



SPECTRUM FUNDS

ANNUAL REPORT AUGUST 31, 2008

Spectrum Select Alternative Fund

Spectrum Global Perspective Fund

Spectrum Equity Opportunity Fund

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Dear Shareholders,

This Annual Report for the Spectrum Funds covers the fiscal year September 1, 2007 to August, 31, 2008, (the "Annual Period"). This Annual Report covers the Spectrum Global Perspective Fund (the "Global Perspective Fund"), the Spectrum Equity Opportunity Fund (the "Equity Opportunity Fund") and the Spectrum Select Alternative Fund, formerly the Spectrum High Yield Plus Fund, (the "Select Alternative Fund"). Hundredfold Advisors, LLC (the "Sub-Advisor"), serves as the sub-advisor to the Spectrum Funds.

U.S. equities declined during the Annual Period, with the DJ Industrial Average Index declining 11.35%, the S&P 500 Index declining 11.14% and the NASDAQ-100 Index declining 5.84%. Despite the steps taken by the Federal Reserve Board to stimulate the U.S. economy, overall U.S. equity returns were negatively impacted by rising energy and commodity prices and the continued fallout of the sub-prime credit crisis. International Markets followed a similar path, with the MSCI Emerging Markets Index declining 12.03% for the Annual Period.

The Select Alternative Fund seeks a moderate total rate of return (income plus capital appreciation) on an annual basis. During the Annual Period, the Select Alternative Fund declined 6.38%, on a total return basis, compared to an increase in total return for the Lehman U.S. Aggregate Bond Index of 5.86% and a decrease of 11.14% for the S&P Index, respectively.

The Global Perspective Fund seeks a high total rate of return (income from short-term trading plus capital appreciation) on an annual basis. The Global Perspective Fund declined 8.96%, on a total return basis, during the Annual Period, compared to -13.88% for the MSCI World Index. The MSCI World Index is a capitalization weighted index that monitors the performance of stocks from around the world. The Global Perspective Fund was able to benefit from positive trends in international equities, especially those in emerging markets. In addition, the Sub-Advisors positioning of the Global Fund's portfolio with a balance between the inherent volatility of the global and emerging markets and the safety of cash equivalents in market downturns attributed to the Global Funds performance relative to its peers.

The Equity Opportunity Fund seeks a high total rate of return (income from short-term trading plus capital appreciation) on an annual basis. The Equity Opportunity Fund declined 8.28%, on a total basis, compared to a total return for the S&P 500 Index of -11.14%. Overall performance was impacted by a combination of asset allocation mix among major market indices and a risk management approach to counter-act heightened volatility in the markets.

As always, we thank you for using the Direxion Funds and we look forward to our mutual success.

Best Regards,



Daniel O'Neill
Direxion Funds



Ralph Doudera
Hundredfold Advisors, LLC

The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate and an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance data quoted. To obtain performance data current to the most recent month-end, please call, toll-free, 1-800-851-0511 or visit www.direxionfunds.com.

The total annual fund operating expense ratio of the Spectrum Select Alternative Fund, the Spectrum Global Perspective Fund, and the Spectrum Equity Opportunity Fund is 2.57%, 2.38% and 2.63%, respectively, net of any fee, waivers or expense reimbursements.

An investment in any of the Direxion Funds is subject to a number of risks that could affect the value of its shares. It is important that investors closely review and understand these risks before making an investment. An investor should consider the investment objectives, risks, charges and expenses of the Direxion Funds carefully before investing. The prospectus contains this and other information about the Direxion Funds. To obtain a prospectus, please call the Direxion Funds at 1 800-851-0511. The prospectus should be read carefully before investing.

**Distributed by: Rafferty Capital Markets, LLC
Date of First Use: October 30, 2008**

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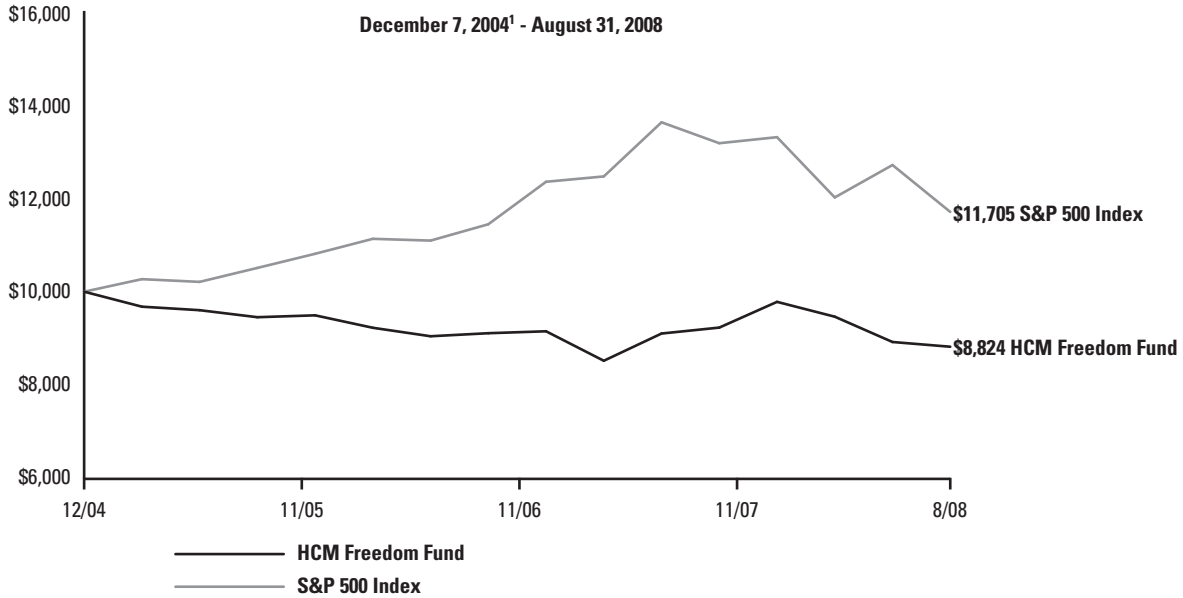
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HCM Freedom Fund
December 7, 2004¹ - August 31, 2008



	Average Annual Total Return ²	
	1 Year	Since Inception
HCM Freedom Fund	(4.43)%	(3.29)%
S&P 500 Index	(11.14)%	4.31%

This chart illustrates the performance of a hypothetical \$10,000 investment made on the Fund's inception, and is not intended to imply any future performance. The returns shown do not reflect the deduction of taxes that a shareholder would pay on fund distributions of the redemption of fund shares. The performance of the S&P 500 Index does not reflect the deduction of fees associated with a mutual fund, such as investment management fees. Investors cannot invest directly in an index, although they can invest in its underlying securities.

The performance data shown represents past performance and does not guarantee future results.

Market Exposure

<u>Investment Type</u>	<u>%</u>
<u>Total Exposure</u>	<u>—%</u>

"Market Exposure" includes the value of total investments (including the contract value of any derivatives) and excludes any short-term investments and cash equivalents divided by Net Assets.

¹ Commencement of operations.

² As of August 31, 2008.

Expense Example

August 31, 2008 (Unaudited)

As a shareholder of a mutual fund, you incur two types of costs: (1) transaction costs, including sales charges (loads) on purchase payments, reinvested dividends, or other distributions; redemption fees; and exchange fees; and (2) ongoing costs, including management fees; distribution and/or service fees; and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare costs with the ongoing costs of investing in other mutual funds.

The Example is based on an investment of \$1,000 invested at the beginning of the period and held the entire period (March 1, 2008 — August 31, 2008).

Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. Although the Fund charges no sales load or transactions fees, you will be assessed fees for outgoing wire transfers, returned checks or stop payment orders at prevailing rates charged by U.S. Bancorp Fund Services, LLC, the Funds' transfer agent. If you request a redemption be made by wire transfer, currently a \$15.00 fee is charged by the Funds' transfer agent. However, the example below does not include portfolio trading commissions and related expenses or other extraordinary expenses as determined under generally accepted accounting principles. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Funds' actual expense ratios and an assumed rate of return of 5% per year before expenses, which is not the Funds' actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Funds and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as wire transfers, returned checks or stop payment orders. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

Expense Example Tables
August 31, 2008 (Unaudited)

	<u>Net Expense Ratio¹</u>	<u>Beginning Account Value March 1, 2008</u>	<u>Ending Account Value August 31, 2008</u>	<u>Expenses Paid During Period²</u>
HCM Freedom Fund				
Based on actual fund return	2.45%	\$1,000.00	\$ 931.60	\$11.90
Based on hypothetical 5% return	2.45%	1,000.00	1,012.82	12.40

¹ Annualized

² Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half-year/period, then divided by 366.

Allocation of Portfolio Holdings
August 31, 2008 (Unaudited)

	<u>Cash*</u>	<u>U.S. Government Agency Obligations</u>	<u>Total</u>
HCM Freedom Fund	2%	98%	100%

* Cash, cash equivalents and other assets less liabilities.

HCM Freedom Fund
Schedule of Investments
August 31, 2008

<u>Principal Amount</u>	<u>Value</u>
SHORT TERM INVESTMENTS - 100.3%	
U.S. GOVERNMENT AGENCY OBLIGATIONS - 98.3%	
\$25,100,000 Federal Home Loan Bank Discount Note, 1.9667%, 9/2/2008	<u>\$25,098,766</u>
Shares	
MONEY MARKET FUNDS - 2.0%	
504,407 Fidelity Institutional Money Market Portfolio	<u>504,407</u>
TOTAL SHORT TERM INVESTMENTS (Cost \$25,603,173)	<u>\$25,603,173</u>
TOTAL INVESTMENTS (Cost \$25,603,173) - 100.3%	\$25,603,173
Other Assets in Excess of Liabilities - (0.3)%	<u>(86,620)</u>
TOTAL NET ASSETS - 100.0%	<u>\$25,516,553</u>

Percentages are stated as a percent of net assets.

The accompanying notes are an integral part of these financial statements.

Statement of Assets and Liabilities

August 31, 2008

	HCM Freedom Fund
Assets:	
Investments, at market value (Note 2)	\$ 25,603,173
Dividends and interest receivable	1,231
Other assets	5,020
Total Assets	<u>25,609,424</u>
Liabilities:	
Accrued investment advisory fees	25,306
Accrued distribution expenses	17,399
Accrued expenses and other liabilities	50,166
Total Liabilities	<u>92,871</u>
Net Assets	<u><u>\$ 25,516,553</u></u>
Net Assets Consist Of:	
Capital stock	\$ 45,505,157
Accumulated undistributed net investment income	1,039,382
Accumulated undistributed net realized loss	<u>(21,027,986)</u>
Total Net Assets	<u><u>\$ 25,516,553</u></u>
Calculation of Net Asset Value Per Share - Service Class:	
Net assets	\$ 25,516,553
Shares outstanding (unlimited shares of beneficial interest authorized, no par value)	1,738,555
Net Asset Value, Redemption Price and Offering Price Per Share	<u>\$ 14.68</u>
Cost of Investments	<u><u>\$ 25,603,173</u></u>

The accompanying notes are an integral part of these financial statements.

Statements of Operations
Year Ended August 31, 2008

HCM Freedom Fund

Investment income:	
Dividend income (net of foreign withholding tax of \$342)	\$ 31,794
Interest income	766,084
Total investment income	<u>797,878</u>
Expenses:	
Investment advisory fees	285,224
Distribution expenses	228,179
Administration fees	13,117
Fund accounting fees	23,315
Custody fees	4,770
Transfer agent fees	26,773
Federal and state registration	6,751
Professional fees	35,156
Reports to shareholders	10,270
Trustees' fees and expenses	2,286
Excise taxes	68,654
Other	7,921
Total expenses before reimbursement	712,416
Less: Reimbursement of expenses from Adviser	(14,325)
Total expenses	<u>698,091</u>
Net investment income	<u>99,787</u>
Realized and unrealized gain (loss) on investments:	
Net realized gain (loss) on:	
Investments	(1,919,361)
Swaps	685,346
	<u>(1,234,015)</u>
Change in unrealized appreciation (depreciation) on:	
Investments	(34,623)
Net realized and unrealized loss on investments	<u>(1,268,638)</u>
Net decrease in net assets resulting from operations	<u><u>\$(1,168,851)</u></u>

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Net Assets

	HCM Freedom Fund	
	<u>Year Ended August 31, 2008</u>	<u>Year Ended August 31, 2007</u>
Operations:		
Net investment income	\$ 99,787	\$ 796,961
Net realized loss on investments	(1,234,015)	(1,052,923)
Change in net unrealized appreciation (depreciation) on investments	<u>(34,623)</u>	<u>34,623</u>
Net decrease in net assets resulting from operations	<u>(1,168,851)</u>	<u>(221,339)</u>
Distributions to shareholders - Service Class:		
Net investment income	<u>(3,487,566)</u>	<u>(2,590,425)</u>
Total distributions	<u>(3,487,566)</u>	<u>(2,590,425)</u>
Capital share transactions - Service Class:		
Proceeds from shares sold	1,414,324	2,176,756
Proceeds from shares issued to holders in reinvestment of dividends	3,479,021	2,590,425
Cost of shares redeemed	<u>(3,362,586)</u>	<u>(27,065,836)</u>
Net increase (decrease) in net assets resulting from capital share transactions	<u>1,530,759</u>	<u>(22,298,655)</u>
Total decrease in net assets	<u>(3,125,658)</u>	<u>(25,110,419)</u>
Net assets:		
Beginning of year	<u>28,642,211</u>	<u>53,752,630</u>
End of year	<u>\$25,516,553</u>	<u>\$ 28,642,211</u>
Undistributed (Accumulated) net investment income, end of year	<u>\$ 1,039,382</u>	<u>\$ 3,388,318</u>

The accompanying notes are an integral part of these financial statements.

Financial Highlights August 31, 2008

Year/Period	RATIOS TO AVERAGE NET ASSETS													
	Net Asset Value, Beginning of Year/Period	Net Investment Income (Loss) ³	Net Realized and Unrealized Gain (Loss) on Investments ⁴	Net Increase (Decrease) in Net Asset Value Resulting from Operations	Dividends from Net Investment Income	Total Distributions	Net Asset Value, End of Year/Period	Total Return ⁵	Including Short Dividends		Excluding Short Dividends		Net Investment Income (Loss) After Expense Reimbursement/Recoupment	Portfolio Turnover Rate ⁶
									Total Expenses	Net Expenses	Total Expenses	Net Expenses		
HCM Freedom Fund														
Year ended August 31, 2008	\$17.46	\$0.06	\$(0.70)	\$0.64	\$2.14	\$14.68	(4.43%)	—	—	2.50%	2.45%	0.35%	2.886%	
Year ended August 31, 2007	18.11	0.34	(0.11)	0.23	(0.88)	17.46	1.32%	—	—	2.18%	2.18%	1.98%	4.042%	
Year ended August 31, 2006	18.91	0.40	(1.08)	(0.68)	(0.12)	18.11	(3.61%)	—	—	2.22%	2.12%	2.14%	3.065%	
December 7, 2004 ⁸ to August 31, 2005	20.00	0.11	(1.20)	(1.09)	—	18.91	(5.45%) ²	2.31% ¹	2.11% ¹	2.30% ¹	2.10% ¹	0.82% ^{1,7}	2.215% ²	

¹ Annualized

² Not annualized

³ Net investment income (loss) per share represents net investment income (loss) divided by the daily average shares of beneficial interest outstanding throughout each period.

⁴ The amounts shown may not correlate with aggregate gains and losses of portfolio securities due to timing of subscriptions and redemptions of Fund shares.

