

Invest well. Manage well. Live well.™

FEBRUARY 2011

Commentary

Risk frequently comes from unexpected places. Last year it was Greece and the European debt crisis that posed a threat to the economic recovery. This year brings pro-democracy revolutions in the Middle East and Northern Africa, which could lead to disruptions in oil production. Many fear a further surge in energy prices could dampen consumer spending, hinder global economic growth, and raise the prospect of unwanted inflation.

Thus far, turmoil in the Middle East, and in particular the violence in Libya, has had a fairly muted impact on the global financial markets. Some assets, such as U.S. large cap equities and gold, have perhaps even benefited from a flight to quality away from areas of political risk. Certain assets (stocks, commodities, REITs) have also continued to benefit from the assumption that the Federal Reserve will stay on course with QE2's \$600 billion of planned Treasury purchases. Regardless of the geopolitical situation, investors seem to be in a good mood (consumer confidence is at a three-year high) as risks of deflation appear to be subsiding and the economy looks to be on more solid, self-supporting footing.

Still, threats to the economy and markets remain. The European debt crisis has not been completely resolved. Risks of inflation, thanks to the spike in oil prices, are now heightened even as the Federal Reserve characterizes them as "temporary and relatively modest." Housing remains downbeat, and Q4 GDP growth was revised down to 2.8%. For investors, proper diversification and continued exposure to gold, Treasuries, high quality companies, and alpha-generating strategies (such as long/short and high dividend-paying) may help mitigate some of these risks.

CONVERGENT TACTICAL POSITIONING

Given an intermediate-term increasing risk in the ability of bonds to preserve purchasing power, we are underweight our strategic core fixed income target. This risk comes if rates stay at historically low levels or prices are hurt by a further rise in yields. The underweight, along with a slight reduction to equities, accommodates our shift to opportunistic credit segments (such as multi-sector, emerging market currencies/debt, and international bonds) where we can collect a current yield while addressing inflation, currency, and U.S. interest rate risks. Within the real assets bucket, we remain underweight REITs and pooled commodities in favor of gold, which serves as a paper currency hedge and safe-haven asset.

2600 Tower Oaks Blvd.
Suite 300
Rockville, MD 20852

T 301-770-6300
F 301-770-1408

CONVERGENTWEALTH.COM

EQUITY	slight underweight	
U.S. Equity	neutral	
Developed Non-U.S.	underweight	
Emerging Markets	overweight	
Private Equity	neutral	
Directional Hedge	slight underweight	
REAL ASSETS	slight underweight	
Real Estate	underweight	
Commodities	overweight	
ARBITRAGE/CREDIT	overweight	
Multi-Strategy Hedge	neutral	
Opportunistic Credit	overweight	
CORE FIXED INCOME	underweight	
Core Fixed Income	underweight	
Cash Equivalents	overweight	

Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

THE EQUITY AND FIXED INCOME MARKETS

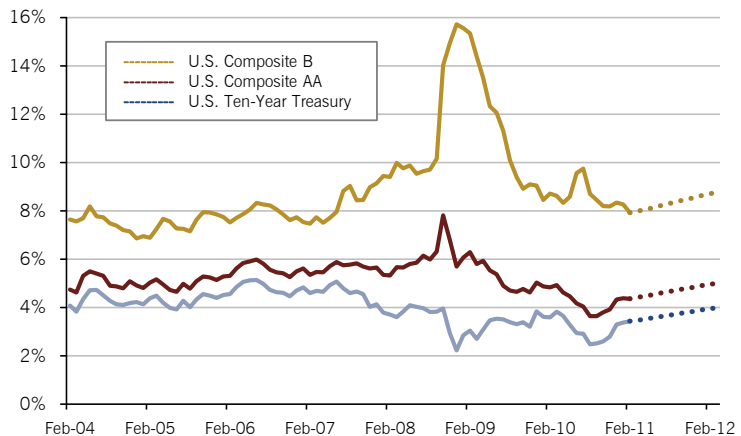
S&P 500 PRICE

U.S. large cap stocks rose for the third straight month despite unrest in the Middle East and a spike in the price of oil. The S&P 500 index has nearly doubled in price since its March 2009 lows. However, emerging market equity indices have not fared as well of late, posting modest February losses on the back of January's declines.



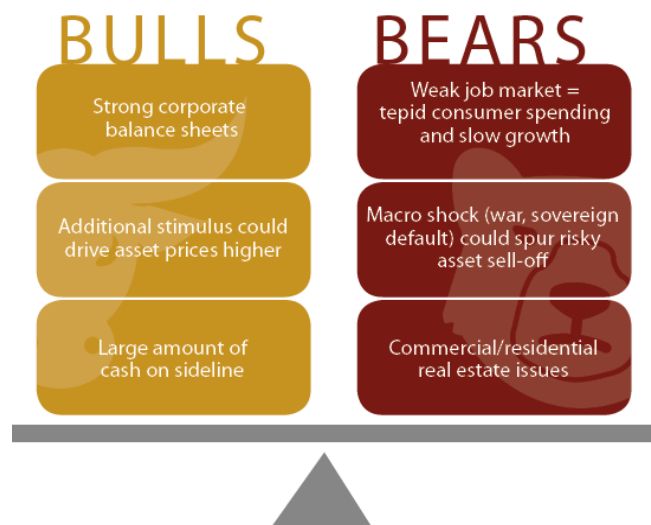
CREDIT YIELDS

Yields of U.S. Treasuries continued to rise in February, albeit slightly, marking the sixth consecutive month of rising rates for the benchmark ten-year note. Some fear the Federal Reserve, which has been keenly focused on stimulating the economy, might not be able to react quickly enough to squash any future overheating/inflationary pressures.



