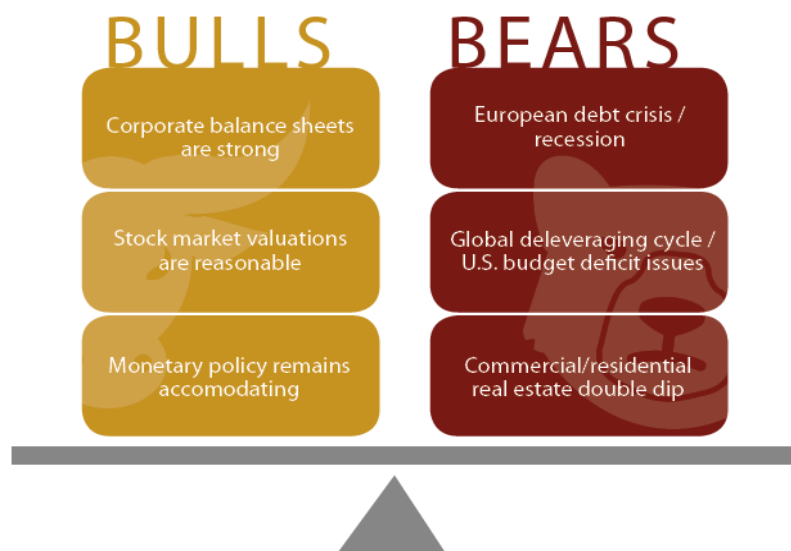


Commentary

We've all heard that patience is a virtue. However, over the past decade it seems like everyone in the investing community has been determined to make short-term and reactionary tactical decisions in an effort to receive instant gratification. In the 1960s, the average holding period for stocks on the NYSE was 100 months compared to present day where it is a mere nine months. Investors now view a strategic long-term plan in the context of a few months instead of years. This thinking is clouded by the recent volatility in the market and the mentality that "this time it's different."

From the beginning of October to the end of January, the S&P 500 gained almost 20%. In fact, it was hard to find an area of the market that didn't produce meaningful positive returns. Those with macro forecasts most certainly did not predict the recent rally we experienced. However, investing is riddled with uncertainty and it is better to invest based on value relative to long-term trends rather than the ever changing macro-economic forecasts. This desire for patience does not simply mean one should sit idly. It means we must be careful and methodical in our approach to allocations and pay strong attention to true value that eventually gets reflected in prices. Investing is a long-term game where patience is one of the key qualities of success.

In January, markets experienced stellar returns. However, they somewhat mask the underlying macro uncertainty continuing to dominate the investing landscape. The U.S. continues its slow expansion and recovery. Economic and political unrest remain in Europe and there are still concerns of its affect on the rest of the world. The attractiveness of stocks over bonds is tempered by the tail risk presented by the European situation. We remain neutral with regard to overall stock exposure, with a tilt towards the United States and beaten-down emerging markets.



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

OVERVIEW OF THE EQUITY AND FIXED INCOME MARKETS

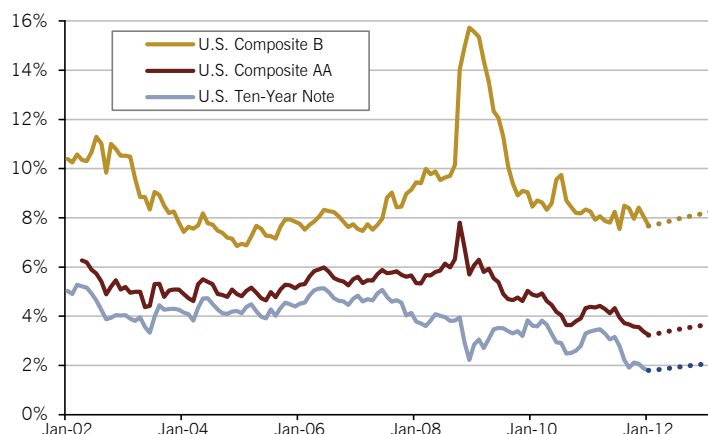
S&P 500 PRICE

The S&P 500 advanced strongly in January, gaining almost 20% over the past four months. The beaten down risk assets like financials, in particular, had a very strong run during the month. Fixed income, on the other hand (Treasuries in particular), unlike most of 2011, lagged equities during the month.



