, with the consent of its stockholder, has elected to be taxed under sections of the federal and state income tax laws which provide that, in lieu of corporation income taxes, the stockholder separately accounts for their pro rata shares of the Company's items of income, deductions, losses and credits. Therefore, these statements do not include any provision for corporation income taxes.

Management has evaluated the effect of the guidance provided by U.S. Generally Accepted Accounting Principles on Accounting for Uncertainty in Income Taxes. Management has evaluated the tax positions that could have a significant effect on the financial statements and determined the Company had no uncertain income tax positions at December 31, 2011 and 2010.

#### **Note 3 – Related party transactions**

The Company's stockholder is a principal stockholder in Financial Technology Associates, Inc. Through its employees, Financial Technology Associates, Inc. provides management services to the Company. Management fees incurred for 2011 were \$637,681 (2010 - \$632,479).

The Company leases its office space from A & D Associates, a wholly-owned venture of the Company's sole stockholder. The lease is on a year-to-year basis and can be terminated upon thirty days' notice. Rents paid under this lease for 2011 were \$102,784 (2010 - \$102,784).

There were no stockholder loans during 2011. During 2010, the Company loaned its stockholder \$101,343, which was repaid by a charge to dividends.

#### **Note 4 – Defined contribution retirement plan**

The Company's employees are covered under a defined contribution retirement plan, which covers employees who have completed one year of service. Contributions to the plan for 2011 were \$89,426 (2010 - \$81,502).

#### **Note 5 – Concentration of credit risk**

The Company places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts and temporary provides unlimited coverage through December 31, 2012 for certain qualifying and participating non-interest bearing transaction amounts. During the year, the Company from time-to-time may have had amounts on deposit in excess of the insured limits. As of December 31, 2011, the Company did not exceed these insured amounts.

Other financial instruments that potentially subject the Company to concentration of credit risk are accounts receivable and marketable securities. Concentrations of credit risk with respect to accounts receivables are limited due to the large number of clients and their dispersion across different industries and geographic areas.

#### **Note 6 – Fair value measurements**

Accounting standards require that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

Accounting standards specify a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The three levels of the fair value hierarchy based on these two types of inputs are as follows:

- Level 1: Valuation is based on quoted prices in active markets for identical assets and liabilities.
- Level 2: Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.
- Level 3: Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The Company has marketable securities valued at Level 1 at December 31, 2011. The Company does not have any Level 2 assets or liabilities or Level 3 financial instruments.

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.