SUMMARY OF CURRENT EQUITY MARKET LEANINGS

We are slightly underweight our strategic equity targets. U.S. equity is at a neutral allocation, while we remain underweight to developed international equity markets. An overweight to emerging market equity remains in place. The overall equity underweight accommodates ongoing shifts to other growth asset categories (such as emerging market debt) where we can mitigate some equity risk.

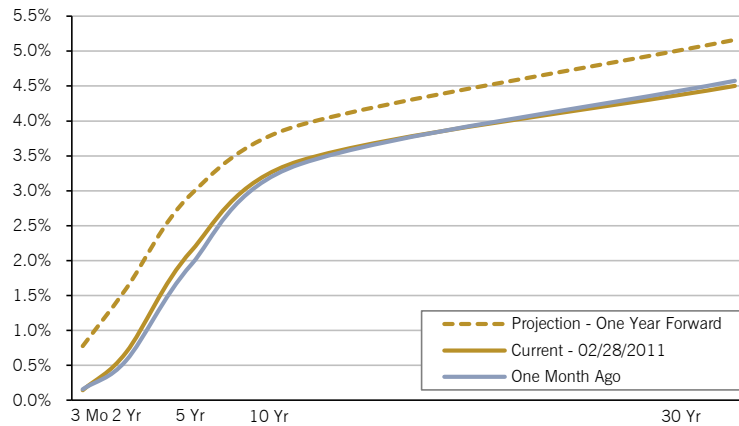


THE EQUITY AND FIXED INCOME MARKETS

U.S. TREASURY YIELD CURVE

The Treasury yield curve remained largely unchanged in January. Still, as short-term rates remain exceptionally low, the curve is near the steepest level on record. For many, this indicates investor expectations of a continued improving economy.

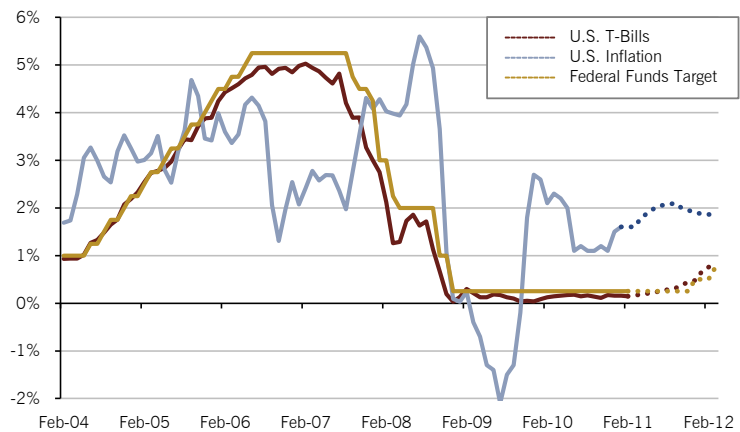
Advantage: Neutral to Bullish



T-BILLS, FEDERAL FUNDS, AND INFLATION

Despite a surge in prices of oil and other commodities, the Federal Reserve does not appear concerned that inflation pressures will get out of control in the U.S. However, food and energy price pressures are having an impact in some emerging market economies.

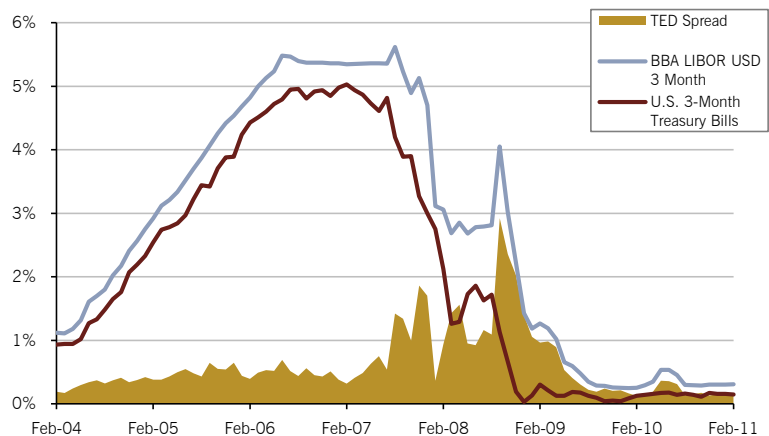
Advantage: Neutral to Bullish



LIBOR/T-BILL RATES AND TED SPREAD

The TED spread is a measure of how tight the credit markets are, as illustrated by the difference between T-Bill yields (a risk-free loan) and LIBOR yields (the rate at which banks lend to one another). Current low spreads illustrate credit markets are operating with little anxiety.

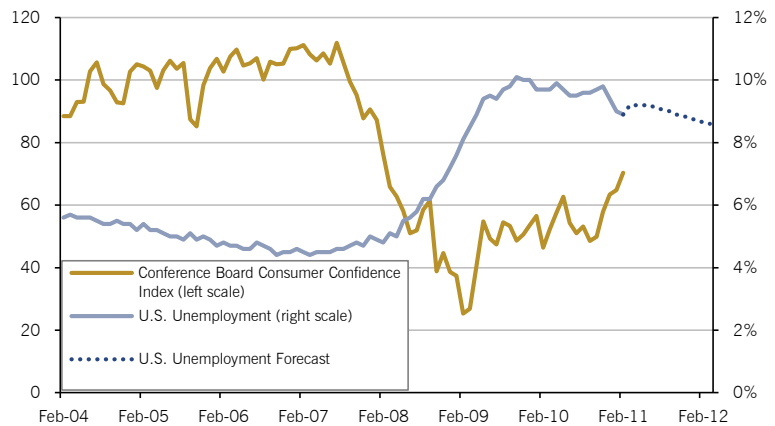
Advantage: Bulls



CONSUMER CONFIDENCE AND UNEMPLOYMENT

Consumer confidence has risen to a three-year high thanks to improvements in the labor market (the unemployment rate has dropped below 9% for the first time in nearly two years) and a rising stock market. However, confidence remains well below the 90 level that signals a healthy economy.

