



*Part 2A for Form ADV: Firm Brochure*

March 29, 2019

**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

Item 10 – Other Financial Industry Activities B – Added wording regarding the sales incentive agreement with Ceros Financial Services.

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 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 (Programs): SecurityMaxx<sup>SM</sup>, AssetMaxx<sup>SM</sup>, and WealthMaxx<sup>SM</sup> (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<sup>SM</sup> (Separately Managed Accounts)**

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 funds as well as other custodial fees payable to the third party custodian. 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. After the initial set up period, 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<sup>SM</sup> (Allocation Program using actively managed mutual funds)**

In this program, Spectrum Financial builds client's portfolios using actively managed mutual funds. The active management is done internally within the funds giving the client the benefits of a managed risk investment philosophy. 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). Funds available under this program are sub-advised by both the applicant Spectrum Financial and an affiliated adviser Hundredfold Advisors LLC.

**WealthMaxx<sup>SM</sup> (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 12-31-2018

Discretionary Amount	\$129,142,380
Discretionary Accounts	448

**Item 5 – Fees and Compensation**

**SecurityMaxx<sup>SM</sup> (A-E)**

This program 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 basis points 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<sup>SM</sup> 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.

<u>QUARTERLY FEE STRUCTURE*</u>	<u>RATE%</u>	<u>ANNUAL FEE STRUCTURE**</u>	<u>RATE %</u>
All available Strategies	.48%	All available Strategies	1.9%
Leveraged High Yield	.63%		

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. 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. 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. In special circumstances (such as, but not limited to: charities, employee/rep accounts, an account over \$5 million), Spectrum Financial reserves the right to waive or negotiate fees. However, generally fees are not negotiated.

**\*For client accounts whose assets are held and maintained by Ceros Financial Services or Schwab Institutional as the custodian are billed quarterly.** Quarterly fees may also be available for certain fund or variable annuity companies (as determined). The initial fee for the first quarter is based on the total principal amount initially invested. Accounts established in the middle of the quarter are prorated for the remainder of the quarter. The fee for subsequent quarters is based on the market value of the client's account(s) determined at the end of the calendar quarter. The fee for additional amounts invested is prorated for the remaining portion of the calendar quarter deposit. The fee calculated will be deducted by the custodian from client's cash or money market fund, or an alternative fund that is associated with the management agreement.

**\*\*For client accounts whose assets are held and maintained by a custodian other than Ceros Financial Services or Schwab Institutional are usually billed annually.** The annual fee for first year 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 annually billed 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. A performance report for the 12-month period and the current holdings will be reported to the client along with the renewal invoice through 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 refund policy is as follows:

**For annually billed accounts,** the percentage fee will be refundable on a pro-rata basis. If terminated within the first 5 days of the month, no fee is charged for that period. **For quarterly billed accounts,** the fee is not refundable. Notwithstanding anything else with the agreement, the investor has the unilateral, uncontrolled right to terminate the agreement within 5 business days of its initial 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<sup>SM</sup> (A-E)**

AssetMaxx<sup>SM</sup> allows clients the ability to choose actively managed funds available within the program and will be based on their investment objective and risk tolerance. The available funds are sub-advised by two affiliated advisors.

1. The Hundredfold Select Alternative Fund (sub-advised by Hundredfold Advisors, LLC through its Advisor, Advisors Preferred LLC) pays 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. Hundredfold Advisors; LLC (owned by a charitable foundation) receives donated services from a Spectrum Financial's principal which acts as the portfolio manager. Spectrum Financial also provides donated back office services to Hundredfold Advisors, LLC.
2. The Spectrum Funds are sub-advised by Spectrum Financial, Inc.(the applicant) Spectrum Financial receives compensation from the Funds for portfolio management services as an expense of the Fund through the advisor, Advisors Preferred, LLC. The compensation received from The Spectrum Low Volatility Fund is 1.80% annually based on the assets in the fund. The compensation received from Spectrum Advisors Preferred Fund is 1.15% annually based on the assets in the fund. Additional information is referenced in the prospectus and investors should review prior to investing.

All compensation is directly from the Funds and the client is not charged a fee or wrap fee for the AssetMaxx<sup>SM</sup> allocation service by the applicant. **Termination:** Services provided under the AssetMaxx<sup>SM</sup> program are automatically terminated without penalty when a client closes or withdraws all funds from the actively managed mutual funds.