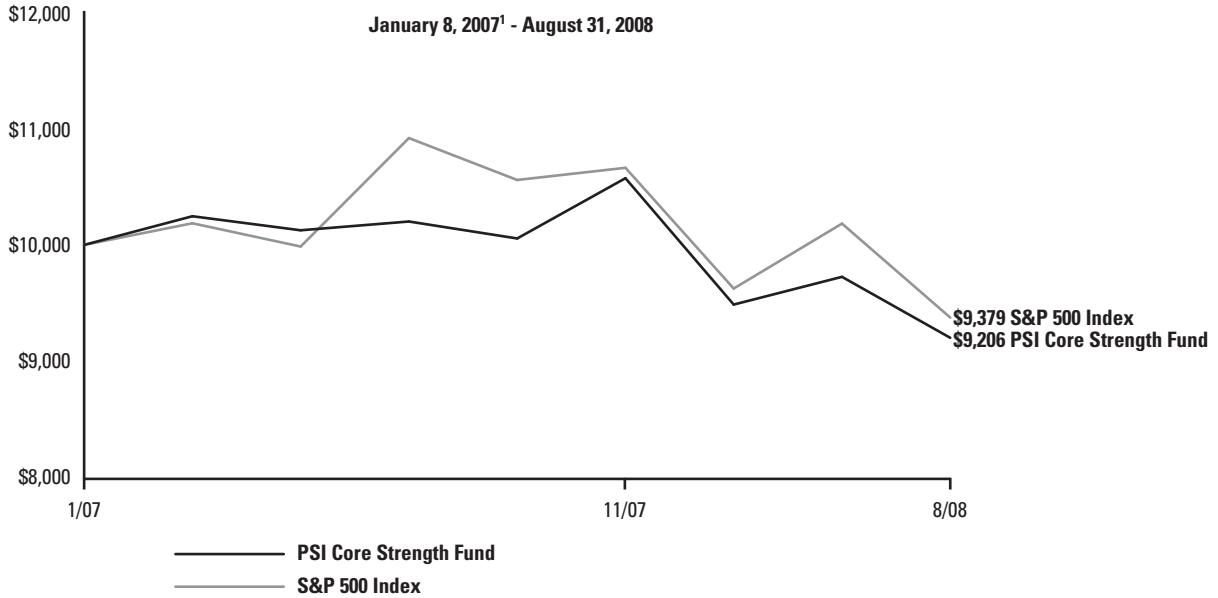
⁵ All returns reflect reinvested dividends, if any, but do not reflect the impact of taxes.

⁶ Portfolio turnover is calculated without regard to short-term securities having a maturity of less than one year. Investments in options, swaps, and futures contracts and repurchase agreements are deemed short-term securities. The Fund's aggressive investment strategy may result in significant portfolio turnover to take advantage of anticipated changes in market conditions.

⁷ Net investment income (loss) ratio included dividends on short positions. The ratio excluding dividends on short positions for the period ended August 31, 2005 was 0.83%.

⁸ Commencement of operations.

PSI Core Strength Fund
January 8, 2007¹ - August 31, 2008



**Total Return²
Since Inception**

	<u>1 Year</u>	<u>Since Inception</u>
PSI Core Strength Fund	(8.44)%	(4.91)%
S&P 500 Index	(11.14)%	(3.82)%

This chart illustrates the performance of a hypothetical \$10,000 investment made on the Fund's inception, and is not intended to imply any future performance. The returns shown do not reflect the deduction of taxes that a shareholder would pay on fund distributions of the redemption of fund shares. The performance of the U.S. Dollar does not reflect the deduction of fees associated with a mutual fund, such as investment management fees. Investors cannot invest directly in an index, although they can invest in its underlying securities.

The performance data shown represents past performance and does not guarantee future results.

Market Exposure

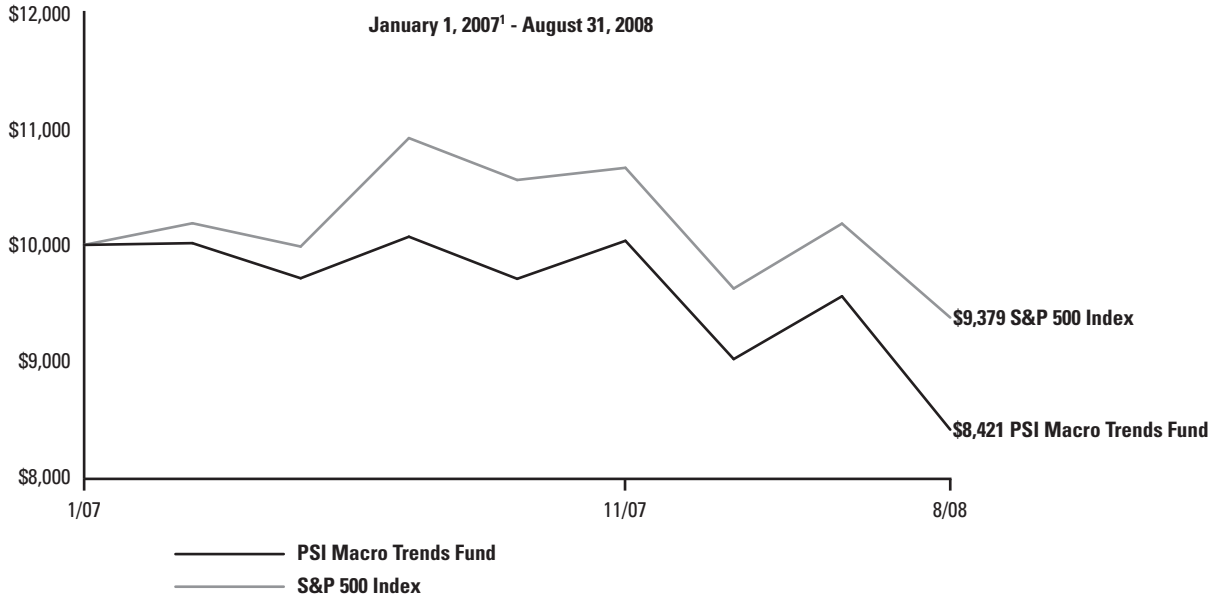
<u>Investment Type</u>	<u>% Net Assets</u>
Investment Companies	<u>65.6%</u>
Total Exposure	<u>65.6%</u>

"Market Exposure" includes the value of total investments (including the contract value of any derivatives) and excludes any short-term investments and cash equivalents divided by Net Assets.

¹ Commencement of operations.

² As of August 31, 2008.

PSI Macro Trends Fund
January 1, 2007¹ - August 31, 2008



	Total Return ² Since Inception	
	1 Year	Since Inception
PSI Macro Trends Fund	(13.28)%	(9.81)%
S&P 500 Index	(11.14)%	(3.82)%

This chart illustrates the performance of a hypothetical \$10,000 investment made on the Fund's inception, and is not intended to imply any future performance. The returns shown do not reflect the deduction of taxes that a shareholder would pay on fund distributions of the redemption of fund shares. The performance of the U.S. Dollar does not reflect the deduction of fees associated with a mutual fund, such as investment management fees. Investors cannot invest directly in an index, although they can invest in its underlying securities.

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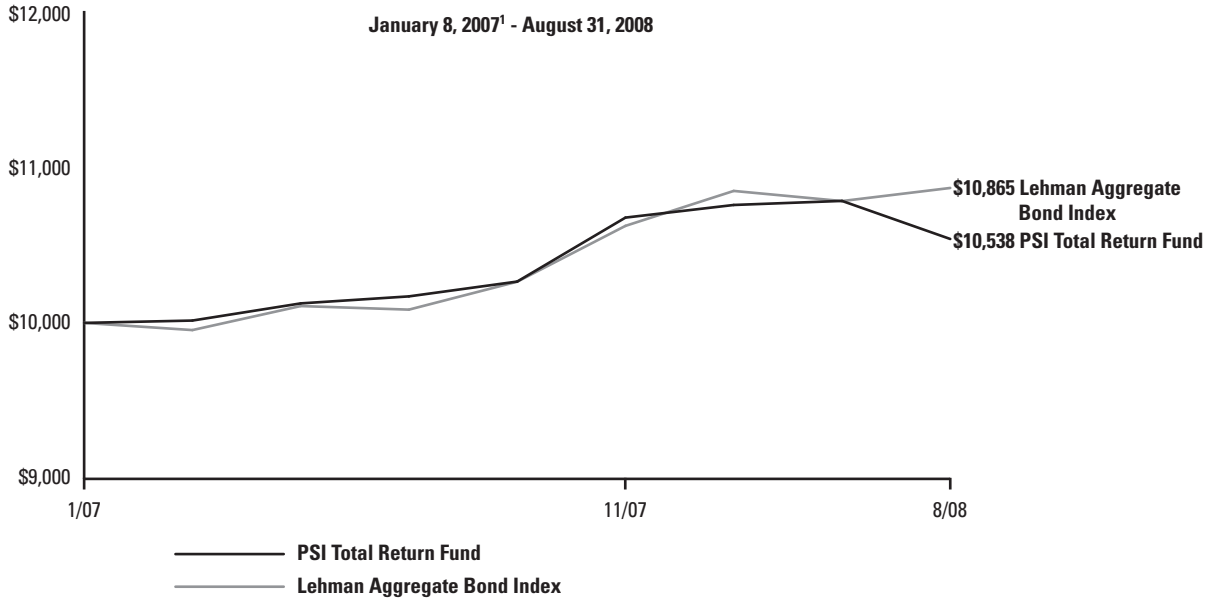
<u>Investment Type</u>	<u>% Net Assets</u>
Investment Companies	79.9%
Futures Contracts	11.9%
Swap Contracts	1.0%
Total Exposure	92.8%

"Market Exposure" includes the value of total investments (including the contract value of any derivatives) and excludes any short-term investments and cash equivalents divided by Net Assets.

¹ Commencement of operations.

² As of August 31, 2008.

PSI Total Return Fund
January 8, 2007¹ - August 31, 2008



	<u>Total Return² Since Inception</u>	
	<u>1 Year</u>	<u>Since Inception</u>
PSI Total Return Fund	2.66%	3.24%
Lehman Aggregate Bond Index	5.86%	5.18%

This chart illustrates the performance of a hypothetical \$10,000 investment made on the Fund's inception, and is not intended to imply any future performance. The returns shown do not reflect the deduction of taxes that a shareholder would pay on fund distributions of the redemption of fund shares. The performance of the U.S. Dollar does not reflect the deduction of fees associated with a mutual fund, such as investment management fees. Investors cannot invest directly in an index, although they can invest in its underlying securities.

The performance data shown represents past performance and does not guarantee future results.

Market Exposure

<u>Investment Type</u>	<u>% Net Assets</u>
Investment Companies	49.3%
Futures Contracts	16.3%
Swap Contracts	57.3%
Total Exposure	122.9%

"Market Exposure" includes the value of total investments (including the contract value of any derivatives) and excludes any short-term investments and cash equivalents divided by Net Assets.

¹ Commencement of operations.

² As of August 31, 2008.

Expense Example

August 31, 2008 (Unaudited)

As a shareholder of a mutual fund, you incur two types of costs: (1) transaction costs, including sales charges (loads) on purchase payments, reinvested dividends, or other distributions; redemption fees; and exchange fees; and (2) ongoing costs, including management fees; distribution and/or service fees; and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare costs with the ongoing costs of investing in other mutual funds.

The Example is based on an investment of \$1,000 invested at the beginning of the period and held the entire period (March 1, 2008 — August 31, 2008).

Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. Although the Fund charges no sales load or transactions fees, you will be assessed fees for outgoing wire transfers, returned checks or stop payment orders at prevailing rates charged by U.S. Bancorp Fund Services, LLC, the Funds' transfer agent. If you request a redemption be made by wire transfer, currently a \$15.00 fee is charged by the Funds' transfer agent. However, the example below does not include portfolio trading commissions and related expenses or other extraordinary expenses as determined under generally accepted accounting principles. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Funds' actual expense ratios and an assumed rate of return of 5% per year before expenses, which is not the Funds' actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Funds and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as wire transfers, returned checks or stop payment orders. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

Expense Example Tables
August 31, 2008 (Unaudited)

	<u>Net Expense Ratio¹</u>	<u>Beginning Account Value March 1, 2008</u>	<u>Ending Account Value August 31, 2008</u>	<u>Expenses Paid During Period²</u>
PSI Core Strength Fund				
Based on actual fund return	2.00%	\$1,000.00	\$ 970.60	\$ 9.91
Based on hypothetical 5% return	2.00%	1,000.00	1,015.08	10.13
PSI Macro Trends Fund				
Based on actual fund return	2.00%	1,000.00	933.10	9.72
Based on hypothetical 5% return	2.00%	1,000.00	1,015.08	10.13
PSI Total Return Fund				
Based on actual fund return	2.00%	1,000.00	979.70	9.95
Based on hypothetical 5% return	2.00%	1,000.00	1,015.08	10.13

¹ Annualized

² Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half-year/period, then divided by 366.

Allocation of Portfolio Holdings
August 31, 2008 (Unaudited)

	<u>Cash*</u>	<u>U.S. Government Agency Obligations</u>	<u>Investment Companies</u>	<u>Futures</u>	<u>Swaps</u>	<u>Total</u>
PSI Core Strength Fund	1%	33%	66%	—	—	100%
PSI Macro Trends Fund	2%	18%	80%	0%**	0%**	100%
PSI Total Return Fund	9%	42%	49%	0%**	0%**	100%

* Cash, cash equivalents and other assets less liabilities.

** Percentage is less than 0.5%.

PSI Macro Trends Fund

Schedule of Investments

August 31, 2008

<u>Shares</u>		<u>Value</u>	<u>Shares</u>		<u>Value</u>
INVESTMENT COMPANIES - 79.9%					
5,200	CurrencyShares Euro Trust	\$ 765,440	27,000	Utilities Select Sector SPDR Fund	\$ 1,017,900
7,700	iShares Lehman Aggregate Bond Fund	775,775	12,800	Wisdomtree International SmallCap Dividend Fund	680,448
23,000	iShares MSCI Canada Index Fund	700,120	TOTAL INVESTMENT COMPANIES		
47,500	iShares MSCI EAFE Index Fund	3,019,575	(Cost \$30,043,757)		
25,200	iShares MSCI Emerging Markets Index Fund	1,009,260	\$27,156,369		
22,000	iShares MSCI France Index Fund	671,000	Principal Amount		
24,700	iShares MSCI Germany Index Fund	676,780	SHORT TERM INVESTMENTS - 20.0%		
56,000	iShares MSCI Japan Index Fund	639,520	U.S. GOVERNMENT AGENCY OBLIGATIONS - 18.2%		
52,900	iShares Russell 1000 Index Fund	3,725,747	\$6,200,000	Federal Home Loan Bank Discount Note, 1.9667%, 9/2/2008	6,199,695
10,400	iShares Russell 2000 Index Fund	767,000	Shares		
8,000	iShares Russell Midcap Index Fund	758,160	MONEY MARKET FUNDS - 1.8%		
39,200	Powershares DB G10 Currency Harvest Fund	1,018,808	599,244	Fidelity Institutional Money Market Portfolio	599,244
18,800	Powershares Financial Preferred Portfolio	354,380	TOTAL SHORT TERM INVESTMENTS		
82,000	Powershares Insured National Municipal Bond Portfolio	1,927,164	(Cost \$6,798,939)		
91,500	Powershares Listed Private Equity Portfolio	1,631,445	\$ 6,798,939		
42,800	PowerShares QQQ	1,973,936	TOTAL INVESTMENTS		
11,500	SPDR S&P Emerging Europe Fund	606,510	(Cost \$36,842,696) - 99.9%		
12,000	SPDR S&P Emerging Middle East & Africa Fund	746,520	Other Assets in Excess of Liabilities - 0.1%		
14,900	Ultra MidCap400 ProShares	1,020,948	26,795		
12,700	Ultra Russell 2000 ProShares	680,720	TOTAL NET ASSETS - 100.00%		
16,600	Ultra S&P 500 ProShares	1,019,074	\$33,982,103		
14,900	UltraShort S&P500 ProShares	970,139	Percentages are stated as a percent of net assets.		