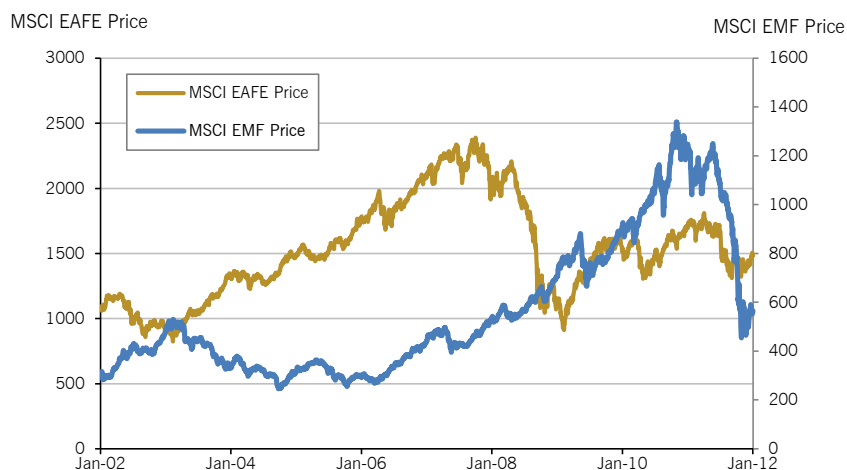
CREDIT YIELDS

Yields were relatively unchanged for most of January. The yield on the ten-year U.S. Treasury dropped to 1.8% in January, ending the month near historic lows. Extremely low yields mean return expectations going forward (especially on an inflation-adjusted basis) should be tempered.



INTERNATIONAL MARKETS

International markets advanced strongly in January. Macro and political uncertainty in Europe continue to plague the region and have weighed on equity prices. Valuations in Europe are not extremely cheap or rich given the tail risk possibilities that continue to exist on the horizon. Emerging Markets benefitted from the surge in equity prices around the globe.



APPENDIX

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SUMMARY

Below is a summary of the key statistics contained in this Appendix.

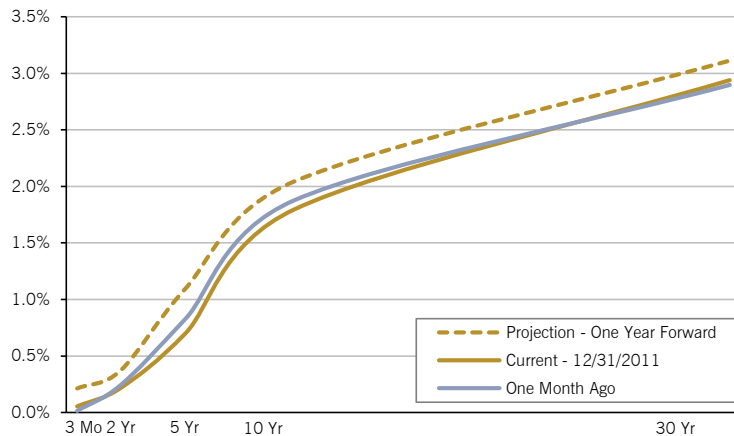
<p>CREDIT MARKETS U.S. Treasury Yield Curve T-Bills, Federal Funds, and Inflation LIBOR/T-Bill Rates and TED Spread Corporate Yield Spreads (page 2)</p>	<p>Mixed Neutral to Bullish Neutral to Bullish Neutral Neutral to Bearish</p>	<p>Notes yields curve remains steep Fed keeping short-term rates low; less worried with inflation Europe anxiety causing TED spread to widen high yield spreads to Treasuries are wide but not expanding</p>
<p>THE ECONOMY AND THE CONSUMER Consumer Confidence and Unemployment U.S. Consumer Income and Spending LEI and ECRI</p>	<p>Neutral to Bearish Neutral to Bearish Neutral to Bearish Neutral</p>	<p>still weak but showing some improvement consumers using credit & savings to make purchases leading indicators are rising but at a slower rate</p>
<p>THE ECONOMY AND SUPPLIERS ISM Manufacturing Index Baltic Dry Index and Commodities Retail Sales</p>	<p>Neutral Neutral Neutral Neutral</p>	<p>expansionary, but not by much oil near \$100/barrel; BDI still at low levels sales starting to slow</p>
<p>U.S. CORPORATIONS Corporate Earnings Stock Market Valuations Stock Market Technicals</p>	<p>↑ Bullish Neutral to Bullish Neutral to Bullish ↑ Bullish</p>	<p>companies resilient despite slow economic growth valuations reasonable: trailing 12-month P/E below average S&P 500 50-day average > 200-day average</p>
<p>INVESTOR FLOWS AND LIQUIDITY Money Market Funds Assets Mutual Fund Liquidity Ratio Mutual Fund Cash Flows</p>	<p>Neutral to Bearish Neutral Neutral to Bearish Neutral</p>	<p>slowly declining as 0% yield forces investors into bond funds mutual fund cash to be invested remain at low levels bond fund inflows still dominating stock flows</p>
<p>FEAR MEASURES Stock Market Volatility Correlations U.S. Short Interest</p>	<p>Neutral Neutral Neutral Neutral</p>	<p>VIX in retreat to start of 2012 have high correlations peaked as stress is reduced? still a fair amount of short sales in place</p>
<p>REAL ESTATE Mortgage Applications and Pending Sales Residential Delinquencies and Defaults Residential/Commercial Property Price Indices</p>	<p>Bearish Bearish Bearish Neutral to Bearish</p>	<p>showing improvement but still weak by historical standards the number of foreclosures is still at high levels prices continue to decline (at least modestly)</p>
<p>CURRENCY U.S. Dollar Foreign Purchases of U.S. Securities U.S. M1 Money Supply and Velocity</p>	<p>Neutral Neutral Neutral Neutral</p>	<p>rising in a continuation of flight to safety foreign purchases of U.S. bonds at high levels M1 at unprecedented levels, but velocity is low</p>
<p>BORROWING U.S. Household Debt U.S. Savings and Debt Service Ratio U.S. Consumer Loan Charge-Off Rates</p>	<p>Neutral to Bearish Neutral to Bearish Neutral to Bearish Neutral to Bearish</p>	<p>deleveraging cycle likely a headwind for several years any increase in rates could raise debt servicing costs below peak but remain at relatively high historical levels</p>