### **AssetMaxxGO<sup>SM</sup> (A-E)**

AssetMaxxGO<sup>SM</sup> is our AssetMaxx<sup>SM</sup> allocation program available to investors who wish to use an automated investment platform for their investment process. AssetMaxxGO<sup>SM</sup> uses Jemstep with Docusign technology for this automated option. TD Ameritrade will be the custodian for all investors through this platform. The custodian may charge custodial, transaction, or other miscellaneous fees, however the applicant does not participate in these fees. Please reference #1 and #2 under the paragraph above for AssetMaxx<sup>SM</sup> compensation received by the applicant for Funds used in AssetMaxxGO<sup>SM</sup>. As part of the onboarding process the investor is required to complete a client profile which will be Used by AssetMaxxGO<sup>SM</sup> to determine a recommended allocation. Additional information regarding 3<sup>rd</sup> party relationship to AssetMaxxGO<sup>SM</sup> is discussed further in Item #10 below. **Termination:** Services provided under the AssetMaxxGO<sup>SM</sup> program are automatically terminated without penalty when a client closes or withdraws all funds from the actively managed mutual funds.

### **WealthMaxx<sup>SM</sup> (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. Spectrum also serves as a sub adviser to two mutual funds.

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

**Spectrum General Research and Analysis** – The applicant obtains analytical data from many sources including but not limited to daily monitoring of prices of stocks, bonds, oil, US dollar, gold and many other investments to determine low risk entry and exit points in all types of investment vehicles.

Information is collected and assimilated from various computer databases, newspapers, magazines, newsletters and research materials by the manager or other qualified employees of the applicant to develop multiple types of management strategies and technical analysis tools to be used in all services offered by the applicant. Other factors considered in analysis include but are not limited to continuous monitoring of performance and relative strength, technical and fundamental analysis, market sentiment, and access to other leading professional investment advisors.

Research is continuous and implementation of new ideas, tools, etc. are typically implemented in beta type accounts to ensure validity before placing in our SecurityMaxx<sup>SM</sup> Strategies or any of the sub advised Funds under our AssetMaxx<sup>SM</sup> Allocation Program.

**SecurityMaxx<sup>SM</sup>-Spectrum Separately Managed Accounts** - There are several separately managed investment strategies used in the applicant's SecurityMaxx<sup>SM</sup> service. All strategies use the research and general analysis referenced above. SecurityMaxx<sup>SM</sup> strategies use only mutual funds and are typically either fully invested or in a defensive money market position. There are some strategies which will vary in total exposure such as the applicant's domestic equity or international equity strategies.

Reviews of these 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 unweighted performance for all SecurityMaxx<sup>SM</sup> strategies on a quarterly, 12-, 24-, 36-, and 48-month period. Specific client performance is reviewed upon request of the client and may vary from the newsletter reported performance depending on the strategy, contributions/withdrawals, and custodian.

**AssetMaxx<sup>SM</sup> – Spectrum sub-advised mutual funds** – The Spectrum Low Volatility Fund and the Spectrum Advisors Preferred Fund were designed using the separately managed strategies the applicant developed. Some strategies have actual performance for 29+ years. The Funds are monitored daily with regards to strategies, performance, risk management, and other opportunities.

*Spectrum Low Volatility Fund* - The Spectrum Low Volatility Fund was created to act as a solution for fixed income exposure in all market environments. The Fund's objective is total return and lower downside volatility and risk through not only high yield, but other fixed income securities selected, and applies tactical strategies to the selection of each one. The Fund seeks to provide an actively managed investment which displays low volatility characteristics and generates returns that outperform its benchmark. For more information, please reference the Fund's prospectus.

*Spectrum Advisors Preferred Fund* - The Spectrum Advisors Preferred Fund was created to be an actively managed equity fund that is a lower volatility solution for the marketplace. The Fund seeks to capture

benchmark returns while limiting losses through the tactically managed equity exposure. Spectrum believes that this Fund is different than many other actively managed equity funds based on its blend of tactical and core trading strategies and its exposure to non-correlated investments meant to boost returns. For more information, please reference the Fund's prospectus.

**AssetMaxx<sup>SM</sup> Program** also has an actively managed fund that is sub advised by Hundredfold Advisors, LLC which is owned 100% by a public charity. Ralph Doudera, principal of Spectrum Financial, Inc. donates his services to Hundredfold Advisors, LLC. Nearly all the profits generated from management fees for sub advisory services is donated to 501c (3) supported organization charities. Hundredfold Advisors, LLC benefits from the research and analysis done by the applicant.

*Hundredfold Select Alternative Fund* – The Hundredfold Select Alternative Fund uses multiple diversified, uncorrelated trading strategies to manage risk and deliver returns. It is actively managed using a combination of equity and fixed-income securities based on market conditions and trends and the sub-adviser's expectations and assessment of risks. (The term "Alternative" in the Fund's name simply refers to the fact that the sub-adviser may choose from among many investment alternatives.) This Fund is managed by Hundredfold Advisors, LLC, acting as sub-adviser. Ralph Doudera donates investment portfolio services to Hundredfold Advisors, LLC. For more information, please reference the Fund's prospectus.