PSI Macro Trends Fund

Futures Contracts

August 31, 2008

<u>Contracts</u>		<u>Unrealized Depreciation</u>
63	S&P 500 Index Mini Futures Expiring September 2008 (Underlying Face Amount at Market Value \$4,043,025)	<u>\$(141,698)</u>

PSI Macro Trends Fund

Equity Swap Contracts

August 31, 2008

<u>Counterparty</u>	<u>Reference Entity</u>	<u>Number of Contracts</u>	<u>Notional Amount</u>	<u>Termination Date</u>	<u>Unrealized Depreciation</u>
Goldman Sachs & Co.	Morgan Stanley Commodity Related Equity Index	400	\$391,733	5/24/2010	<u>\$(60,084)</u>

The accompanying notes are an integral part of these financial statements.

PSI Total Return Fund
Schedule of Investments
August 31, 2008

<u>Shares</u>	<u>Value</u>	<u>Shares</u>	<u>Value</u>
INVESTMENT COMPANIES - 49.3%		MONEY MARKET FUNDS - 1.8%	
163,000	iShares Lehman Aggregate Bond Fund	606,576	Fidelity Institutional Money Market Portfolio
	<u>\$16,422,250</u>		<u>\$ 606,576</u>
	TOTAL INVESTMENT COMPANIES (Cost \$16,353,470)		TOTAL SHORT TERM INVESTMENTS (Cost \$14,705,883)
	<u>\$16,422,250</u>		<u>\$14,705,883</u>
Principal Amount			TOTAL INVESTMENTS (Cost \$31,059,353) - 93.4%
			<u>\$31,128,133</u>
SHORT TERM INVESTMENTS - 44.1%			Other Assets in Excess of Liabilities - 6.6%
U.S. GOVERNMENT AGENCY OBLIGATIONS - 42.3%			<u>2,206,273</u>
\$14,100,000	Federal Home Loan Bank Discount Note, 1.9667%, 9/2/2008		TOTAL NET ASSETS - 100.00%
	<u>14,099,307</u>		<u>\$33,334,406</u>

Percentages are stated as a percent of net assets.

PSI Total Return Fund
Futures Contracts
August 31, 2008

<u>Contracts</u>	<u>Unrealized Appreciation/ (Depreciation)</u>
4 Australian Dollar Futures Expiring September 2008, (Underlying Face Amount at Market Value \$342,760)	\$ (8,052)
5 New Zealand Dollar Futures Expiring September 2008, (Underlying Face Amount at Market Value \$349,250)	(9,915)
79 S&P 500 Mini Futures Expiring September 2008, (Underlying Face Amount at Market Value \$5,069,825)	<u>37,906</u>
	<u>\$19,939</u>

PSI Total Return Fund
Short Futures Contracts
August 31, 2008

<u>Contracts</u>	<u>Unrealized Appreciation</u>
3 Japanese Yen Futures Expiring September 2008, (Underlying Face Amount at Market Value \$344,850)	<u>\$1,041</u>

PSI Total Return Fund
Equity Swap Contracts
August 31, 2008

<u>Counterparty</u>	<u>Reference Entity</u>	<u>Number of Contracts</u>	<u>Notional Amount</u>	<u>Termination Date</u>	<u>Unrealized Depreciation</u>
Goldman Sachs & Co.	iShares Lehman Aggregate Bond Fund	168,900	\$17,241,345	5/24/2010	\$(153,783)
Goldman Sachs & Co.	Morgan Stanley Commodity Related Equity Index	2,400	2,057,035	8/11/2009	<u>(59,288)</u>
					<u>\$(213,071)</u>

The accompanying notes are an integral part of these financial statements.

Statements of Assets and Liabilities

August 31, 2008

	<u>PSI Core Strength Fund</u>	<u>PSI Macro Trends Fund</u>	<u>PSI Total Return Fund</u>
Assets:			
Investments, at market value (Note 2)	\$20,451,538	\$33,955,308	\$31,128,133
Cash	—	—	—
Receivable for Fund shares sold	9,694	15,738	10,820
Receivable for investments sold	618,670	—	—
Deposit at broker for swaps	—	—	2,280,000
Deposit at broker for futures	—	386,609	220,022
Due from broker for futures	—	—	82,878
Dividends and interest receivable	2,478	1,591	2,509
Other assets	4,044	4,904	11,888
Total Assets	<u>21,086,424</u>	<u>34,364,150</u>	<u>33,736,250</u>
Liabilities:			
Payable for Fund shares redeemed	12	19	480
Payable for investments purchased	795,843	—	—
Due to broker for futures	—	159,809	—
Unrealized depreciation on swaps	—	60,084	213,071
Variation margin payable	—	45,990	61,735
Accrued advisory expense	16,548	31,320	28,352
Accrued distribution expense	7,813	16,276	24,986
Accrued expenses and other liabilities	44,120	68,549	73,220
Total Liabilities	<u>864,336</u>	<u>382,047</u>	<u>401,844</u>
Net Assets	<u>\$20,222,088</u>	<u>\$33,982,103</u>	<u>\$33,334,406</u>
Net Assets Consist Of:			
Capital stock	\$21,961,995	\$41,448,016	\$34,328,976
Accumulated undistributed net investment income (loss)	—	220,793	—
Accumulated undistributed net realized gain (loss)	(1,736,929)	(4,597,536)	(871,259)
Net unrealized appreciation (depreciation) on:			
Investments	(2,978)	(2,887,388)	68,780
Futures	—	(141,698)	20,980
Swaps	—	(60,084)	(213,071)
Total Net Assets	<u>\$20,222,088</u>	<u>\$33,982,103</u>	<u>\$33,334,406</u>
Calculation of Net Asset Value Per Share - Investor Class:			
Net assets	\$20,222,088	\$33,982,103	\$33,334,406
Shares outstanding (unlimited shares of beneficial interest authorized, no par value)	1,156,953	2,080,839	1,666,473
Net asset value, redemption price and offering price per share	<u>\$ 17.48</u>	<u>\$ 16.33</u>	<u>\$ 20.00</u>
Cost of Investments	<u>\$20,454,516</u>	<u>\$36,842,696</u>	<u>\$31,059,353</u>

The accompanying notes are an integral part of these financial statements.

Statements of Operations
Year Ended August 31, 2008

	PSI Core Strength Fund	PSI Macro Trends Fund	PSI Total Return Fund
Investment income:			
Dividend income (net of foreign withholding tax of \$258, \$302 and \$38, respectively)	\$ 301,681	\$ 897,479	\$ 819,000
Interest income	<u>216,309</u>	<u>339,870</u>	<u>554,139</u>
Total investment income	<u>517,990</u>	<u>1,237,349</u>	<u>1,373,139</u>
Expenses:			
Investment advisory fees	244,804	446,549	411,341
Distribution expenses	53,218	97,076	89,422
Shareholder servicing fees	31,931	58,246	53,653
Administration fees	9,868	17,279	16,215
Fund accounting fees	18,511	31,595	30,295
Custody fees	4,946	10,105	7,327
Transfer agent fees	20,632	35,646	34,113
Federal and state registration	20,498	22,830	19,845
Professional fees	28,035	37,448	32,534
Reports to shareholders	6,820	10,739	12,186
Trustees' fees and expenses	2,369	3,249	3,065
Excise taxes	445	7,469	—
Other	<u>3,232</u>	<u>7,431</u>	<u>9,664</u>
Total expenses before reimbursement	445,309	785,662	719,660
Less: Waiver of expenses and reimbursement from Adviser	<u>(19,619)</u>	<u>(11,790)</u>	<u>(4,670)</u>
Total expenses	<u>425,690</u>	<u>773,872</u>	<u>714,990</u>
Net investment income (loss)	<u>92,300</u>	<u>463,477</u>	<u>658,149</u>
Realized and unrealized gain (loss) on investments:			
Net realized gain (loss) on:			
Investments	123,905	(2,759,728)	265,252
Futures	(89,887)	(1,584,344)	(586,312)
Swaps	<u>(320,356)</u>	<u>316,219</u>	<u>351,621</u>
	<u>(286,338)</u>	<u>(4,027,853)</u>	<u>30,561</u>
Change in unrealized appreciation (depreciation) on:			
Investments	(421,716)	(1,419,098)	140,722
Futures	—	65,008	16,228
Swaps	<u>—</u>	<u>(60,084)</u>	<u>(357,383)</u>
	<u>(421,716)</u>	<u>(1,414,174)</u>	<u>(200,433)</u>
Net realized and unrealized gain (loss) on investments	<u>(708,054)</u>	<u>(5,442,027)</u>	<u>(169,872)</u>
Net increase (decrease) in net assets resulting from operations	<u><u>\$ (615,754)</u></u>	<u><u>\$ (4,978,550)</u></u>	<u><u>\$ 488,277</u></u>

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Net Assets

	PSI Core Strength Fund		PSI Macro Trends Fund		PSI Total Return Fund	
	Year Ended August 31, 2008	January 8, 2007 ¹ to August 31, 2007	Year Ended August 31, 2008	January 8, 2007 ¹ to August 31, 2007	Year Ended August 31, 2008	January 8, 2007 ¹ to August 31, 2007
Operations:						
Net investment income (loss)	\$ 92,300	\$ 247,518	\$ 463,477	\$ (58,031)	\$ 658,149	\$ 414,373
Net realized gain (loss) on investments	(286,338)	(651,036)	(4,027,853)	618,757	30,561	67,750
Change in unrealized appreciation (depreciation) on investments	(421,716)	418,738	(1,414,174)	(1,674,996)	(200,433)	77,122
Net increase (decrease) in net assets resulting from operations	(615,754)	15,220	(4,978,550)	(1,114,270)	488,277	559,245
Distributions to shareholders - Investor Class:						
Net investment income	—	—	(252,097)	—	(1,140,512)	—
Net realized gains	(858,895)	—	(913,194)	—	(607,914)	—
Return of capital	(199,791)	—	—	—	—	—
Total distributions	(1,058,686)	—	(1,165,291)	—	(1,748,426)	—
Capital share transactions - Investor Class:						
Proceeds from shares sold	16,717,844	69,013,788	17,591,767	70,705,112	30,315,204	40,002,333
Proceeds from shares issued to holders in reinvestment of dividends	1,058,686	—	1,165,291	—	1,735,674	—
Cost of shares redeemed	(20,508,466)	(44,400,544)	(19,700,616)	(28,521,340)	(27,909,038)	(10,108,863)
Net increase (decrease) in net assets resulting from capital share transactions	(2,731,936)	24,613,244	(943,558)	42,183,772	4,141,840	29,893,470
Total increase (decrease) in net assets	(4,406,376)	24,628,464	(7,087,399)	41,069,502	2,881,691	30,452,715
Net assets:						
Beginning of year/period	24,628,464	—	41,069,502	—	30,452,715	—
End of year/period	<u>\$ 20,222,088</u>	<u>\$ 24,628,464</u>	<u>\$ 33,982,103</u>	<u>\$ 41,069,502</u>	<u>\$ 33,334,406</u>	<u>\$ 30,452,715</u>
Undistributed (Accumulated) net investment income (loss), end of year/period	\$ —	\$ —	\$ 220,793	\$ —	\$ —	\$ 79,426

¹ Commencement of Operations.

The accompanying notes are an integral part of these financial statements.

Financial Highlights August 31, 2008

Year/Period	RATIOS TO AVERAGE NET ASSETS														
	Net Asset Value, Beginning of Year/Period	Net Investment Income (Loss) ³	Net Realized and Unrealized Gain (Loss) on Investments ⁴	Net Increase (Decrease) in Net Asset Value Resulting from Operations	Dividends from Net Investment Income	Distributions from Realized Capital Gains	Return of Capital Distributions	Total Distributions	Net Asset Value, End of Year/Period	Total Return ⁵	Net Assets, End of Year/Period (,000)	Total Expenses	Net Expenses	Investment Income (Loss) After Expense Reimbursement/Recoupment	Portfolio Turnover Rate ⁶
PSI Core Strength Fund Year ended August 31, 2008	\$20.11	\$ 0.08	\$(1.67)	\$(1.59)	\$ —	\$(0.84)	\$(0.20)	\$(1.04)	\$17.48	(8.44%) ²	\$20,222	2.09%	2.00%	0.43%	2,509%
January 8, 2007 to August 31, 2007	20.00	0.22	(0.11)	0.11	—	—	—	—	20.11	0.55% ²	24,628	2.18% ¹	2.00% ¹	1.70% ¹	935% ²
PSI Macro Trends Fund Year ended August 31, 2008	19.42	0.22	(2.72)	(2.50)	(0.13)	(0.46)	—	(0.59)	16.33	(13.28%)	33,982	2.03%	2.00%	1.20%	304%
January 8, 2007 to August 31, 2007	20.00	(0.03)	(0.55)	(0.58)	—	—	—	—	19.42	(2.90%) ²	41,070	2.03% ¹	2.00% ¹	(0.26%) ¹	926% ²
PSI Total Return Fund Year ended August 31, 2008	20.53	0.38	0.17	0.55	(0.67)	(0.41)	—	(1.08)	20.00	2.66%	33,334	2.01%	2.00%	1.84%	90%
January 8, 2007 to August 31, 2007	20.00	0.33	0.20	0.53	—	—	—	—	20.53	2.65% ²	30,453	2.11% ¹	2.00% ¹	2.57% ¹	191% ²

¹ Annualized

² Not annualized

³ Net investment income (loss) per share represents net investment income (loss) divided by the daily average shares of beneficial interest outstanding throughout each period.

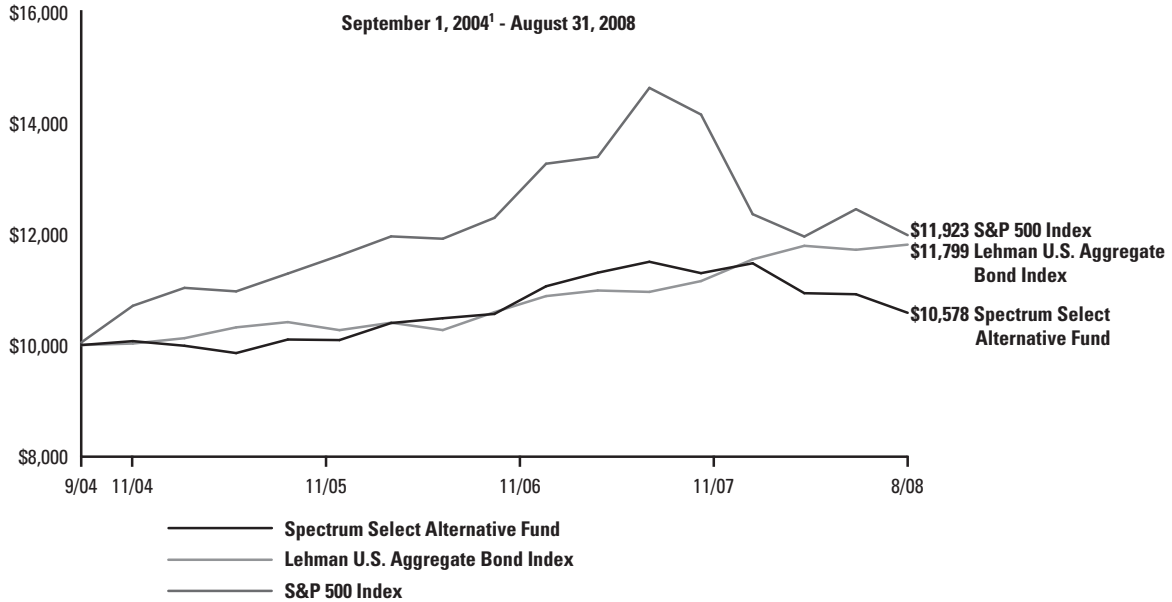
⁴ The amounts shown may not correlate with aggregate gains and losses of portfolio securities due to timing of subscriptions and redemptions of Fund shares.

⁵ All returns reflect reinvested dividends, if any, but do not reflect the impact of taxes.

⁶ Portfolio turnover is calculated without regard to short-term securities having a maturity of less than one year. Investments in options, swaps, and futures contracts and repurchase agreements are deemed short-term securities. The Fund's aggressive investment strategy may result in significant portfolio turnover to take advantage of anticipated changes in market conditions.