Note: The arrows indicate the directional change from the prior month's reading (i.e., a shift from "Bullish" to "Neutral to Bullish" is viewed as a negative change).

U.S. TREASURY YIELD CURVE

As the Fed keeps short-term rates near zero, the Treasury yield curve remains relatively steep—a positive sign for some.

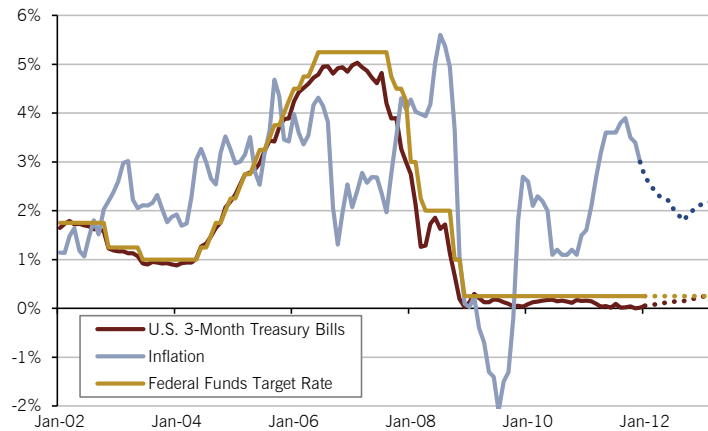
Advantage: Neutral to Bullish



T-BILLS, FEDERAL FUNDS, AND INFLATION

Despite modestly improving economic data, inflation is expected to remain contained in the near-term. As such, in January the Fed that it intends to keep short-term interest rates near zero through late 2014.

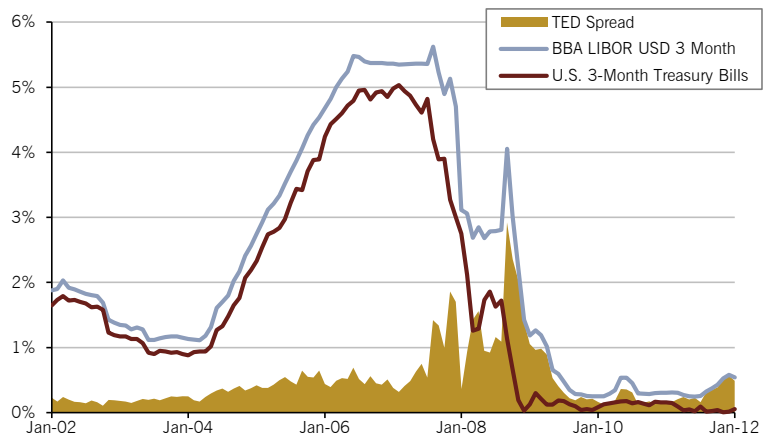
Advantage: Neutral to Bullish



LIBOR/T-BILL RATES AND TED SPREAD

Spreads are widening in reaction to the problems posed by heavily indebted (and recently downgraded) European nations, but have not become overly worrisome just yet. We tend to become concerned when the spread reaches about 100 basis points (1.0%).