### ***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/ETFs 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 strategy offered by the applicant who includes the sub advised funds which the applicant manages.

SecurityMaxx<sup>SM</sup> strategies 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.

AssetMaxx<sup>SM</sup> actively managed funds have specific risks associated with them. **All risks are outlined in the prospectus of each fund.** Risks may include but not limited to: Bond Risk, Derivative Risk, Emerging Market Risk, Equity Risk, Foreign Investment Risk, Inverse ETF Risk, Junk Bond Risk, Leverage Risk, Management Risk, Market Risk, Credit Risk, Counterparty Risk, Turnover Risk, and Other Investment Company Risk. An investor is encouraged to read the prospectus prior to investing.

### **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 both the Hundredfold Select Alternative Fund and The Spectrum Funds to institutions and financial intermediaries.

- B. Spectrum Financial has entered into an incentive agreement with Ceros Financial Services (distributor for both Spectrum Low Volatility Fund and Spectrum Advisors Preferred Fund) for specific individual's efforts in the sale of funds mentioned. This arrangement is a sharing arrangement with Advisors Preferred, LLC (advisor to both Spectrum Low Volatility Fund and Spectrum Advisors Preferred Fund) and does not affect fees paid by shareholders.
- 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 a mutual fund used by the Spectrum Financial's AssetMaxx<sup>SM</sup> program. HFA is solely owned by a public charity and any compensation it receives is distributed specifically among referenced charities. Mr. Doudera and Ms. Collins are not personally compensated from services donated 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<sup>SM</sup> 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<sup>SM</sup> 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.

- Envestnet (Placemark) – Spectrum provides model portfolio investment signals which generate buy/sell orders for clients on the Envestnet 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.

Spectrum has entered in to an agreement with Advisors Preferred (RIA) to provide sub advisory services to the Spectrum Funds (Spectrum Low Volatility Fund –SVARX and Spectrum Advisors Preferred Fund – SAPEX).The objective of applicant for these Funds will be to achieve consistent rates of return that are in excess of a non-active managed strategy within each asset category. The applicant will consider the overall risk of the holdings of the portfolio and will affect portfolio protection techniques to preserve the purchasing power of the assets. The applicant may offer these Funds to its retail clients under the AssetMaxx<sup>SM</sup> program. Fees generated from sub-advisory services to these mutual funds are paid to the applicant and range from 1.15%-1.80%. An investor should consider the risks, charges and expenses of the Spectrum Funds prior to investing. This and other information can be found in the prospectus.

[www.thespectrumfunds.com](http://www.thespectrumfunds.com)

Spectrum has entered in to an agreement with AtCap Partners, LLC (AtCap) to provide the sub advisory services to AssetMaxxGO<sup>SM</sup>. Sub advisory services consist of development and review of the table used

by AssetMaxxGO<sup>SM</sup> for recommended allocations among actively managed funds offered. Spectrum will also provide client service support to AssetMaxxGO<sup>SM</sup>. AtCap's role is that of an advisor which includes administrative, service provider relationships, and compliance oversight. Since both Spectrum and AtCap (through its affiliates) receive compensation from the Funds used in AssetMaxxGO<sup>SM</sup>, no compensation is required in this agreement. More details and disclosures can be found at AssetMaxxGO<sup>SM</sup> (<https://investspectrum.com/assetmaxxgo>).

### **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<sup>SM</sup>.
3. Direct Brokerage – Spectrum does not engage in direct brokerage activities.

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

#### **SecurityMaxx<sup>SM</sup>**

All strategies are reviewed on a daily basis using charting, fundamental, technical, cyclical analysis. The use of external newsletters, periodicals, and databases are also incorporated. Strategies are grouped by client trading lists at the custodian and are traded together. Clients will receive a 12-month anniversary portfolio investment summary as well as a quarterly newsletter with non-weighted average performance data for all strategies. Our Client Services Team also provides client portfolio reviews upon request of the client. Clients have direct access

to quarterly statements directly with the brokerage firm, mutual fund family or insurance company holding custody of the assets.

### **AssetMaxx<sup>SM</sup>**

Clients will receive a 12-month anniversary portfolio investment summary as well as a quarterly newsletter. . Our Client Services Team also provides client portfolio reviews upon request of the client. Allocation reviews are done periodically, however, reallocation is not automatic or routine. The re-allocation of the AssetMaxx<sup>SM</sup> Allocation Program is dependent on evaluation of meeting the client's objectives and risk tolerance.