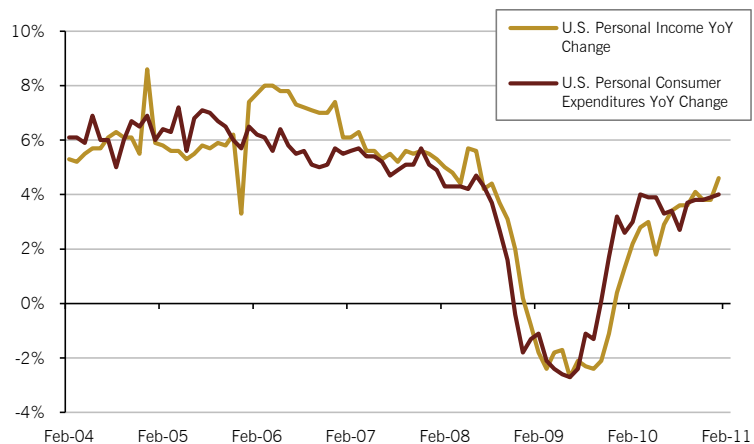
Advantage: Neutral to Bearish



U.S. CONSUMER INCOME AND SPENDING

Even as income rose due to a payroll tax break, consumer spending started off 2011 at a slow pace, reflecting the challenges the economic recovery still faces. Many fear lingering unemployment and rising energy prices could cause consumers not to spend enough to revive the economy.

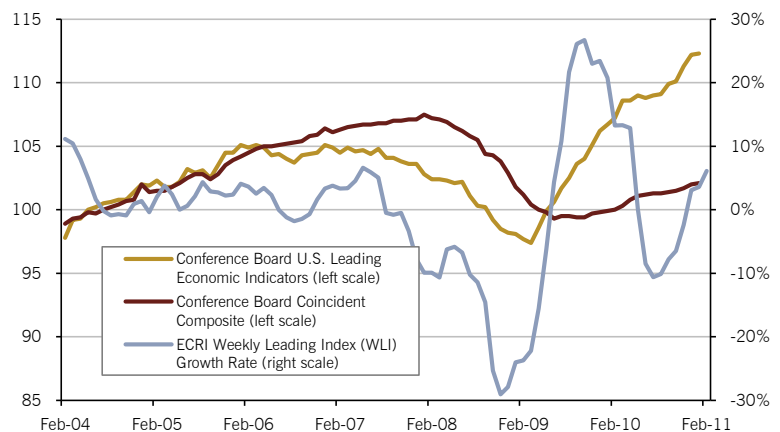
Advantage: Neutral



LEI AND ECRI

The U.S. leading economic index (LEI) continues to trend upward, suggesting the economic expansion is on firmer footing and will carry on in the near term even as housing remains depressed. Meanwhile, the index of coincident indicators has been mostly flat, illustrating the tepidness of the recovery thus far.

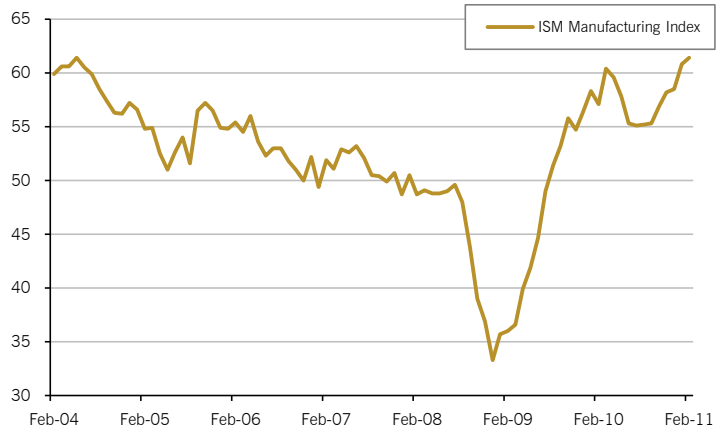
Advantage: Neutral to Bullish



ISM MANUFACTURING INDEX

The ISM report is a national survey of purchasing managers covering such indicators as new orders, production, employment, inventories, prices, and export/import orders. A reading over 50% indicates expansion relative to the prior month, while a reading under 50% indicates contraction. The latest reading was the highest since May 2004 and the 19th consecutive month of expansion.

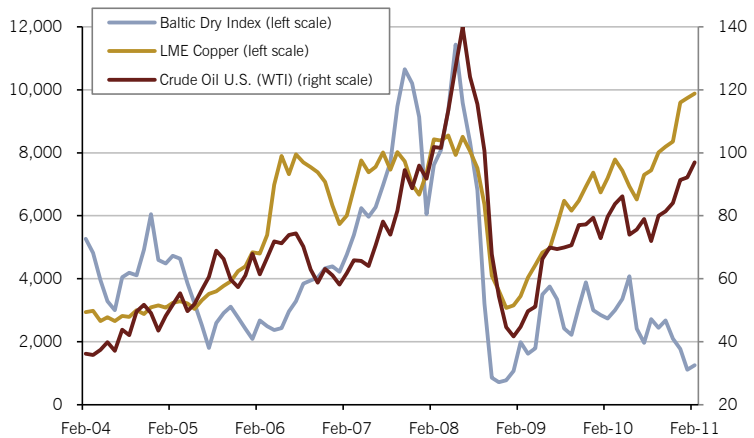
Advantage: Bulls



BALTIC DRY INDEX & COMMODITIES

The Baltic Dry Index (BDI) measures shipping costs for commodities and is used to evaluate world trade. Copper, a plentiful and heavily used metal in construction and manufacturing, can reflect trends in global economic growth. Recently there has been a huge divergence between the BDI and the price of commodities, and many feel the BDI says more about the oversupply of ships than the demand for cargo.