⁷ Commencement of operations.

Spectrum Select Alternative Fund
September 1, 2004¹ - August 31, 2008



Average Annual Total Return²

	<u>1 Year</u>	<u>3 Years</u>	<u>Since Inception</u>
Spectrum Select Alternative Fund	(6.38)%	1.53%	1.42%
Lehman U.S. Aggregate Bond Index	5.86%	4.26%	4.23%
S&P 500 Index	(11.14)%	3.66%	4.49%

This chart illustrates the performance of a hypothetical \$10,000 investment made on the Fund's inception, and is not intended to imply any future performance. The returns shown do not reflect the deduction of taxes that a shareholder would pay on fund distributions of the redemption of fund shares. The performance of Lehman Aggregate Bond Index and S&P 500 Index does not reflect the deduction of fees associated with a mutual fund, such as investment management fees. Investors cannot invest directly in an index, although they can invest in its underlying securities.

The performance data shown represents past performance and does not guarantee future results.

Market Exposure

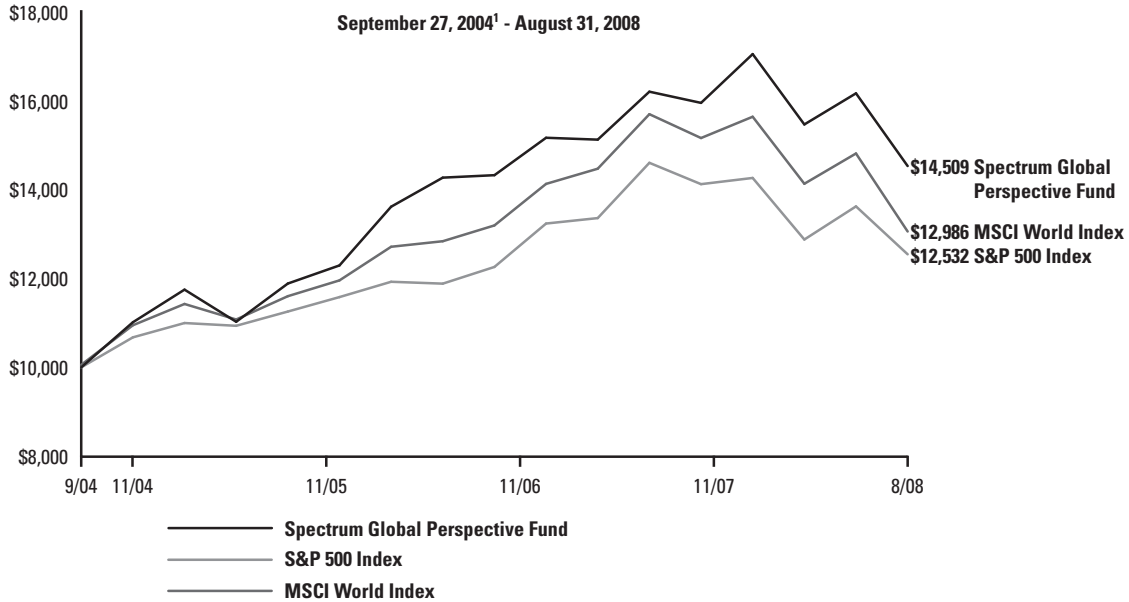
<u>Investment Type</u>	<u>%</u>
Investment Companies	<u>49.9%</u>
Total Exposure	<u>49.9%</u>

"Market Exposure" includes the value of total investments (including the contract value of any derivatives) and excludes any short-term investments and cash equivalents divided by Net Assets.

¹ Commencement of operations.

² As of August 31, 2008.

Spectrum Global Perspective Fund
September 27, 2004¹ - August 31, 2008



Average Annual Total Return²

	<u>1 Year</u>	<u>3 Years</u>	<u>Since Inception</u>
Spectrum Global Perspective Fund	(8.96)%	6.83%	9.94%
S&P 500 Index	(11.14)%	3.66%	5.92%
MSCI World Index	(13.88)%	4.02%	6.87%

This chart illustrates the performance of a hypothetical \$10,000 investment made on the Fund's inception, and is not intended to imply any future performance. The returns shown do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. The performance of Lehman Aggregate Bond Index and Lipper High Yield Bond Funds Index does not reflect the deduction of fees associated with a mutual fund, such as investment management fees. Investors cannot invest directly in an index, although they can invest in its underlying securities.

The performance data shown represents past performance and does not guarantee future results.

Market Exposure

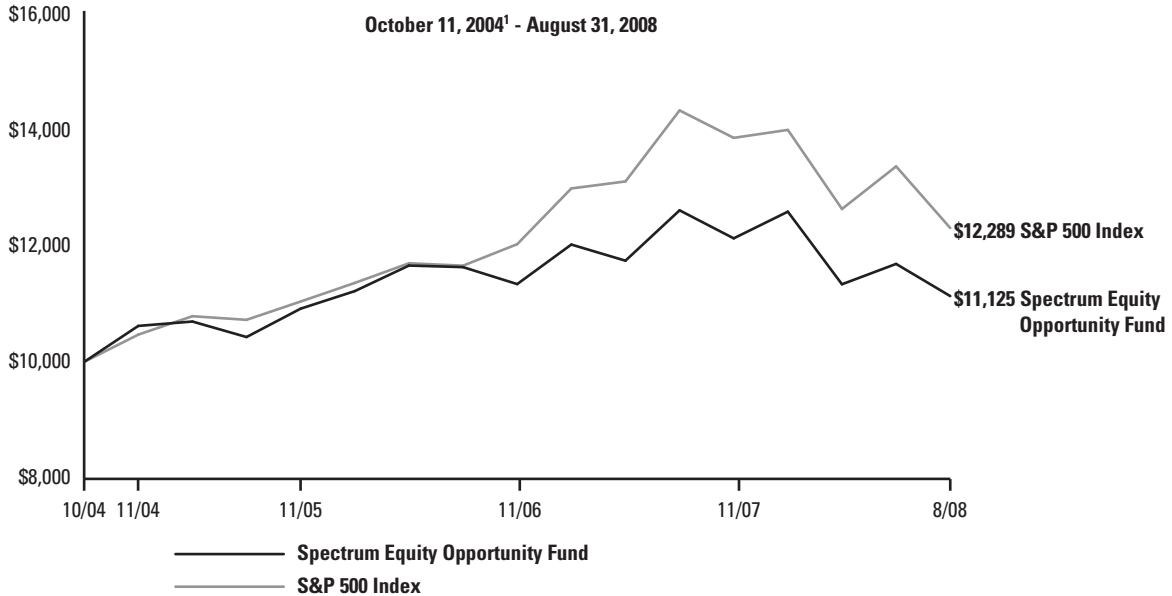
<u>Investment Type</u>	<u>% Net Assets</u>
Investment Companies	63.1%
Total Exposure	63.1%

"Market Exposure" includes the value of total investments (including the contract value of any derivatives) and excludes any short-term investments and cash equivalents divided by Net Assets.

¹ Commencement of operations.

² As of August 31, 2008.

Spectrum Equity Opportunity Fund
October 11, 2004¹ - August 31, 2008



	Average Annual Total Return ²		
	1 Year	3 Years	Since Inception
Spectrum Equity Opportunity Fund	(8.28)%	0.59%	2.78%
S&P 500 Index	(11.14)%	3.66%	5.45%

This chart illustrates the performance of a hypothetical \$10,000 investment made on the Fund's inception, and is not intended to imply any future performance. The returns shown do not reflect the deduction of taxes that a shareholder would pay on fund distributions of the redemption of fund shares. The performance of the S&P 500 Index does not reflect the deduction of fees associated with a mutual fund, such as investment management fees. Investors cannot invest directly in an index, although they can invest in its underlying securities.

The performance data shown represents past performance and does not guarantee future results.

Market Exposure

<u>Investment Type</u>	<u>% Net Assets</u>
Common Stock	14.9%
Investment Companies	22.7%
Futures Contracts	22.1%
Total Exposure	59.7%

"Market Exposure" includes the value of total investments (including the contract value of any derivatives) and excludes any short-term investments and cash equivalents divided by Net Assets.

¹ Commencement of operations.

² As of August 31, 2008.

Expense Example

August 31, 2008 (Unaudited)

As a shareholder of a mutual fund, you incur two types of costs: (1) transaction costs, including sales charges (loads) on purchase payments, reinvested dividends, or other distributions; redemption fees; and exchange fees; and (2) ongoing costs, including management fees; distribution and/or service fees; and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare costs with the ongoing costs of investing in other mutual funds.

The Example is based on an investment of \$1,000 invested at the beginning of the period and held the entire period (March 1, 2008 — August 31, 2008).

Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. Although the Fund charges no sales load or transactions fees, you will be assessed fees for outgoing wire transfers, returned checks or stop payment orders at prevailing rates charged by U.S. Bancorp Fund Services, LLC, the Funds' transfer agent. If you request a redemption be made by wire transfer, currently a \$15.00 fee is charged by the Funds' transfer agent. However, the example below does not include portfolio trading commissions and related expenses or other extraordinary expenses as determined under generally accepted accounting principles. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Funds' actual expense ratios and an assumed rate of return of 5% per year before expenses, which is not the Funds' actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Funds and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as wire transfers, returned checks or stop payment orders. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

Expense Example Tables
August 31, 2008 (Unaudited)

	<u>Net Expense Ratio¹</u>	<u>Beginning Account Value March 1, 2008</u>	<u>Ending Account Value August 31, 2008</u>	<u>Expenses Paid During Period²</u>
Spectrum Select Alternative Fund				
Based on actual fund return	2.60%	\$1,000.00	\$ 967.00	\$12.86
Based on hypothetical 5% return	2.60%	1,000.00	1,012.07	13.15
Spectrum Global Perspective Fund				
Based on actual fund return	2.39%	1,000.00	932.60	11.62
Based on hypothetical 5% return	2.39%	1,000.00	1,013.11	12.11
Spectrum Equity Opportunity Fund				
Based on actual fund return	2.66%	1,000.00	976.50	13.22
Based on hypothetical 5% return	2.66%	1,000.00	1,011.76	13.45

¹ Annualized

² Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half-year/period, then divided by 366.

Allocation of Portfolio Holdings
August 31, 2008 (Unaudited)

	<u>Cash*</u>	<u>U.S. Government Agency Obligations</u>	<u>Common Stock</u>	<u>Investment Companies</u>	<u>Futures</u>	<u>Total</u>
Spectrum Select Alternative Fund	2%	48%	—	50%	—	100%
Spectrum Global Perspective Fund	(46%)	83%	—	63%	—	100%
Spectrum Equity Opportunity Fund	(21%)	83%	15%	23%	0%**	100%

* Cash, cash equivalents and other assets less liabilities.

** Percentage is less than 0.5%.

Spectrum Select Alternative Fund

Schedule of Investments

August 31, 2008

Shares	Value	Shares	Value
INVESTMENT COMPANIES - 49.9%		MONEY MARKET FUNDS - 2.0%	
83,300	Caldwell & Orkin Market Opportunity Fund	505,072	Fidelity Institutional Money Market Portfolio
	\$ 1,785,110		\$ 505,072
135,432	Gateway Fund		
	3,825,945		
17,618	Janus Adviser Long/Short Fund		
	202,073		
131,342	Nuveen High Yield Municipal Bond Fund		
	2,458,728		
282,673	TFS Market Neutral Fund		
	<u>4,200,516</u>		
	TOTAL INVESTMENT COMPANIES		
	(Cost \$12,500,429)		
	<u>\$12,472,372</u>		
			TOTAL SHORT TERM INVESTMENTS
			(Cost \$12,604,477)
			<u>\$12,604,477</u>
			TOTAL INVESTMENTS
			(Cost \$25,104,906) - 100.3%
			\$25,076,849
			Liabilities in Excess of Other
			Assets - (0.3%)
			<u>(87,074)</u>
			TOTAL NET ASSETS - 100.0%
			<u>\$24,989,775</u>
 Principal Amount		 Percentages are stated as a percent of net assets.	
SHORT TERM INVESTMENTS - 50.4%			
U.S. GOVERNMENT AGENCY OBLIGATIONS - 48.4%			
\$12,100,000	Federal Home Loan Bank Discount Note, 1.9667%, 9/2/2008		
	<u>12,099,405</u>		

The accompanying notes are an integral part of these financial statements.

Spectrum Global Perspective Fund

Schedule of Investments

August 31, 2008

<u>Shares</u>		<u>Value</u>	<u>Shares</u>		<u>Value</u>
INVESTMENT COMPANIES - 63.1%			MONEY MARKET FUNDS - 0.7%		
381,800	iShares MSCI EAFE Index Fund	\$ 24,271,026	549,244	Fidelity Institutional Money Market Portfolio	\$ 549,244
632,800	iShares MSCI Emerging Markets Index Fund	25,343,640		TOTAL SHORT TERM INVESTMENTS	
36,391	Janus Advisor Long/Short Fund	417,404		(Cost \$66,545,999)	\$ 66,545,999
25,098	TFS Market Neutral Fund	<u>372,950</u>		TOTAL INVESTMENTS	
	TOTAL INVESTMENT COMPANIES			(Cost \$116,878,683) - 146.5%	\$116,951,019
	(Cost \$50,332,684)	<u>\$ 50,405,020</u>		Liabilities in Excess of Other Assets - (46.5)%	<u>(37,102,147)</u>
				TOTAL NET ASSETS - 100.0%	<u>\$ 79,848,872</u>
Principal Amount			Percentages are stated as a percent of net assets.		
	SHORT TERM INVESTMENTS - 83.4%				
	U.S. GOVERNMENT AGENCY OBLIGATIONS - 82.7%				
\$66,000,000	Federal Home Loan Bank Discount Note, 1.9667%, 9/2/2008	<u>65,996,755</u>			

The accompanying notes are an integral part of these financial statements.