### **Sub Advisory Services**

Review for sub advisory services provided to The Spectrum Funds is produced daily and similar to process used in the SecurityMaxx<sup>SM</sup> strategies. Spectrum 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 for positions held in the portfolios. Information is collected and assimilated from various computer databases, newspapers, magazines, newsletters and research materials by the manager 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 a variety of investment indicators are done on a daily basis based and assimilated to assess investment opportunities, investment risks, and overall portfolio exposures. Monthly performance data is produced with monthly, quarterly, YTD, 12-month, 5-year, and inception data and is used to by the advisor to produce quarterly fact sheets for each Fund. A brief portfolio update is produced monthly identifying the portfolio allocation and performance for the advisor. It is recommended investors read the Fund prospectus for risk of loss issues.

### **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. Spectrum does not participate in generated commissions.

### **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.

## **ADV Part 2B**

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

Ralph J. Doudera (YOB: 1946), 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 also has held a Series 7, 24, 63 and 65 securities licenses which he terminated in October 2000. 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. 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. Mr. Doudera's role at Spectrum is Head Portfolio Manager. He oversees all strategy development, trading orders, review of SMAs and The Spectrum Funds.

**Spectrum Financial Officers** – Mary K. Collins (YOB: 1960), 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.

### **Supervised Persons**

**Robert Harmon** (YOB: 1969)-Client Services Team Leader. Mr. Harmon has 20 years of service with Spectrum. He provides clients with portfolio development and general administrative support. He 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 him in his 20- year tenure. He 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. Robert is supervised based on Compliance Policies and Procedures.

**Christopher Hendrix** (YOB: 1969)-Investment Services Team Leader/Assistant Portfolio Manager for Spectrum Advisors Preferred Fund (SAPEX). 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.

**Emily Frazier** (YOB: 1991)-Business Development Team. Ms. Frazier graduated from Virginia Tech May 2012 with a degree in Communication: Public Relations/Marketing. Her role at Spectrum primarily is developing and managing Spectrum Financial's marketing activities and services to financial institutions and intermediaries. She 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. She assists Ceros Financial Services in the sale/promotions of The Spectrum Funds.

### **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 America 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>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 29,803	\$ 16,832
Accounts receivable	280,427	280,335
Advances to brokers	32,855	64,861
Marketable securities	409,751	559,523
Total Current Assets	<u>752,836</u>	<u>921,551</u>
Furniture and equipment	944,791	947,506
Less accumulated depreciation	810,976	807,598
Total Furniture and Equipment, Net	<u>133,815</u>	<u>139,908</u>
<b>Total Assets</b>	<u><u>\$ 886,651</u></u>	<u><u>\$ 1,061,459</u></u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 27,023	\$ 112,930
Deferred income	60,286	129,723
Total Liabilities	<u>87,309</u>	<u>242,653</u>
Stockholder's Equity:		
Common stock, no par, 3,000 shares authorized and issued	402,000	402,000
Retained earnings	397,342	416,806
<b>Total Stockholder's Equity</b>	<u>799,342</u>	<u>818,806</u>
<b>Total Liabilities and Stockholder's Equity</b>	<u><u>\$ 886,651</u></u>	<u><u>\$ 1,061,459</u></u>

**Spectrum Financial, Inc.  
Notes to the 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 and quarterly fee agreements ratably over the applicable periods of the agreements. Annually billed clients are generally charged a 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. Quarterly billed clients do not receive refunds upon termination.

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 consists of trade accounts receivable and is 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, 2018 and 2017, 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 sheets in current assets, with the change in fair value during the year 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 losses on investments held at December 31, 2018 were \$9,333 (2017 unrealized losses of \$16,343).

*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 5 to 7 years and building improvements over 40 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 \$442 for 2018 (2017 – \$3,728).

*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.

**Note 1—Nature of operations and summary of significant accounting policies (continued)**

*Recently Issued Accounting Pronouncements* – In August 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date*. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. The standard will be effective for non-public entities for annual reporting periods beginning after December 15, 2018 and interim periods within annual reporting periods beginning after December 15, 2019. Early adoption is permitted, beginning after December 15, 2016. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Company has elected to defer implementation until the applicable required date.

The FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize most leases on the balance sheet. This is expected to increase both reported assets and liabilities. The new lease standard does not substantially change lessor accounting. For non-public companies, the standard will be effective for annual reporting periods beginning after December 15, 2019 and interim periods within annual reporting periods beginning after December 15, 2020. Lessees and lessors will be required to apply the new standard at the beginning of the earliest period presented in the financial statements in which they first apply the new guidance, using a modified retrospective transition method. The Company has elected to defer implementation until the applicable required date.

*Subsequent Events* – The Company has evaluated subsequent events through February 19, 2019, 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, 2018 and 2017.

**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 in 2018 and 2017 were \$199,433 and \$235,988 respectively.

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 both years ended December 31, 2018 and 2017 were \$76,140.

**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 2018 were \$110,534 (2017 – \$103,873).

**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 covers \$250,000 for substantially all depository account. The Company from time to time may have had amounts on deposit in excess of the insured limits. As of December 31, 2018, 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, 2018 and 2017. 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.