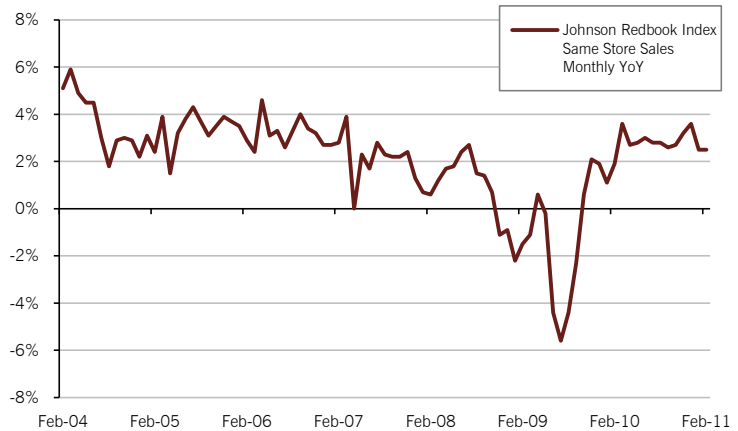
Advantage: Neutral



RETAIL SALES

Retail sales figures track the dollar value of merchandise sold to consumers and are an indicator of economic recovery. Snowstorms likely hindered February's gains, though a deceleration over each of the past three months indicates that a broader slowdown in consumption is occurring.

Advantage: Neutral

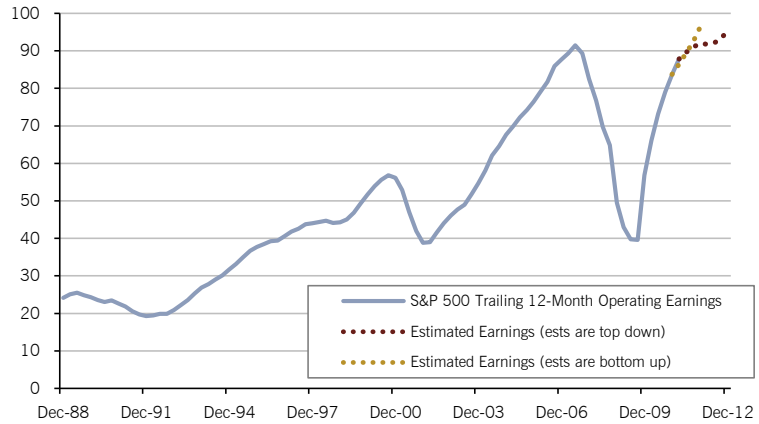


U.S. CORPORATIONS

CORPORATE EARNINGS

Earnings growth, which benefited in the past two years from significant cost cutting, might taper off in 2011 as year-over-year comparisons to 2010 will be difficult. Still, earnings on an absolute basis are expected to remain healthy and to approach record levels by the second half of this year.

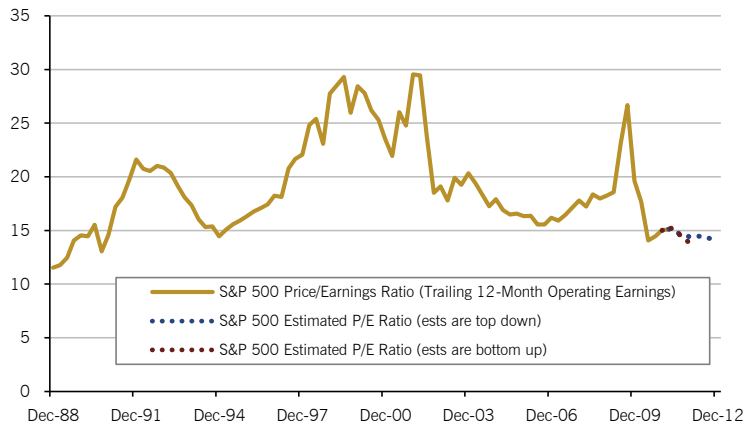
Advantage: Neutral to Bullish



STOCK MARKET VALUATIONS

Earnings growth over the past year has helped trailing 12-month P/E valuations look reasonable (slightly below historical norms) despite a run-up in stock prices. However, longer-term methods of measuring valuations, such as the normalized P/E ratio developed by Yale economist Robert Shiller, remain a bit elevated (near 24).

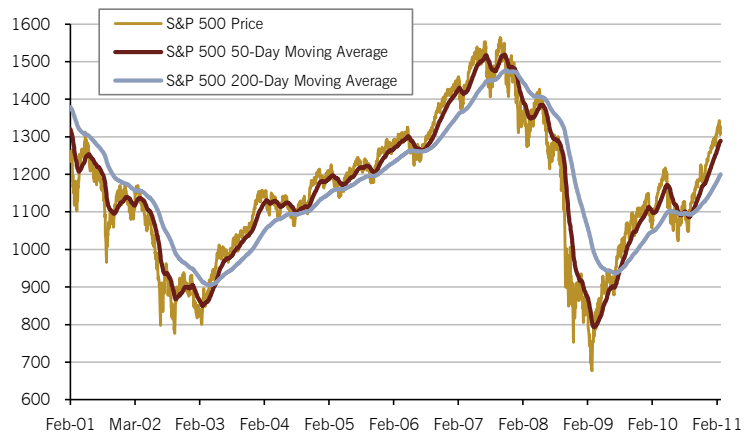
Advantage: Neutral to Bullish



STOCK MARKET TECHNICALS

The S&P 500 50-Day moving average is higher than the 200-Day moving average, interpreted by many as a bullish signal.