Spectrum Equity Opportunity Fund

Schedule of Investments

August 31, 2008

Shares		Value	Shares		Value
COMMON STOCKS - 14.9%					
Aerospace & Defense - 0.9%					
412	DRS Technologies, Inc.	\$ 32,804	1,047	Flowers Foods, Inc.	\$ 27,683
906	Kaman Corp.	27,316	405	General Mills, Inc.	26,803
230	Lockheed Martin Corp.	26,781			108,084
316	Precision Castparts Corp.	32,630	Health Care Equipment & Supplies - 0.8%		
597	Triumph Group, Inc.	32,680	492	Covidien Ltd.	26,602
		152,211	1,550	Hologic, Inc.(a)	32,891
Biotechnology - 0.3%					
619	Alexion Pharmaceuticals, Inc.(a)	27,904	1,110	Natus Medical, Inc.(a)	27,306
1,079	Luminex Corp.(a)	27,504	781	SonoSite, Inc.(a)	26,398
		55,408	747	Steris Corp.	27,467
Chemicals - 5.0%					
874	Agrium, Inc. (Canada)	73,678			140,664
5,043	American Vanguard Corp.	74,838	Health Care Providers & Services - 0.3%		
492	CF Industries Holdings, Inc.	74,981	618	Chemed Corp.	27,031
1,683	E.I. du Pont de Nemours & Co.	74,792	659	Icon Plc ADR (United Kingdom)(a)	26,841
639	Monsanto Co.	73,006			53,872
681	Mosaic Co.	72,690	Household Products - 0.2%		
2,792	The Scotts Miracle-Gro Co.	74,658	385	The Procter & Gamble Co.	26,861
1,890	Sociedad Quimica y Minera De Chile, S.A ADR (Chile)	72,425	Insurance - 0.2%		
1,401	Syngenta AG ADR (Switzerland)	75,206	1,959	Allianz AG ADR (Germany)	32,676
1,443	Terra Industries, Inc.	72,511	IT Services - 0.2%		
653	Terra Nitrogen Co. L.P.	78,268	1,008	Gartner, Inc.(a)	26,621
		817,053	Leisure Equipment & Products - 0.2%		
Commercial Supplies & Services - 0.6%					
429	Huron Consulting Group, Inc.(a)	27,662	887	Hasbro, Inc.	33,174
672	Manpower, Inc.	32,296	Machinery - 0.8%		
1,612	Universal Technical Institute, Inc.(a)	27,662	621	Cascade Corp.	32,217
		87,620	1,270	The Manitowoc Company, Inc.	31,979
Containers & Packaging - 0.2%					
910	Rock-Tenn Co. - Class A	33,379	502	Parker Hannifin Corp.	32,163
Diversified Telecommunication Services - 0.5%					
461	Philippine Long Distance Telephone Co. ADR (Philippines)	27,333	915	Trinity Industries, Inc.	32,922
1,092	Telefonos de Mexico, S.A.B de C.V. ADR (Mexico)	26,830			129,281
1,362	Vimpel-Communications ADR (Russia)	32,729	Marine - 0.2%		
		86,892	1,152	Diana Shipping, Inc.	32,694
Electronic Equipment & Instruments - 0.5%					
1,100	Avnet, Inc.(a)	32,285	Metals & Mining - 0.0%		
746	Coherent, Inc.(a)	26,759	1	Goldcorp, Inc. (Canada)	34
3,557	Flextronics International Ltd. (Singapore)(a)	31,728	Oil & Gas - 0.2%		
		90,772	1	Kinder Morgan Management LLC(a)	56
Food & Staples Retailing - 0.4%					
953	Casey's General Stores, Inc.	27,637	928	World Fuel Services Corp.	26,736
881	CVS Corp.	32,245			26,792
		59,882	Pharmaceuticals - 0.5%		
Food Products - 0.7%					
674	Cal-Maine Foods, Inc.	26,616	839	Johnson & Johnson	59,091
733	Campbell Soup Co.	26,982	1,450	Valeant Pharmaceuticals International(a)	26,549
					85,640
Road & Rail - 0.2%					
			391	Union Pacific Corp.	32,805
Rubber & Plastics - 0.2%					
			1,012	Carlisle Companies, Inc.	32,779
Semiconductor & Semiconductor Equipment - 1.1%					
			3,463	Evergreen Solar, Inc.(a)	32,656
			1,013	FEI Co.(a)	27,432
			653	MEMC Electronic Materials, Inc.(a)	32,056
			2,492	NVIDIA Corp.(a)	31,499
			1,856	Sigma Designs, Inc.(a)	31,793
			523	Synaptics, Inc.(a)	27,374
					182,810

The accompanying notes are an integral part of these financial statements.

Spectrum Equity Opportunity Fund

Schedule of Investments

August 31, 2008

<u>Shares</u>		<u>Value</u>	<u>Principal Amount</u>	<u>Value</u>
Software - 0.5%			SHORT TERM INVESTMENTS - 86.9%	
613	Adobe Systems, Inc.(a)	\$ 26,255	U.S. GOVERNMENT AGENCY OBLIGATIONS - 83.0%	
1,836	Interwoven, Inc.(a)	27,026	\$13,600,000	Federal Home Loan Bank Discount
1,334	Parametric Technology Corp.(a)	26,787		Note, 1.966%, 9/2/2008
		<u>80,068</u>		<u>\$13,599,331</u>
Specialty Retail - 0.2%			Shares	
890	Guess?, Inc.	33,170	MONEY MARKET FUNDS - 3.9%	
	TOTAL COMMON STOCKS		640,660	Fidelity Institutional Money Market
	(Cost \$2,460,780)	<u>\$2,441,242</u>		Portfolio
				<u>640,660</u>
INVESTMENT COMPANIES - 22.7%			TOTAL SHORT TERM INVESTMENTS	
40,800	iShares MSCI Emerging Markets Index Fund	1,634,040	(Cost \$14,239,991)	
40,472	Janus Advisor Long/Short Fund	464,212		
71,000	Technology Select Sector SPDR Fund	<u>1,622,350</u>	TOTAL INVESTMENTS	
	TOTAL INVESTMENT COMPANIES		(Cost \$20,517,509) - 124.5%	
	(Cost \$3,816,738)	<u>\$3,720,602</u>	Liabilities in Excess of Other Assets - (24.5)%	
			<u>(4,020,369)</u>	
			TOTAL NET ASSETS - 100.0%	
			<u>\$16,381,466</u>	

Percentages are stated as a percent of net assets.

ADR American Depository Receipt

(a) Non-income producing security.

Spectrum Equity Opportunity Fund

Futures Contracts

August 31, 2008

<u>Contracts</u>		<u>Unrealized Appreciation</u>
49	Russell 2000 Index Mini Futures Expiring September 2008 (Underlying Face Amount at Market Value \$3,617,670)	<u>\$21,631</u>

The accompanying notes are an integral part of these financial statements.

Statements of Assets and Liabilities

August 31, 2008

	Spectrum Select Alternative Fund	Spectrum Global Perspective Fund	Spectrum Equity Opportunity Fund
Assets:			
Investments, at market value (Note 2)	\$25,076,849	\$116,951,019	\$20,401,835
Cash	—	7,537	—
Receivable for Fund shares sold	5,000	50,000	5,000
Receivable for investments sold	—	7,935,347	1,608,968
Deposit at broker for futures	—	—	151,722
Deposit at broker for swaps	—	—	30,000
Due from broker for futures	—	—	54,078
Dividends and interest receivable	13,898	1,507	5,426
Other assets	8,306	11,086	6,024
Total Assets	25,104,053	124,956,496	22,263,053
Liabilities:			
Payable for investments purchased	—	44,835,273	5,752,783
Variation margin payable	—	—	32,830
Accrued advisory expense	21,387	69,142	14,176
Accrued distribution expense	17,962	63,090	16,259
Accrued expenses and other liabilities	74,929	140,119	65,539
Total Liabilities	114,278	45,107,624	5,881,587
Net Assets	\$24,989,775	\$ 79,848,872	\$16,381,466
Net Assets Consist Of:			
Capital stock	\$28,534,378	\$ 98,658,847	\$19,595,748
Accumulated undistributed net investment income (loss)	44,090	7,154	—
Accumulated undistributed net realized gain (loss)	(3,560,636)	(18,889,465)	(3,120,239)
Net unrealized appreciation (depreciation) on:			
Investments	(28,057)	72,336	(115,674)
Futures	—	—	21,631
Total Net Assets	\$24,989,775	\$ 79,848,872	\$16,381,466
Calculation of Net Asset Value Per Share - Service Class:			
Net assets	\$24,989,775	\$ 79,848,872	\$16,381,466
Shares outstanding (unlimited shares of beneficial interest authorized, no par value)	1,363,694	4,272,774	915,128
Net asset value, redemption price and offering price per share	\$ 18.33	\$ 18.69	\$ 17.90
Cost of Investments	\$25,104,906	\$116,878,683	\$20,517,509

The accompanying notes are an integral part of these financial statements.

Statements of Operations
Year Ended August 31, 2008

	<u>Spectrum Select Alternative Fund</u>	<u>Spectrum Global Perspective Fund</u>	<u>Spectrum Equity Opportunity Fund</u>
Investment income:			
Dividend income (net of foreign withholding tax of \$—, \$3,339, \$2,422, respectively)	\$ 1,270,407	\$ 72,159	\$ 171,862
Interest income	<u>237,088</u>	<u>1,597,909</u>	<u>403,093</u>
Total investment income	<u>1,507,495</u>	<u>1,670,068</u>	<u>574,955</u>
Expenses:			
Investment advisory fees	355,590	1,023,959	244,188
Distribution expenses	355,590	1,023,959	244,188
Administration fees	14,827	44,011	14,316
Fund accounting fees	27,258	82,480	26,084
Custody fees	5,205	18,072	6,313
Transfer agent fees	32,702	95,591	22,450
Federal and state registration	12,023	11,109	8,384
Professional fees	64,072	68,515	57,532
Reports to shareholders	18,263	34,687	7,881
Trustees' fees and expenses	2,645	6,328	2,110
Other	<u>23,292</u>	<u>23,702</u>	<u>6,829</u>
Total expenses	<u>911,467</u>	<u>2,432,413</u>	<u>640,275</u>
Net investment income (loss)	<u>596,028</u>	<u>(762,345)</u>	<u>(65,320)</u>
Realized and unrealized gain (loss) on investments:			
Net realized gain (loss) on:			
Investments	(2,298,074)	(5,143,780)	(546,246)
Futures	(350,384)	276,260	(1,101,405)
Swaps	<u>(490,328)</u>	<u>(452,397)</u>	<u>446,079</u>
	<u>(3,138,786)</u>	<u>(5,319,917)</u>	<u>(1,201,572)</u>
Capital gain distributions from regulated investment companies	<u>120,927</u>	<u>4,110</u>	<u>4,266</u>
Change in unrealized appreciation (depreciation) on:			
Investments	115,783	(2,145,830)	(485,083)
Futures	—	—	21,631
Swaps	<u>—</u>	<u>90,407</u>	<u>15,628</u>
	<u>115,783</u>	<u>(2,055,423)</u>	<u>(447,824)</u>
Net realized and unrealized gain (loss) on investments	<u>(2,902,076)</u>	<u>(7,371,230)</u>	<u>(1,645,130)</u>
Net increase (decrease) in net assets resulting from operations	<u><u>\$(2,306,048)</u></u>	<u><u>\$(8,133,575)</u></u>	<u><u>\$(1,710,450)</u></u>

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Net Assets

	Spectrum Select Alternative Fund		Spectrum Global Perspective Fund		Spectrum Equity Opportunity Fund	
	Year Ended August 31, 2008	Year Ended August 31, 2007	Year Ended August 31, 2008	Year Ended August 31, 2007	Year Ended August 31, 2008	Year Ended August 31, 2007
Operations:						
Net investment income (loss)	\$ 596,028	\$ 898,525	\$ (762,345)	\$ (150,364)	\$ (65,320)	\$ (56,711)
Net realized gain (loss) on investments	(3,138,786)	1,255,187	(5,319,917)	14,853,403	(1,201,572)	3,524,383
Capital gain distributions from regulated investment companies	120,927	—	4,110	—	4,266	—
Change in unrealized appreciation (depreciation) on investments	<u>115,783</u>	<u>(487,033)</u>	<u>(2,055,423)</u>	<u>(1,635,791)</u>	<u>(447,824)</u>	<u>(493,467)</u>
Net increase (decrease) in net assets resulting from operations	<u>(2,306,048)</u>	<u>1,666,679</u>	<u>(8,133,575)</u>	<u>13,067,248</u>	<u>(1,710,450)</u>	<u>2,974,205</u>
Distributions to shareholders:						
Net investment income	(798,522)	(1,153,008)	(3,592,655)	(1,441,718)	(755,550)	(572,057)
Net realized gains	<u>(14,167)</u>	<u>—</u>	<u>(15,267,529)</u>	<u>(15,783,631)</u>	<u>(1,483,186)</u>	<u>(2,410,446)</u>
Total distributions	<u>(812,689)</u>	<u>(1,153,008)</u>	<u>(18,860,184)</u>	<u>(17,225,349)</u>	<u>(2,238,736)</u>	<u>(2,982,503)</u>
Capital share transactions:						
Proceeds from shares sold	7,989,068	22,136,299	8,266,915	19,075,781	1,142,108	5,479,467
Proceeds from shares issued to holders in reinvestment of dividends	805,878	1,151,291	18,836,313	17,116,655	2,238,737	2,967,967
Cost of shares redeemed	<u>(21,443,226)</u>	<u>(5,769,095)</u>	<u>(31,024,292)</u>	<u>(36,690,738)</u>	<u>(15,908,109)</u>	<u>(24,456,117)</u>
Net increase (decrease) in net assets resulting from capital share transactions	<u>(12,648,280)</u>	<u>17,518,495</u>	<u>(3,921,064)</u>	<u>(498,302)</u>	<u>(12,527,264)</u>	<u>(16,008,683)</u>
Total increase (decrease) in net assets	<u>(15,767,017)</u>	<u>18,032,166</u>	<u>(30,914,823)</u>	<u>(4,656,403)</u>	<u>(16,476,450)</u>	<u>(16,016,981)</u>
Net assets:						
Beginning of year/period	<u>40,756,792</u>	<u>22,724,626</u>	<u>110,763,695</u>	<u>115,420,098</u>	<u>32,857,916</u>	<u>48,874,897</u>
End of year/period	<u>\$ 24,989,775</u>	<u>\$40,756,792</u>	<u>\$ 79,848,872</u>	<u>\$110,763,695</u>	<u>\$ 16,381,466</u>	<u>\$ 32,857,916</u>
Undistributed (Accumulated) net investment income (loss), end of year/period	<u>\$ 44,090</u>	<u>\$ 239,959</u>	<u>\$ 7,154</u>	<u>\$ 1,306,329</u>	<u>\$ —</u>	<u>\$ 392,766</u>

The accompanying notes are an integral part of these financial statements.

Financial Highlights August 31, 2008

Year/Period	RATIOS TO AVERAGE NET ASSETS														
	Net Asset Value Beginning of Year/Period	Net Investment Income (Loss) ³	Net Realized and Unrealized Gain (Loss) on Investments ⁴	Net Increase (Decrease) in Net Asset Value Resulting from Operations	Dividends from Net Investment Income	Distributions from Realized Capital Gains	Total Distributions	Net Asset Value End of Year/Period	Total Return ⁵	Net Assets, End of Year/Period (,000)	Including Short Dividends		Excluding Short Dividends		Portfolio Turnover Rate ⁶
											Total Expenses	Net Expenses	Total Expenses	Net Expenses	
Spectrum Select Alternative Fund															
Year ended August 31, 2008	\$20.02	\$ 0.33	\$(1.58)	\$(1.25)	\$ (0.43)	\$ (0.01)	\$ (0.44)	\$18.33	(6.38)%	\$ 24,990	—	—	2.57%	2.57%	1.68%
Year ended August 31, 2007	19.54	0.57	0.76	1.33	(0.85)	—	(0.85)	20.02	6.93%	40,757	—	—	2.44%	2.44%	2.82%
Year ended August 31, 2006	19.96	0.50	0.34	0.84	(1.26)	—	(1.26)	19.54	4.53%	22,725	—	—	2.54%	2.54%	2.57%
September 1, 2004 ⁹ to August 31, 2005	20.00	0.48	(0.26)	0.22	(0.26)	—	(0.26)	19.96	1.09% ²	33,414	—	—	2.38% ¹	2.38% ¹	2.44% ¹
Spectrum Global Perspective Fund															
Year ended August 31, 2008	24.73	(0.16)	(1.48)	(1.64)	(0.84)	(3.56)	(4.40)	18.69	(8.96)%	79,849	—	—	2.38%	2.38%	(0.75)%
Year ended August 31, 2007	25.93	(0.03)	2.86	2.83	(0.34)	(3.69)	(4.03)	24.73	11.32%	110,764	—	—	2.24%	2.24%	(0.12)%
Year ended August 31, 2006	23.46	0.06	4.49	4.55	—	(2.08)	(2.08)	25.93	20.43%	115,420	—	—	2.23%	2.23%	0.25%
September 27, 2004 ⁹ to August 31, 2005	20.00	(0.03) ⁷	3.80	3.77	(0.26)	(0.05)	(0.31)	23.46	18.88% ²	71,085	2.39% ¹	2.39% ¹	2.38% ¹	2.38% ¹	(0.16)% ^{1,8}
Spectrum Equity Opportunity Fund															
Year ended August 31, 2008	21.24	(0.05)	(1.51)	(1.56)	(0.60)	(1.18)	(1.78)	17.90	(8.28)%	16,381	—	—	2.63%	2.63%	(0.27)%
Year ended August 31, 2007	21.43	(0.03)	1.48	1.45	(0.31)	(1.33)	(1.64)	21.24	6.91%	32,858	—	—	2.40%	2.40%	(0.14)%
Year ended August 31, 2006	21.85	0.03	0.77	0.80	—	(1.22)	(1.22)	21.43	3.85%	48,875	—	—	2.31%	2.31%	0.15%
October 11, 2004 ⁹ to August 31, 2005	20.00	(0.16)	2.01	1.85	—	—	—	21.85	9.25% ²	45,689	—	—	2.50% ¹	2.50% ¹	(0.88)% ¹

¹ Annualized

² Not annualized

³ Net investment income (loss) per share represents net investment income (loss) divided by the daily average shares of beneficial interest outstanding throughout each period.

⁴ The amounts shown may not correlate with aggregate gains and losses of portfolio securities due to timing of subscriptions and redemptions of Fund shares.

⁵ All returns reflect reinvested dividends, if any, but do not reflect the impact of taxes.

⁶ Portfolio turnover is calculated without regard to short-term securities having a maturity of less than one year. Investments in options, swaps, and futures contracts and repurchase agreements are deemed short-term securities. The Fund's aggressive investment strategy may result in significant portfolio turnover to take advantage of anticipated changes in market conditions.

⁷ Net investment income (loss) before dividends on short positions for the period ended August 31, 2005 was \$(0.04).

⁸ Net investment income (loss) ratio included dividends on short positions. The ratio excluding dividends on short positions for the period ended August 31, 2005 was (0.15)%.

⁹ Commencement of operations.

Direxion Funds
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2008

1. ORGANIZATION

Direxion Funds (the "Trust") was organized as a Massachusetts Business Trust on June 6, 1997 and is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company issuing its shares in series, each series representing a distinct portfolio with its own investment objective and policies. The Trust currently has 40 series of which seven are included in this report, HCM Freedom Fund, PSI Core Strength Fund, PSI Macro Trends Fund, PSI Total Return Fund, Spectrum Select Alternative Fund (formerly Spectrum High Yield Plus Fund), Spectrum Global Perspective Fund and Spectrum Equity Opportunity Fund (each a "Fund" and collectively, the "Funds"). Each Fund is a "non-diversified" series of the Trust pursuant to the 1940 Act. The PSI Core Strength Fund, the PSI Macro Trends Fund and the PSI Total Return Fund commenced operations on January 8, 2007.

The objective of the HCM Freedom Fund is to seek long-term capital appreciation with lower volatility than the overall market by investing in equity securities of domestic issuers, equity securities of foreign issuers, whether directly or indirectly through sponsored or unsponsored American Depositary Receipts (ADRs), exchange traded funds (ETFs), other investment companies and foreign currencies. The objective of the PSI Core Strength Fund is to seek returns equal to or better than the return of the broad U.S. stock market as measured by the S&P 500® Fund over a full market cycle. The PSI Macro Trends Fund seeks to implement short or long strategies to achieve capital appreciation. The PSI Total Return Fund seeks income plus capital appreciation. The objective of the Spectrum Select Alternative Fund is to seek income and capital appreciation on a total return basis by investing primarily in high yield fixed-income securities, either directly or indirectly through exchange-traded funds (ETFs), other investment companies and derivative instruments. The Spectrum Global Perspective Fund seeks income and capital appreciation by investing in equity securities of foreign issuers either directly or indirectly through American Depositary Receipts (ADRs), ETFs, foreign currencies, other investment companies and derivative instruments. The Spectrum Equity Opportunity Fund seeks income and capital appreciation by investing either directly in securities of domestic and foreign issuers or indirectly through ADRs, ETFs, other investment companies and derivative instruments.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Funds in the preparation of their financial statements. These policies are in conformity with U.S. generally accepted accounting principles ("GAAP").

a) Investment Valuation – Equity securities, exchange-traded funds, closed-end investment companies, options, futures and options on futures are valued at their last sales prices, or if not available, the average of the last bid and ask prices. Over-the-counter ("OTC") securities and swap agreements are valued at the average of the last bid and ask prices. Securities primarily traded on the NASDAQ National Market are valued using the NASDAQ Official Closing Price ("NOCP"). Investments in open-end mutual funds are valued at their respective net asset values on the valuation date. Short-term debt securities with a maturity of 60 days or less and money market securities are valued using the amortized cost method. Other debt securities are valued by using the closing bid and asked prices provided by the Funds' pricing service or, if such prices are unavailable, by a pricing matrix method. Securities for which reliable market quotations are not readily available, the Funds' pricing service does not provide a valuation for such securities, the Funds' pricing service provides a valuation that in the judgment of Rafferty Asset Management, LLC (the "Adviser") does not represent fair value, or the Fund or the Adviser believes the market price is stale will be fair valued as determined by the Adviser under the supervision of the Board of Trustees.

b) Repurchase Agreements – Each Fund may enter into repurchase agreements with institutions that are members of the Federal Reserve System or securities dealers who are members of a national securities exchange or are primary dealers in U.S. government securities. In connection with transactions in repurchase agreements, it is the Trust's policy that the Fund receives, as collateral, cash and/or securities (primarily U.S. government securities) whose market value, including accrued interest, at all times will be at least equal to 100% of the amount invested by the Fund in each repurchase agreement. If the seller defaults, and the value of the collateral declines, realization of the collateral by the Fund may be delayed or limited.

c) Swap Contracts – Each Fund may enter into equity swap contracts. Standard equity swap contracts are between two parties that agree to exchange the returns (or differentials in rates of returns) earned or realized on particular predetermined investments or instruments. The gross amount to be exchanged is calculated with respect to a “notional amount” (i.e. the return on or increase in value of a particular dollar amount invested in a “basket” of securities representing a particular index or industry sector). The Fund’s obligations are accrued daily (offset by any amounts owed to the Funds.)

In a “long” swap agreement, the counterparty will generally agree to pay the Fund the amount, if any, by which the notional amount of the swap contract would have increased in value if the Fund had been invested in the particular securities, plus dividends that would have been received on those securities. The Fund will agree to pay the counterparty a floating rate of interest on the notional amount of the swap contract plus the amount, if any, by which the notional amount of the swap contract would have decreased in value if it had it been invested in such securities plus, in certain instances, commissions or trading spreads on the notional amounts. Thus, the return on the swap contract should be the gain or loss on the notional amount plus dividends on the securities less the interest paid by the Fund on the notional amount. Payments may be made at the conclusion of the contract or periodically during its term. Swap contracts do not include the delivery of securities or other underlying securities. The net amount of the excess, if any, of the Fund’s obligations over its entitlement with respect to each swap is accrued on a daily basis and an amount of cash or liquid assets, having an aggregate net asset value at least equal to such accrued excess is maintained in a segregated account by the Fund’s custodian. Until a swap contract is settled in cash, the gain or loss on the notional amount plus dividends on the securities less the interest paid by the Fund on the notional amount are recorded as “unrealized gains or losses on swaps and futures” and when cash is exchanged, the gain or loss is recorded as “realized gains or losses on swaps and futures”. Swap contracts are collateralized by cash, cash equivalents and securities of the Fund held as deposits at the broker.

Each Fund may enter into swap contracts that provide the opposite return of the particular benchmark or security (“short” the index or security). The operations are similar to that of the swaps disclosed above except that the counterparty pays interest to the Fund on the notional amount outstanding and the dividends on the underlying securities reduce the value of the swap, plus, in certain instances, the Fund will agree to pay to the counterparty commissions or trading spreads on the notional amount. These amounts are netted with any unrealized appreciation or depreciation to determine the value of the swap.

The Spectrum Select Alternative Fund may enter into credit default swaps. In a credit default swap, one party makes a stream of payments to another party in exchange for the right to receive a specified return in the event of a default by a referenced entity, typically a default by a corporate issuer on its debt obligations. The stream of payments is recorded as an unrealized gain or loss and adjusted to include up-front payments recorded as a component of unrealized gain or loss on swaps, and/or interest associated with the agreement until the swap is sold or expires, at which point it is recognized as a component of realized gain or loss. The Fund may use swaps to attempt to gain exposure to debt securities without actually purchasing those securities or to hedge a position. The Fund may purchase credit protection on the referenced entity of the credit default swap (“Buy Contract”) or provide credit protection on the referenced entity of the credit default swap (“Sale Contract”). If a credit event occurs, the maximum payout amount for a sale contract is limited to the notional amount of the swap contract (“Maximum Payout Amount”). Maximum Payout Amounts could be offset by the subsequent sale, in any, of assets obtained via the execution of a payout event.

Swap contracts involve, to varying degrees, elements of market risk and exposure to loss in excess of the amount reflected in the Statement of Assets and Liabilities. The notional amounts reflect the extent of the total investment exposure that each Fund has under the swap contract. The primary risks associated with the use of swap agreements are imperfect correlation between movements in the notional amount and the price of the underlying securities and the inability of counterparties to perform. A Fund bears the risk of loss of the amount expected to be received under a swap contract in the event of default or bankruptcy of a swap contract counterparty. In order to minimize credit risk, the Funds will attempt to enter into swap contracts with multiple counterparties. The Funds will not enter into swap agreements unless the Adviser believes that the other party to the transaction is creditworthy, the Funds do bear the risk loss of loss of the amount in the event of the default or bankruptcy of the agreement counterparty. The Funds have established counterparty credit guidelines and entered into transactions only with financial institutions or investment grade or better.

d) Short Positions – Each Fund may engage in short sale transactions. For financial statement purposes, an amount equal to the settlement amount is included in the Statement of Assets and Liabilities as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current value of the short position. Subsequent fluctuations in the market prices of short positions may require purchasing the securities at prices which may differ from the market value reflected on the Statement of Assets and Liabilities. The Fund is liable to the buyer for any dividends payable on securities while those securities are in a short position. As collateral for its short positions, the Fund is required under the 1940 Act to maintain assets consisting of cash, cash equivalents or liquid securities equal to the market value of the securities sold short. This collateral is required to be adjusted daily. There were no short positions held by the Funds at August 31, 2008.

e) Stock Index Futures Contracts and Options on Futures Contracts – Each Fund may purchase and sell stock index futures contracts and options on such futures contracts. Upon entering into a contract, the Fund deposits and maintains as collateral such initial margin as required by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as “variation margin” and are recorded by the Fund as unrealized gains and losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. As collateral for futures contracts, the Fund is required under the 1940 Act to maintain assets consisting of cash, cash equivalents or liquid securities. This collateral is required to be adjusted daily to reflect the market value of the purchase obligation for long futures contracts or the market value of the instrument underlying the contract, but not less than the market price at which the futures contract was established, for short futures contracts.

f) Risks of Options, Futures Contracts, Options on Futures Contracts and Short Positions – The risks inherent in the use of options, futures contracts, options on futures contracts and short positions include 1) adverse changes in the value of such instruments; 2) imperfect correlation between the price of options and futures contracts and options thereon and movements in the price of the underlying securities, index or futures contracts; 3) the possible absence of a liquid secondary market for any particular instrument at any time; 4) the possible need to defer closing out certain positions to avoid adverse tax consequences; and 5) the possible nonperformance by the counterparty under the terms of the contract for short sales. The Funds designate cash, cash equivalents and liquid securities as collateral for written options, futures contracts, options on futures contracts, and short positions.

g) Risks of Investing in Foreign Securities – The Spectrum Global Perspective and the Spectrum Equity Opportunity Funds may invest in foreign securities or through U.S. dollar denominated ADRs. Investments in foreign securities involve greater risks than investing in domestic securities. As a result, the Fund’s returns and net asset values may be affected to a large degree by fluctuations in currency exchange rates, political, diplomatic or economic conditions and regulatory requirements in other countries. The laws and accounting, auditing, and financial reporting standards in foreign countries typically are not as strict as they are in the U.S., and there may be less public information available about foreign companies.

Investments in foreign emerging markets present a greater risk than investing in foreign issuers in general. The risk of political or social upheaval is greater in emerging markets. In addition, there may be risks of an economy’s dependence on revenues from particular commodities, currency transfer restrictions, a limited number of potential buyers for such securities and delays and disruption in securities settlement procedures.

h) Forward Currency Contracts – The Spectrum Global Perspective and Spectrum Equity Opportunity Funds may enter into forward currency exchange contracts obligating the Funds to deliver and receive currency at a specified future date. Forward contracts are valued daily, and unrealized appreciation and depreciation is recorded daily as the difference between the contract exchange rate and the closing forward rate applied to the face amount of the contract. A realized gain or loss is recorded at the time the forward contract is closed.

i) Foreign Currency Translations – The books and records of the Funds are maintained in U.S. dollars. Foreign currency transactions are translated into U.S. dollars on the following basis: (i) market value of investment securities, assets and liabilities at the daily rates of exchange, and (ii) purchases and sales of investment securities, dividend and interest income and certain expenses at the rates of exchange prevailing on the respective dates of such transactions. For financial reporting purposes, the Funds do not isolate changes in the exchange rate of investment securities from the fluctuations

arising from changes in market prices of securities. However, for federal income tax purposes, the Fund does isolate and treat as ordinary income the effect of changes in foreign exchange rates on realized gain or loss from the sale of investment securities and payables and receivables arising from trade-date and settlement-date differences.

j) Security Transactions – Investment transactions are recorded on the trade date. The Funds determine the gain or loss realized from the investment transactions by comparing the identified cost, which is the same basis used for federal income tax purposes, with the net sales proceeds.

k) Federal Income Taxes – Each Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code necessary to qualify as a regulated investment company and to make the requisite distributions of income and capital gains to its shareholders sufficient to relieve it from all or substantially all federal income taxes and excise taxes.

l) Income and Expenses – Dividend income is recorded on the ex-dividend date. Interest income, including amortization of premium and discount, is recognized on an accrual basis. The Funds are charged for those expenses that are directly attributable to each series, such as Advisory fees and registration costs. Expenses that are not directly attributable to a series are generally allocated among the Trust's series in proportion to their respective net assets.

m) Distributions to Shareholders – Each Fund generally pays dividends from net investment income and distributes net realized capital gains, if any, at least annually. Income and capital gain distributions are determined in accordance with income tax regulations which may differ from U.S. generally accepted accounting principals. Distributions to shareholders are recorded on the ex-dividend date.

The tax character of distributions paid during the year ended August 31, 2008 and year ended August 31, 2007, were as follows:

	HCM Freedom Fund	
	Year Ended August 31, 2008	Year Ended August 31, 2007
Distributions paid from:		
Ordinary Income	\$3,487,566	\$2,590,425
Long-Term Capital Gains	—	—
Return of Capital	—	—
Total Distributions paid	<u>\$3,487,566</u>	<u>\$2,590,425</u>

	PSI Core Strength Fund		PSI Macro Trends Fund	
	Year Ended August 31, 2008	Year Ended August 31, 2007	Year Ended August 31, 2008	Year Ended August 31, 2007
Distributions paid from:				
Ordinary Income	\$ 858,895	\$—	\$1,125,328	\$—
Long-Term Capital Gains	—	—	39,963	—
Return of Capital	199,791	—	—	—
Total Distributions paid	<u>\$1,058,686</u>	<u>\$—</u>	<u>\$1,165,291</u>	<u>\$—</u>

	PSI Total Return Fund		Spectrum Select Alternative Fund	
	Year Ended August 31, 2008	Year Ended August 31, 2007	Year Ended August 31, 2008	Year Ended August 31, 2007
Distributions paid from:				
Ordinary Income	\$1,517,114	\$—	\$812,689	\$1,153,008
Long-Term Capital Gains	231,312	—	—	—
Return of Capital	—	—	—	—
Total Distributions paid	<u>\$1,748,426</u>	<u>\$—</u>	<u>\$812,689</u>	<u>\$1,153,008</u>

	Spectrum Global Perspective Fund		Spectrum Equity Opportunity Fund	
	Year Ended August 31, 2008	Year Ended August 31, 2007	Year Ended August 31, 2008	Year Ended August 31, 2007
Distributions paid from:				
Ordinary Income	\$18,598,688	\$17,128,547	\$2,236,452	\$2,953,212
Long-Term Capital Gains	261,496	96,802	2,284	29,291
Return of Capital	—	—	—	—
Total Distributions paid	\$18,680,184	\$17,225,349	\$2,238,736	\$2,982,503

The fund designated as long-term capital gain dividend, pursuant to Internal Revenue Code Section 852(b)(3), the amount necessary to reduce the earnings and profits of the Fund related to net capital gain to zero for the tax year ended August 31, 2008. The Fund may utilize earnings and profits distributed to shareholders on redemption of shares as part of the dividend paid deduction.