Advantage: Bulls



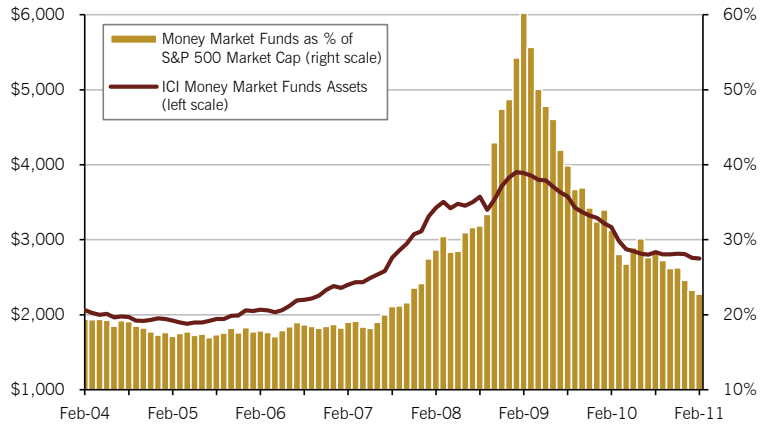
INVESTOR FLOWS AND LIQUIDITY

MONEY MARKET FUNDS ASSETS (\$ BILLIONS)

Money market fund assets continue to decline as dry powder on the sideline is slowly deployed.

Nevertheless, there remains plenty of capital available to be put to work.

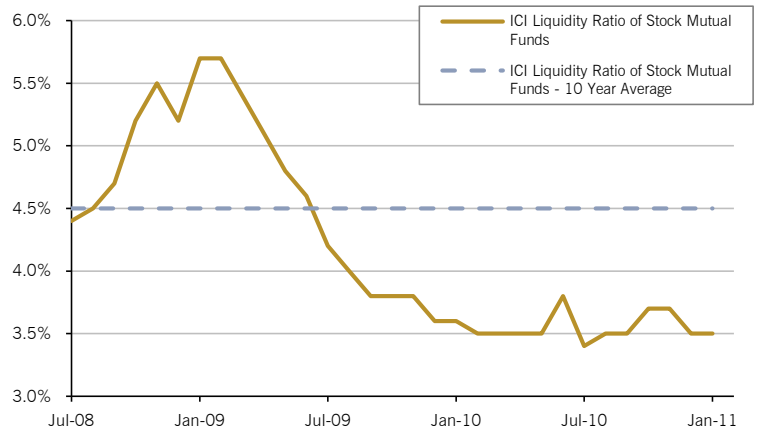
Advantage: Bulls



MUTUAL FUND LIQUIDITY RATIO

The liquidity ratio compares the amount of cash relative to total assets held by stock mutual funds. As stocks tumbled in 2009, mutual fund managers were bearish and sitting on a large amount of cash. Since then, managers have put most of that cash to work and are now holding unusually low levels of cash (meaning little in additional cash to invest).

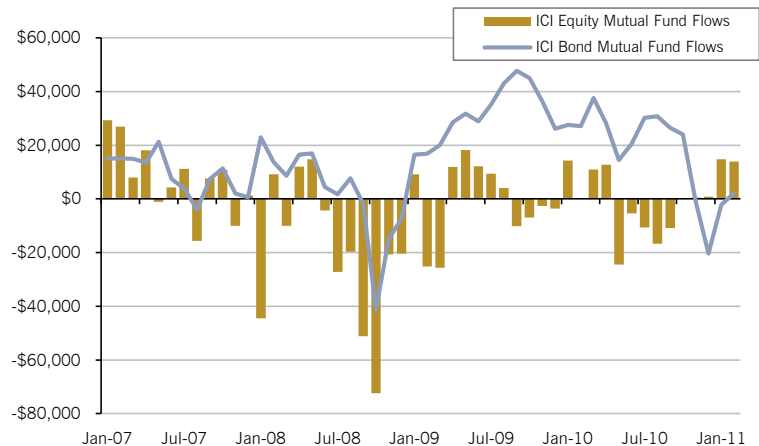
Advantage: Bears



MUTUAL FUND CASH FLOWS (\$ MILLIONS)

Stock funds saw cash inflows for the second consecutive month, as retail investors found a renewed interest in stocks. Municipal bond funds, meanwhile, experienced outflows for the fourth consecutive month.

Advantage: Neutral

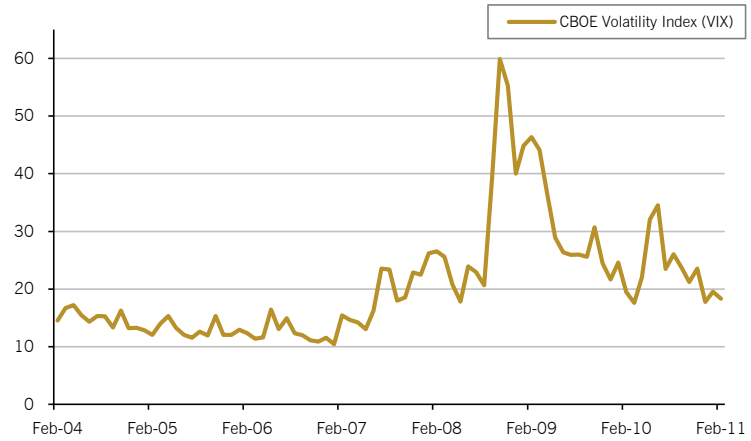


FEAR MEASURES

STOCK MARKET VOLATILITY

Despite a mid-month spike as oil prices surged, volatility (as measured by the Chicago Board Options Exchange Volatility Index) ended February at 18.4, down from January's 19.5 level. Readings in excess of 30 generally correspond with times of investor fear or uncertainty, while values below 20 are typically associated with less stressful (or even complacent) times in the markets.