At August 31, 2008 the components of distributable earnings on a tax basis were as follows:

	HCM Freedom Fund	PSI Core Strength Fund	PSI Macro Trends Fund	PSI Total Return Fund
Tax cost of investments	\$ 25,603,173	\$20,496,758	\$37,348,739	\$31,321,337
Gross unrealized appreciation	—	157,861	223,510	180,445
Gross unrealized depreciation	—	(203,081)	(3,616,941)	(373,649)
Net unrealized appreciation/depreciation	—	(45,220)	(3,393,431)	(193,204)
Undistributed ordinary income	1,039,382	—	243,980	—
Undistributed long-term capital gain	—	—	1,068	—
Total distributable earnings	1,039,382	—	245,048	—
Other accumulated losses	(21,027,986)	(1,694,687)	(4,317,530)	(801,366)
Total accumulated earnings/(losses)	\$(19,988,604)	\$(1,739,907)	\$(7,465,913)	\$ (994,570)

	Spectrum Select Alternative Fund	Spectrum Global Perspective Fund	Spectrum Equity Opportunity Fund
Tax cost of investments	\$25,142,098	\$129,413,023	\$20,634,398
Gross unrealized appreciation	167,030	349,651	66,245
Gross unrealized depreciation	(232,279)	(12,811,655)	(298,808)
Net unrealized appreciation/depreciation	(65,249)	(12,462,004)	(232,563)
Undistributed ordinary income	44,090	12,567	—
Undistributed long-term capital gain	—	264	—
Total distributable earnings	44,090	12,831	—
Other accumulated losses	(3,523,444)	(6,360,802)	(2,981,719)
Total accumulated earnings/(losses)	\$(3,544,603)	\$(18,809,975)	\$(3,214,282)

The difference between book cost of investments and tax cost of investments is attributable primarily to the tax deferral of losses on wash sales.

On the Statement of Assets and Liabilities, the following adjustments were made for permanent tax differences between accounting for net investment income and realized gains and losses under GAAP and tax reporting:

	<u>Net Investment Income or (Loss)</u>	<u>Realized Gain or (Loss)</u>	<u>Capital Stock</u>
HCM Freedom Fund	\$1,038,843	\$ (969,985)	\$ (68,858)
PSI Core Strength Fund	(92,300)	92,746	(446)
PSI Macro Trends Fund	9,413	(213,542)	204,129
PSI Total Return Fund	402,937	(619,124)	216,187
Spectrum Select Alternative Fund	6,625	(11,112)	4,487
Spectrum Global Perspective Fund	3,055,825	(2,571,621)	(484,204)
Spectrum Equity Opportunity Fund	428,104	(268,263)	(159,841)

Net investment income and realized gains and losses for federal income tax purposes may differ from that reported on the financial statements because of permanent book-to-tax differences. GAAP requires that permanent differences in net investment income and realized gains and losses due to differences in financial reporting and tax reporting be reclassified between various components of net assets. The permanent differences primarily relate to swap contracts, excise tax, net operating losses, and dividends on redemption adjustments with differing book and tax methods.

In order to meet certain excise tax distribution requirements, the Funds are required to measure and distribute annually, net capital gains realized during a twelve-month period ending October 31st. In connection with this, the Funds are permitted for tax purposes to defer into their next fiscal year any net capital losses incurred between November 1st and the end of their fiscal year, August 31, 2008.

At August 31, 2008, the following funds deferred, on a tax basis, post October losses of:

	<u>Post October Loss Deferred</u>	<u>Post October Currency Loss</u>
HCM Freedom Fund	\$4,868,578	\$—
PSI Core Strength Fund	1,694,687	—
PSI Macro Trends Fund	4,257,446	—
PSI Total Return Fund	588,298	—
Spectrum Select Alternative Fund	3,523,444	—
Spectrum Global Perspective Fund	6,360,802	—
Spectrum Equity Opportunity Fund	2,981,719	—

At August 31, 2008, the following funds had capital loss carryovers of:

<u>Capital Loss Expiring</u>	<u>8/31/14</u>	<u>8/31/15</u>	<u>8/31/16</u>	<u>Total</u>
HCM Freedom Fund	\$8,842,217	\$5,679,579	\$1,637,612	\$16,159,408
PSI Core Strength Fund	—	—	—	—
PSI Macro Trends Fund	—	—	—	—
PSI Total Return Fund	—	—	—	—
Spectrum Select Alternative Fund	—	—	—	—
Spectrum Global Perspective Fund	—	—	—	—
Spectrum Equity Opportunity Fund	—	—	—	—

To the extent the Funds realize future net capital gains, those gains will be offset by any unused capital loss carryover. The Spectrum Select Alternative Fund utilized \$201,900 of capital loss carryover to offset net capital gains in the current year.

In July 2006, the Financial Accounting Standards Board ("FASB") released FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes". FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the

tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet a more-likely-than-not threshold would be recorded as a tax expense in the current year.

FIN 48 requires the Funds to analyze all open tax years. Open tax years are those years that are open for examination by the relevant income taxing authority. As of August 31, 2008, open Federal and state income tax years include the tax years ended August 31, 2005, August 31, 2006, August 31, 2007 and August 31, 2008. The Funds have no examination in progress.

The Funds have reviewed all open tax years and concluded that the adoption of FIN 48 resulted in no effect to the Fund’s financial positions or results of operations. There is no tax liability resulting from uncertain income tax positions taken or expected to be taken on the tax returns for the fiscal year-ends August 31, 2005, August 31, 2006, August 31, 2007 and August 31, 2008. The Funds are also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax expense will significantly change in twelve months. If applicable, the Funds recognize interest accrued related to unrecognized tax expense in “interest expense” and penalties in “other expenses” on the statement of operations.

n) Guarantees and Indemnifications – In the ordinary course of business, the Funds enter into contracts that contain a variety of indemnification provisions pursuant to which the Funds agree to indemnify third parties upon occurrence of specified events. The Fund’s maximum exposure relating to these indemnification agreements is unknown. However, the Funds have not had prior claims or losses in connection with these provisions and believe the risk of loss is remote.

o) Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. CAPITAL SHARE TRANSACTIONS

Capital share transactions for the Funds during the years ended August 31, 2008 and August 31, 2007 were as follows:

	HCM Freedom Fund Service Class	
	Year Ended August 31, 2008	Year Ended August 31, 2007
Shares Sold	85,182	126,903
Shares issued in reinvestment of distributions	217,097	149,736
Shares redeemed	<u>(204,007)</u>	<u>(1,603,698)</u>
Net increase (decrease) from capital share transactions	<u>98,272</u>	<u>(1,327,059)</u>

	PSI Core Strength Fund Investor Class		PSI Macro Trends Fund Investor Class	
	Year Ended August 31, 2008	January 8, 2007 ¹ to August 31, 2007	Year Ended August 31, 2008	January 8, 2007 ¹ to August 31, 2007
Shares Sold	920,127	3,414,775	968,409	3,561,196
Shares issued in reinvestment of distributions	54,403	—	61,688	—
Shares redeemed	<u>(1,042,322)</u>	<u>(2,190,030)</u>	<u>(1,064,083)</u>	<u>(1,446,371)</u>
Net increase (decrease) from capital share transactions	<u>(67,792)</u>	<u>1,224,745</u>	<u>(33,986)</u>	<u>2,114,825</u>

¹ Commencement of operations.

	PSI Total Return Fund Investor Class		Spectrum Select Alternative Fund Service Class	
	<u>Year Ended August 31, 2008</u>	<u>January 8, 2007¹ to August 31, 2007</u>	<u>Year Ended August 31, 2008</u>	<u>Year Ended August 31, 2007</u>
Shares Sold	1,458,486	1,981,839	400,108	1,101,898
Shares issued in reinvestment of distributions	85,716	—	40,903	58,060
Shares redeemed	<u>(1,360,789)</u>	<u>(498,779)</u>	<u>(1,112,997)</u>	<u>(287,101)</u>
Net increase (decrease) from capital share transactions	<u>183,413</u>	<u>1,483,060</u>	<u>(671,986)</u>	<u>872,857</u>

¹ Commencement of operations.

	Spectrum Global Perspective Fund Service Class		Spectrum Equity Opportunity Fund Service Class	
	<u>Year Ended August 31, 2008</u>	<u>Year Ended August 31, 2007</u>	<u>Year Ended August 31, 2008</u>	<u>Year Ended August 31, 2007</u>
Shares Sold	371,454	757,541	54,847	254,303
Shares issued in reinvestment of distributions	877,332	704,679	110,884	141,399
Shares redeemed	<u>(1,454,964)</u>	<u>(1,433,777)</u>	<u>(797,504)</u>	<u>(1,129,355)</u>
Net increase (decrease) from capital share transactions	<u>(206,178)</u>	<u>28,443</u>	<u>(631,773)</u>	<u>733,653</u>

4. INVESTMENT TRANSACTIONS

During the year ended August 31, 2008, the aggregate purchases and sales of investments (excluding short-term investments, swaps, forward contracts and futures contracts) were:

	HCM Freedom Fund	PSI Core Strength Fund	PSI Macro Trends Fund	PSI Total Return Fund	Spectrum Select Alternative Fund	Spectrum Global Perspective Fund	Spectrum Equity Opportunity Fund
Purchases	\$184,475,166	\$360,130,706	\$86,285,812	\$16,844,253	\$34,654,366	\$1,275,949,821	\$236,293,160
Sales	\$190,533,730	\$370,421,001	\$88,173,408	\$16,000,616	\$53,199,936	\$1,329,234,077	\$260,337,112

There were no purchases or sales of long-term U.S. government securities during the year ended August 31, 2008 for any of the Funds.

5. INVESTMENT ADVISORY AND OTHER AGREEMENTS

Investment Advisory Fees: The Funds have entered into an investment advisory agreement with the Adviser. The Adviser receives a fee, computed daily and payable monthly, at the annual rates presented below as applied to each Fund's average daily net assets. In addition, the Adviser has entered into sub-advisory agreements with Horizon Capital Management, Inc. for the HCM Freedom Fund, with Portfolio Strategies, Inc. for the PSI Core Strength Fund, the PSI Macro Trends Fund and the PSI Total Return Fund, and with Hundredfold Advisors, LLC for the Spectrum Select Alternative Fund, the Spectrum Global Perspective Fund and the Spectrum Equity Opportunity Fund (the "Sub-Advised Funds") whereby the sub-advisor will direct investment activities of the Sub-Advised Funds. The Adviser pays, out of the management fees it receives from the Sub-Advised Funds, a fee for these sub-advisory services. For the year ended August 31, 2008, the Adviser has voluntarily agreed to pay all operating expenses (excluding dividends on short positions), in excess of the annual cap of expenses presented below as applied to each Fund's average daily net assets. The Adviser may change, or end, this voluntary waiver at any time. The Adviser may recover from the Sub-Advised Funds the expenses paid in excess of the annual cap on expenses (either due to the contractual or any voluntary waiver) for the

three previous years, as long as the recovery does not cause the Fund to exceed such annual cap on expenses. For the year ended August 31, 2008, the Adviser paid or recouped the following expenses:

	<u>HCM Freedom Fund</u>	<u>PSI Core Strength Fund</u>	<u>PSI Macro Trends Fund</u>	<u>PSI Total Return Fund</u>
Annual Advisory rate	1.00%	1.15%	1.15%	1.15%
Annual cap on expenses	2.45%	2.00%	2.00%	2.00%
Expenses paid in excess of annual cap on expenses — 2008	\$ —	\$ —	\$ —	\$ —
Voluntary waiver — 2008	\$14,325	\$19,619	\$11,790	\$4,670
Advisory expense waiver recovery — 2008	\$ —	\$ —	\$ —	\$ —

	<u>Spectrum Select Alternative Fund</u>	<u>Spectrum Global Perspective Fund</u>	<u>Spectrum Equity Opportunity Fund</u>
Annual Advisory rate	1.00%	1.00%	1.00%
Annual cap on expenses	2.75%	2.75%	2.75%
Expenses paid in excess of annual cap on expenses — 2008	\$ —	\$ —	\$ —
Voluntary waiver — 2008	\$ —	\$ —	\$ —
Advisory expense waiver recovery — 2008	\$ —	\$ —	\$ —

Expenses subject to potential recover expiring in:

	<u>HCM Freedom Fund</u>	<u>PSI Core Strength Fund</u>	<u>PSI Macro Trends Fund</u>	<u>PSI Total Return Fund</u>
2009	\$ —	\$ —	\$ —	\$ —
2010	\$ —	\$26,572	\$ 6,008	\$18,272
2011	\$14,325	\$19,619	\$11,970	\$ 4,670
Total	<u>\$14,325</u>	<u>\$46,191</u>	<u>\$17,978</u>	<u>\$22,942</u>

	<u>Spectrum Select Alternative Fund</u>	<u>Spectrum Global Perspective Fund</u>	<u>Spectrum Equity Opportunity Fund</u>
2009	\$—	\$—	\$—
2010	\$—	\$—	\$—
2011	\$—	\$—	\$—
Total	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>

Distribution Expenses: Shares are subject to an annual Rule 12b-1 fee of 0.80% for the HCM Freedom Fund, of 0.25% for the PSI Core Strength Fund, the PSI Macro Trends Fund, and the PSI Total Return Fund, and up to 1.00% of the average daily net assets for the Spectrum Select Alternative Fund, the Spectrum Global Perspective Fund and the Spectrum Equity Opportunity Fund.

Shareholder Servicing Fees: The Board has also authorized the PSI Core Strength Fund, the PSI Macro Trends Fund and the PSI Total Return Fund to pay a shareholder servicing fee of 0.15% of each Fund's average daily net assets. The Trust, on behalf of each Fund, pays the fee to financial institutions and other persons who provide services for and maintain shareholder accounts.

Rafferty Capital Markets, LLC (the "Distributor") serves as principal underwriter of the Funds and acts as the Funds' distributor in a continuous public offering of the Funds' shares. There were no Rule 12b-1 fees retained by the Distributor for the year ended August 31, 2008. The Distributor is an affiliate of the Adviser.

6. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, FASB issued its Statement on Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"). FAS 157 is designed to unify guidance for the measurement of fair value of all types of assets, including financial instruments, and certain liabilities, throughout a number of accounting standards. FAS 157 also establishes a hierarchy for

measuring fair value in generally accepted accounting principles and expands financial statement disclosures about fair value measurements that are relevant to mutual funds. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and earlier adoption is permitted. At this time, management is evaluating the implications of FAS 157 and its impact on the financial statements has not yet been determined.

In March 2008, FASB issued its Statement on Financial Accounting Standards No. 161, "Disclosures about Derivatives Instruments and Hedging Activities" ("SFAS 161"). This standard is intended to enhance financial statement disclosure for derivative instruments and hedging activities and enable investors to understand: a) how and why a fund uses derivatives instruments, b) how derivatives instruments and related hedge items are accounted for, and c) how derivative instruments and statements issued for fiscal years and interim periods beginning after November 15, 2008. As of August 31, 2008, management does not believe the adoption of SFAS No. 161 will impact the financial statement amounts; however, additional footnote disclosures will be required about the use of derivative instruments and hedge items.

Direxion Funds

Report of Independent Registered Public Accounting Firm

To the Shareholders and
Board of Trustees of the Direxion Funds:

We have audited the accompanying statement of assets and liabilities of the HCM Freedom Fund, PSI Core Strength Fund, PSI Macro Trends Fund, PSI Total Return Fund, Spectrum Select Alternative Fund, Spectrum Global Perspective Fund, and Spectrum Equity Opportunity Fund, (seven of the series constituting Direxion Funds) (the "Funds"), including the schedules of investments, as of August 31, 2008, and the related statements of operations, the statements of changes in net assets, and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Funds' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of August 31, 2008, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the above mentioned seven series of Direxion Funds at August 31, 2008, the results of their operations, the changes in their net assets, and the financial highlights for each of the periods indicated therein in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

October 24, 2008
Milwaukee, Wisconsin

Additional Information
(Unaudited)

QUALIFIED DIVIDEND INCOME/DIVIDENDS RECEIVED DEDUCTION

For the period ended August 31, 2008, certain dividends paid by the Funds may be subject to a maximum tax rate of 15%, as provided for by the Jobs and Growth Tax Relief Reconciliation Act of 2003. The percentage of dividends declared from ordinary income designated as qualified income was as follows:

HCM Freedom Fund	0.2%
PSI Core Strength Fund	4.3%
PSI Macro Trends Fund	42.8%
PSI Total Return Fund	61.3%
Spectrum Select Alternative Fund	92.7%
Spectrum Global Perspective Fund	5.0%
Spectrum Equity Opportunity Fund	6.3%

For corporate shareholders, the percent of ordinary income distributions qualifying for the corporate dividends received deduction for the period ended August 31, 2008, was as follows:

HCM Freedom Fund	0.0%
PSI Core Strength Fund	4.2%
PSI Macro Trends Fund	42.4%
PSI Total Return Fund	67.2%
Spectrum Select Alternative Fund	92.7%
Spectrum Global Perspective Fund	5.0%
Spectrum Equity Opportunity Fund	7.1%

Investment Advisory and Subadvisory Agreements Approvals (Unaudited)

Provided below is a summary of certain of the factors the Board considered at its August 13, 2008 Board meeting in renewing, as applicable: (1) the Advisory Agreement between Rafferty Asset Management (“Rafferty”) and the Direxion Funds (the “Trust”), on behalf of HCM Freedom Fund, Spectrum Select Alternative Fund, Spectrum Global Perspective Fund, Spectrum Equity Opportunity Fund, PSI Core Strength Fund, PSI Macro Trends Fund and PSI Total Return Fund, each a series of the Trust; (2) the Subadvisory Agreement between Rafferty and Horizon Capital Management, Inc. (“Horizon”) on behalf of the HCM Freedom Fund; (3) the Subadvisory Agreement between Rafferty and Hundredfold Advisors, LLC (“Hundredfold”) on behalf of the Spectrum Select Alternative Fund, Spectrum Global Perspective Fund and Spectrum Equity Opportunity Fund; and (4) the Subadvisory Agreement between Rafferty and Portfolio Strategies, Inc. (“PSI”) on behalf of the PSI Core Strength Fund, PSI Macro Trends Fund and PSI Total Return Fund. Each Fund listed above is referred to herein as each “Fund” and collectively, the “Funds.”

The Board did not identify any particular information that was most relevant to its consideration to approve each Advisory Agreement or Subadvisory Agreement and each Trustee may have afforded different weight to the various factors. In determining whether to approve the continuance of each Advisory Agreement and each Subadvisory Agreement (collectively, the “Agreements”), the Board considered the best interests of each Fund separately. In addition, the Board noted that the Trustees have considered various reports and information provided throughout the year at their regular Board meetings and otherwise. While the Agreements for all of the Funds were considered at the same Board meeting, the Board considered each Fund’s investment advisory and subadvisory relationships separately. In each instance, the Board considered, among other things, the following factors: (1) the nature and quality of the services provided; (2) the investment performance of the Fund to the extent applicable; (3) the cost to Rafferty or a subadviser for providing services and the profitability of the advisory business to Rafferty or a subadviser, if such information was provided; (4) the extent to which economies of scale have been taken into account in setting fee schedules; (5) whether fee levels reflect these economies of scale, if any, for the benefit of Fund shareholders; (6) comparisons of services and fees with contracts entered into by Rafferty and, in certain cases, a subadviser with other clients (such as pension funds and other institutional investors), if any; and (7) other benefits derived or anticipated to be derived by Rafferty or a subadviser from its relationship with the Funds.

Nature, Extent and Quality of Services Provided. The Board reviewed the nature, extent and quality of the services provided or to be provided under the Advisory Agreements by Rafferty. The Board noted that Rafferty has provided services to the Trusts since their inception and has developed an expertise in managing the Funds. The Board also noted that Rafferty trades efficiently with low commission schedules, which helps improve performance results. The Board considered Rafferty’s representation that it has the financial resources and appropriate staffing to manage the Funds and meet its expense reimbursement obligations, if any. The Board also considered that Rafferty had enhanced the compliance programs of the Trust by utilizing the services of an independent compliance consulting firm and that a report from the chief compliance officer are provided to the Board at its regularly scheduled quarterly Board meetings. The Board noted Rafferty’s marketing and distribution efforts, including offering additional investment options to shareholders through the creation of new funds and promoting the Funds through new broker and platform relationships. The Board considered that Rafferty oversees all aspects of the operation of the Funds, including oversight of the Funds’ service providers and subadvisers.

Regarding the Subadvisory Agreements with Horizon, Hundredfold and PSI, the Board noted that each subadviser utilizes those Funds it subadvisees as the primary investments for its separate account clients. The Board also noted that there would be no change in the services provided by each subadviser.

Based on these and other considerations, the Board determined that, in the exercise of its business judgment, the nature, extent and quality of the services provided by Rafferty to the Funds under the Agreements and each subadviser under the applicable Subadvisory Agreement were fair and reasonable.

Performance of the Funds. The Board evaluated the performance of each Fund compared to its benchmark index for monthly periods and the year-to-date period ended July 31, 2008, and the average performance of the relevant Lipper fund universe for various monthly periods and the year-to-date period ended July 31, 2008 (if available and unless otherwise noted). Although the Board received monthly performance reports for its consideration, the Board generally assigned more weight to the longer-term performance of the Funds.

PSI Funds:

With respect to the PSI Total Return Fund, the Board considered that, as of June 30, 2008: (1) the Fund underperformed its benchmark index for all relevant periods; and (2) the Fund outperformed the average of the relevant Lipper fund universe for the six-month and one-year periods, but underperformed for the one-month and three-month periods.

With respect to the PSI Macro Trends Fund, the Board considered that: (1) the Fund underperformed its benchmark index for the year-to-date period; and (2) the Fund outperformed the average of the relevant Lipper fund universe for the one-month period, but underperformed for the three-month, six-month and one-year periods.

With respect to the PSI Core Strength Fund, the Board considered that: (1) the Fund outperformed its benchmark index for the year-to-date period; and (2) the Fund outperformed the average of the relevant Lipper fund universe for the three-month period but underperformed for the one-month, six-month and one-year periods.

Hundredfold Funds:

With respect to the Spectrum Equity Opportunity Fund, the Board considered that: (1) the Fund outperformed its benchmark index for the year-to-date period; and (2) the Fund underperformed the average of the relevant Lipper fund universe for the six-month, one-year and three-year periods but outperformed for the one-month and three-month periods.

With respect to the Spectrum Global Perspective Fund, the Board considered that: (1) the Fund outperformed its benchmark index for the year-to-date period; and (2) the Fund underperformed the average of the relevant Lipper fund universe for the all relevant periods, except the three-year period.

With respect to the Spectrum Select Alternative Fund, the Board considered that, as of June 30, 2008: (1) the Fund outperformed its benchmark index for the one-month period, but underperformed for the three-month, six-month and year-to-date periods; and (2) the Fund outperformed the average of the relevant Lipper fund universe for the one-month period, but underperformed for the three-month, six-month and year-to-date periods.

HCM Freedom Fund:

With respect to the HCM Freedom Fund, the Board considered that: (1) the Fund outperformed its benchmark index for the year-to-date period; and (2) the Fund outperformed the average of the relevant Lipper fund universe for the one- and three-month periods, but underperformed for the 6-month, one-year and three-year periods.

Costs of Services Provided to the Funds and Profits Realized. The Board considered the overall fees paid to Rafferty on an annual basis since each Fund's commencement of operations, including any fee waivers and recoupment of fees previously waived. The Board considered the overall profitability of Rafferty's investment business and its representation that it does not allocate internal costs and assess profitability with respect to its services to individual Funds. Based on these considerations, the Board determined that, in the exercise of its business judgment, the costs of the services provided and the profits realized under the Advisory Agreements were fair and reasonable.

In considering the fees paid by Rafferty to the subadvisers of the Funds, the Board considered Rafferty's representation that the fees and expenses generally are higher than industry averages. However, Rafferty explained that, in certain cases, the Funds help lower the overall fees paid by the clients of the subadvisers. In particular, the Board noted that the PSI Funds are offered to the subadviser's clients in wrap programs. The Board also noted that, in some cases, PSI uses the fee it receives from the Funds to reduce the asset based fees it charges clients for providing investment advisory services. With respect to the HCM Freedom Fund and Spectrum Funds, the Board considered that the current expense ratio of each such Fund is lower compared to the total cost of investing when the Funds were part of the wrap programs. The Board also noted that Rafferty negotiated the lowest fee that a subadvisor charges for comparable client accounts. With respect to each Fund, the Board considered the subadviser's profits for its services to the extent such information was provided. In this regard, the Board noted Hundredfold's representation that it donates all profits to charity, Horizon's pre-tax profits as a percentage of total revenues and PSI's representation that its profits are negligible.

Based on these considerations, the Board determined that, in the exercise of its business judgment, the costs of the services provided and the profits realized under the Agreements were fair and reasonable.

Economies of Scale. The Board considered Rafferty's representation that it believes that asset levels at this time are not sufficient to achieve economies of scale or warrant a reduction in fee rates or the addition of breakpoints. Rafferty noted that

it was continuing to work on its sales and marketing efforts to raise additional assets. Based on these and other considerations, the Board determined that, in the exercise of its business judgment, the reduction in fee rates or additions of breakpoints were not necessary at this time.

Other Benefits. The Board considered Rafferty's representation that its relationship with the Funds has permitted Rafferty to attract business to its non-mutual fund account. The Board also considered that Rafferty's overall business with brokerage firms helps to lower commission rates and provide better execution for Fund portfolio transactions. The Board also considered that each subadviser represented that they realized no benefits other than their direct compensation. Based on these and other considerations, the Board determined that, in the exercise of its business judgment, the benefits were fair and reasonable.

Conclusion. Based on, but not limited to, the above considerations and determinations, the Board determined that the Agreements for the Funds were fair and reasonable in light of the services to be performed, fees, expenses and such other matters as the Board considered relevant in the exercise of its business judgment. On this basis, the Board unanimously voted in favor of the continuance of the Agreements.

Direxion Funds
TRUSTEES AND OFFICERS

The business affairs of each Fund are managed by or under the direction of the Board of Trustees. Information pertaining to the Trustees and Officers of the Funds is set forth below. The SAI includes additional information about the Funds' Trustee and Officers and is available without charge, upon request by calling 1-800-851-0511.

Interested Trustees

<u>Name, Address and Age</u>	<u>Position(s) Held with Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u># of Portfolios in Direxion Complex Overseen by Trustee⁽²⁾</u>	<u>Other Trusteeships/ Directorships Held by Trustee</u>
Lawrence C. Rafferty ⁽¹⁾ Age: 64	Chairman of the Board of Trustees	Lifetime of Trust until removal or resignation; Since 1997	Chairman and Chief Executive Officer of Rafferty, 1997-present; Chief Executive Officer of Rafferty Companies, LLC, 1996-present; Chief Executive Officer of Rafferty Capital Markets, Inc., 1995-present.	113	Board of Trustees, Fairfield University; Board of Directors, St. Vincent's Services; Executive Committee, Metropolitan Golf Association

Non-Interested Trustees

<u>Name, Address and Age</u>	<u>Position(s) Held with Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u># of Portfolios in Direxion Complex Overseen by Trustee⁽²⁾</u>	<u>Other Trusteeships/ Directorships Held by Trustee</u>
Daniel J. Byrne Age: 62	Trustee	Lifetime of Trust until removal or resignation; Since 1997	President and Chief Executive Officer of Byrne Securities Inc., 1992-present.	113	Trustee, The Opening Word Program, Wyandanch, New York
Gerald E. Shanley III Age: 63	Trustee	Lifetime of Trust until removal or resignation; Since 1997	Business Consultant, 1985-present; Trustee of Trust Under Will of Charles S. Payson, 1987-present; C.P.A. 1979-present.	113	None
John Weisser Age: 65	Trustee	Lifetime of Trust until removal or resignation; Since 2007	Retired, Since 1995; Salomon Brothers, Inc, 1971-1995, most recently as Managing Director.	113	MainStay VP Series Fund, Inc.

Direxion Funds
TRUSTEES AND OFFICERS

Officers

Name, Address and Age	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	# of Portfolios in Direxion Complex Overseen by Trustee ⁽²⁾	Other Trusteeships/ Directorships Held by Trustee
Daniel D. O'Neill Age: 39	President; Chief Operating Officer and Chief Investment Officer	One Year; Since 1999 One Year; Since 2006	Managing Director of Rafferty, 1999- present.	N/A	None
William Franca Age: 50	Executive Vice President – Head of Distribution	One Year; Since 2006	Senior Vice President – National Sales, Massachusetts Financial Services/SunLife Financial Distributors, 2002-2004; Executive Vice President, Distribution, SunLife, 2001-2002.	N/A	None
Todd Warren Age: 40	Chief Compliance Officer	One Year; Since 2007	Chief Legal Officer, Alaric Compliance, 2006 – present; CCO and General Counsel, Oracle Evolution LLC, 2004-2006.	N/A	None
Todd Kellerman Age: 34	Chief Financial Officer	Once Year; Since 2007	Senior Vice President, Rafferty since 2006; Vice President of Corporate Development, Raven Holdings, Inc., 2003-2005; Consultant, 2002-2003; Senior Consultant – Business Consulting, Arthur Andersen, 1999-2000.	N/A	None
Stephen P. Sprague Age: 57	Treasurer and Controller	One Year; Since 1999	Chief Financial Officer of Rafferty for the past 5 years.	N/A	None
Eric W. Falkeis 615 East Michigan Street Milwaukee, WI 53202 Age: 34	Secretary	One Year; Since 2004	Chief Financial Officer, U.S. Bancorp Fund Services, LLC, since April 2006; Vice President, U.S. Bancorp Fund Services LLC, 1997-present; formerly, Chief Financial Officer, Quasar Distributors, LLC, 2000-2003.	N/A	None

⁽¹⁾ Mr. Rafferty is affiliated with Rafferty. Mr. Rafferty is the Chairman and Chief Executive Officer of Rafferty and owns a beneficial interest in Rafferty.
⁽²⁾ The Direxion Complex consists of the Direxion Funds which currently offers for sale to the public 40 portfolios of the 68 currently registered with the SEC and the Direxion Insurance Trust which currently offers for sale 3 portfolios of the 45 currently registered with the SEC.
The address for all trustees and officers except Eric W. Falkeis is 33 Whitehall St., New York, NY 10004.

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SPECTRUM FUNDS

ANNUAL REPORT

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New York, NY 10004

Sub-Advisor

Spectrum Funds Sub-Advisor
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Milwaukee, WI 53201-1993

Custodian

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1555 RiverCenter Dr., Suite 302
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Independent Registered Public Accounting Firm

Ernst & Young LLP
875 E. Wisconsin Ave.
Milwaukee, WI 53202

Distributor

Rafferty Capital Markets, LLC
59 Hilton Avenue
Garden City, NY 11530

The Fund's Proxy Voting Policies are available without charge by calling 1-800-851-0511, or by accessing the SEC's website, at www.sec.gov.

The actual voting records relating to portfolio securities during the most recent period ended June 30 (starting with the year ended June 30, 2005) is available without charge by calling 1-800-851-0511 or by accessing the SEC's website at www.sec.gov.

The Fund files complete schedules of portfolio holdings with the SEC on Form N-Q. The Form N-Q is available without charge, upon request, by calling 1-800-851-0511, or by accessing the SEC's website, at www.sec.gov.

This report has been prepared for shareholders and may be distributed to others only if preceded or accompanied by a current prospectus.