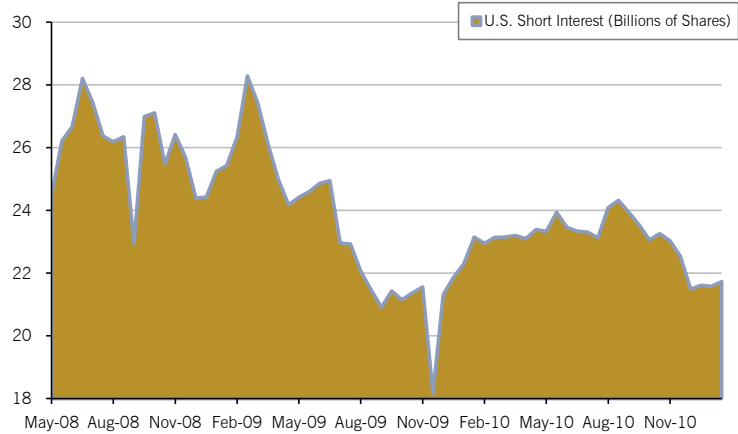
Advantage: Neutral



U.S. SHORT INTEREST

Short interest can be a measure of investor sentiment, though it is often viewed as a contrary indicator since high levels of short positions are eventually covered, providing upward pressure on stock prices.

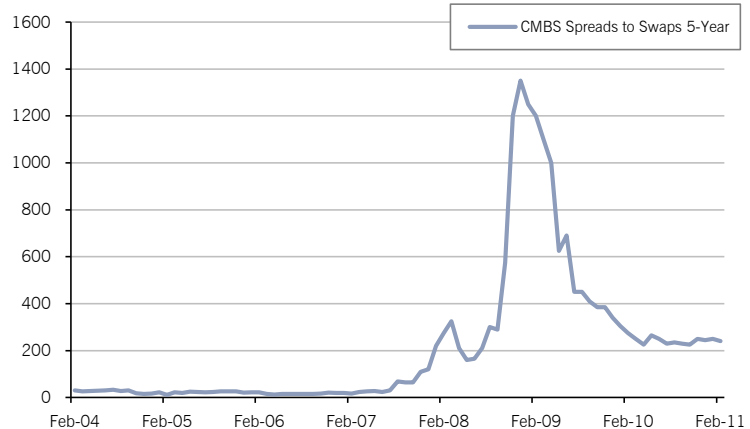
Advantage: Neutral



CMBS SPREADS

Even as the delinquency rate for commercial mortgage-backed securities have reached record levels, spreads to the swap rate have been stable and in a narrow range for some time.

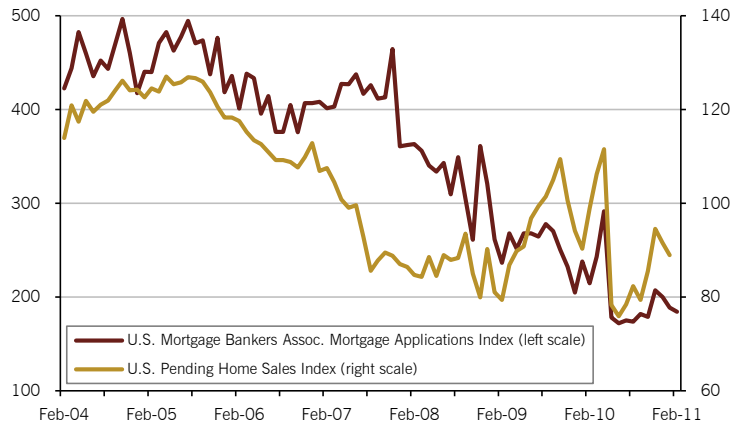
Advantage: Neutral



MORTGAGE APPLICATIONS AND PENDING HOME SALES

The volume of U.S. mortgage applications remains muted as rising interest rates have dampened demand. Pending home sales also recently faltered, hurt by rising mortgage rates as well as by continuing high unemployment rates.

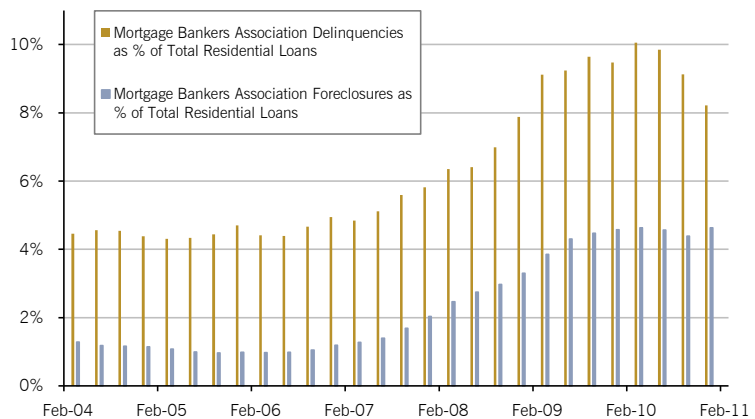
Advantage: Bears



RESIDENTIAL DELINQUENCIES AND DEFAULTS

Mortgage delinquencies and foreclosures appear to have reached a plateau as market conditions have improved. However, they could still get worse as a large amount of mortgages set to mature in the next few years might not get refinanced.

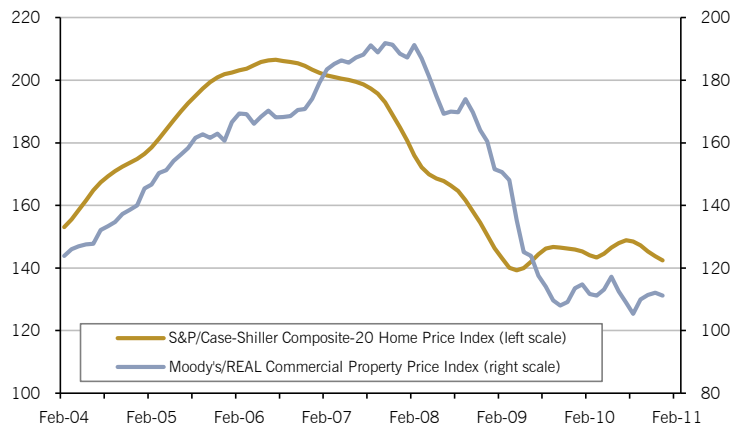
Advantage: Bears



RESIDENTIAL/COMMERCIAL PROPERTY PRICE INDICES

Some fear the housing market might be starting on a second wave of falling prices, thanks to oversupply and weak demand. Recent Case-Shiller data show residential prices declining in December and still more than 30% below peak 2006 levels.

Advantage: Bears

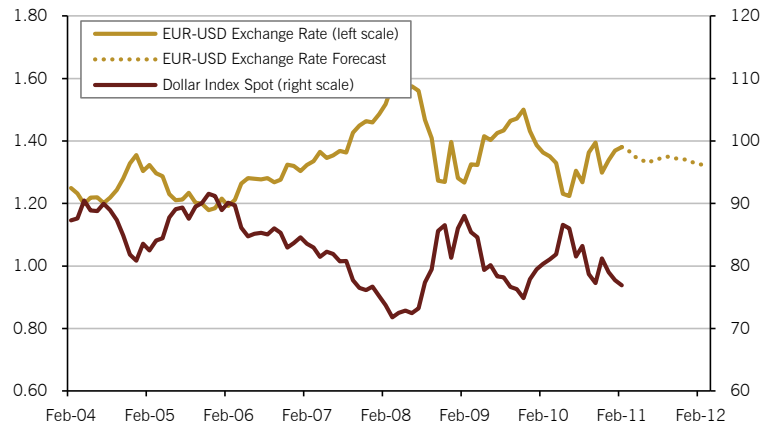


CURRENCY

U.S. DOLLAR

Despite turmoil in the Middle East, the U.S. Dollar Index continued to slide, down over 1% for February and down more than 5% over the past three months. Worries about the U.S. government debt burden and the Fed's low interest rate policy continue to hinder the greenback, and investors have been more apt to seek a safe-haven in the Swiss franc or gold.

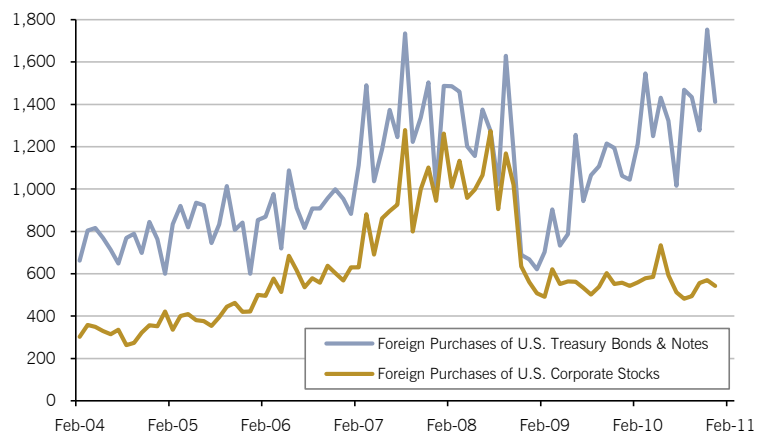
Advantage: Neutral



FOREIGN PURCHASES OF U.S. SECURITIES (\$ BILLIONS)

Global demand for U.S. bonds from foreign investors decreased in December, contributing to a sell-off in bonds during the month. China, the number two holder of U.S. debt, reduced its overall Treasury holdings for the second straight month. Some worry that high government debt levels could cause foreign buyers to either demand higher U.S. interest rates or stop buying Treasuries altogether.

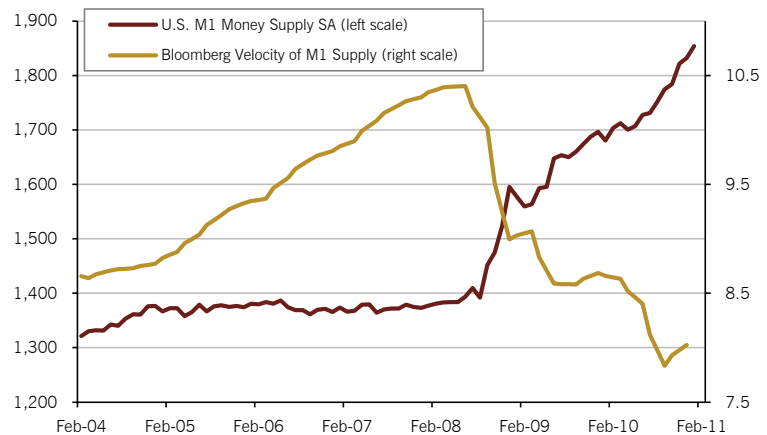
Advantage: Neutral



U.S. M1 MONEY SUPPLY AND VELOCITY

M1 consists of the most liquid forms of money, namely currency and checkable deposits. With the recent stimulus, M1 has spiked to unprecedented levels, causing fears of eventual inflation and dollar weakness. Velocity of money (the rate at which money changes hands), however, remains low as consumers and businesses are not spending or borrowing at high levels. Any increase in velocity could provide insight into future inflation.

Advantage: Neutral

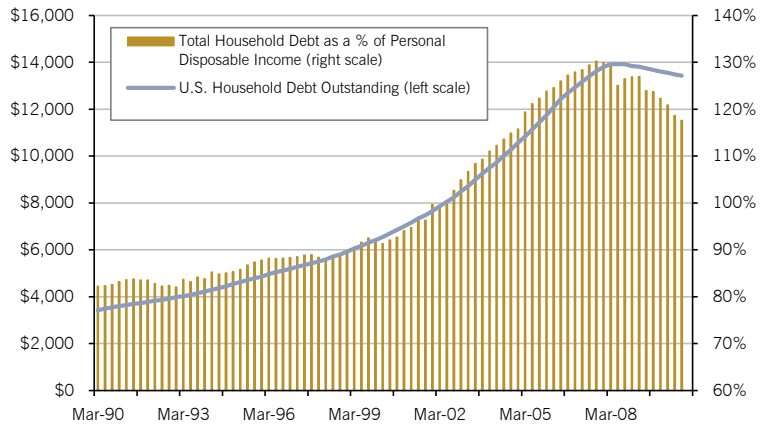


BORROWING

U.S. HOUSEHOLD DEBT AS A % OF DISPOSABLE INCOME

U.S. household debt (including mortgages and consumer credit) and the percentage it represents of disposable personal income have increased dramatically since the early 1990s. Thus far in the current deleveraging cycle, consumers have been decreasing debt slowly and still have a way to go.

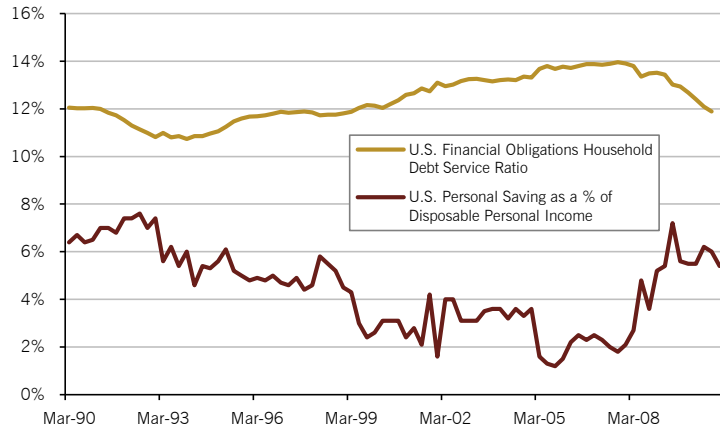
Advantage: Neutral to Bearish



U.S. SAVINGS AND HOUSEHOLD DEBT SERVICE RATIO

The debt service ratio measures the amount households spend on debt payments as a percentage of their earnings. Despite the remarkable increase in total debt over the past few decades, the rise in service ratios has been more muted due to the decline in interest rates. However, if rates spike, so too would debt payments, which would be problematic.

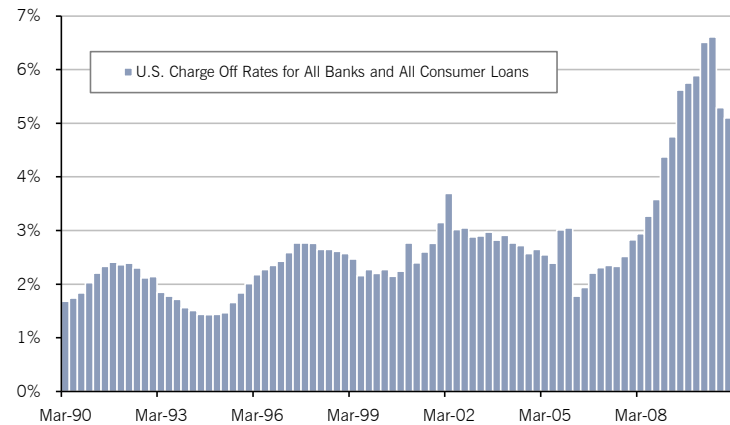
Advantage: Neutral to Bearish



U.S. CONSUMER LOAN CHARGE-OFF RATES

Given improvements in the labor market, banks are optimistic that they will not have to write off as many bad loans this year. Still, consumer bank loans (including credit cards but excluding real estate) written off as unrecoverable remain near the highest levels on record.

Advantage: Neutral to Bearish



DISCLOSURE

Non-deposit investment products are not FDIC insured, are not deposits or other obligations of Convergent Wealth Advisors, are not guaranteed by Convergent Wealth Advisors, and involve investment risks, including the possible loss of principal. The information contained in this summary is for informational purposes only and contains confidential and proprietary information that is subject to change without notice. Any opinions expressed are current only as of the time made and are subject to change without notice. This report may include estimates, projections, or other forward looking statements; however, due to numerous factors, actual events may differ substantially from those presented. The graphs and tables making up this report have been based on unaudited, third-party data and performance information provided to us by one or more commercial databases. While we believe this information to be reliable, Convergent bears no responsibility whatsoever for any errors or omissions. Additionally, please be aware that past performance is not a guide to the future performance of any manager or strategy, and that the performance results displayed herein may have been adversely or favorably impacted by events and economic conditions that will not prevail in the future. Therefore, caution must be used in inferring that these results are indicative of the future performance of any strategy. Index results assume the re-investment of all dividends and interest. Moreover, the information provided is not intended to be, and should not be construed as, investment, legal, or tax advice. Nothing contained herein should be construed as a recommendation or advice to purchase or sell any security, investment, or portfolio allocation. Any investment advice provided by Convergent is client-specific based on each client's risk tolerance and investment objectives. Please consult your Convergent Advisor directly for investment advice related to your specific investment portfolio.