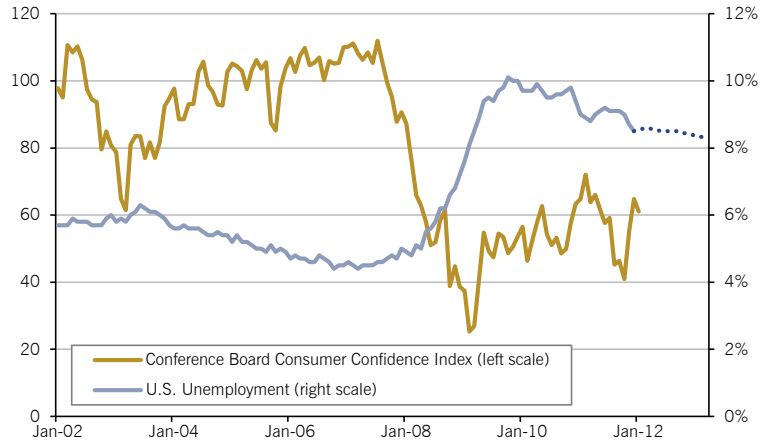
Advantage: Neutral



CONSUMER CONFIDENCE AND UNEMPLOYMENT

The U.S. unemployment rate has dropped to its lowest level in nearly three years, though the pace of hiring is likely still too slow to ramp up consumer activity. Consumer confidence, meanwhile, is near its post-recession high though it remains well below the levels that signal a healthy and stable economy.

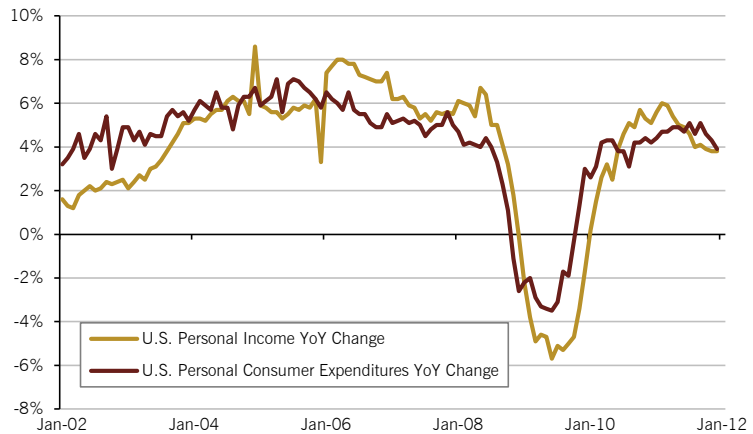
Advantage: Neutral to Bearish



U.S. CONSUMER INCOME AND SPENDING

Consumer incomes are dropping (particularly on an inflation-adjusted basis), forcing some shoppers to dip into savings or buy on credit. Most economists believe this will eventually have a negative impact on spending habits and levels.

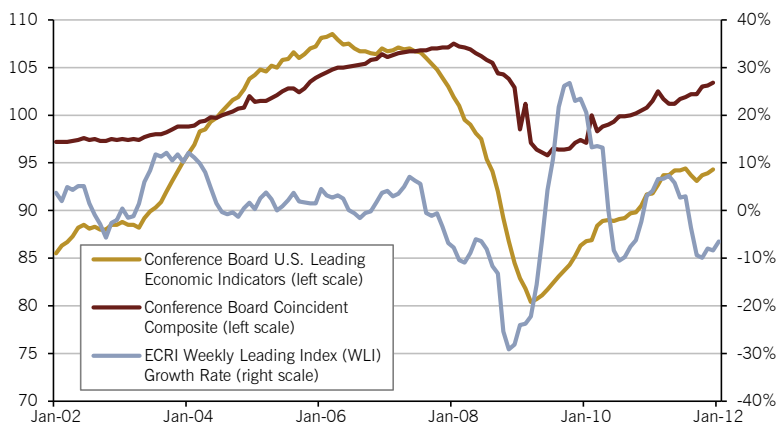
Advantage: Neutral to Bearish



LEI AND ECRI

The Conference Board's index of leading economic indicators (LEI) continues to trend upward, suggesting a decreased risk of a severe economic downturn and giving some cautious optimism for economic growth in the first half of 2012.

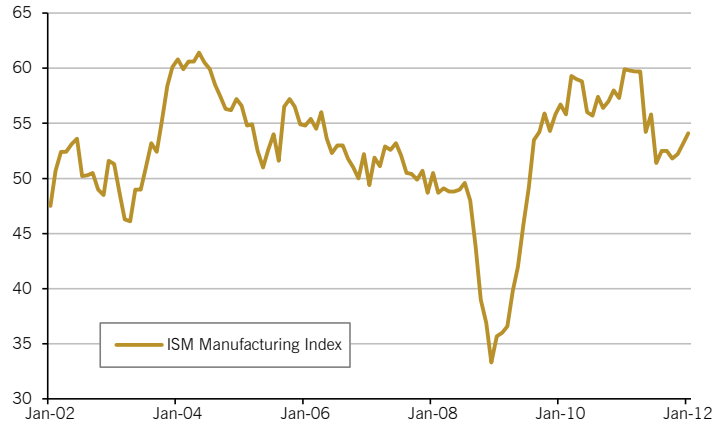
Advantage: Neutral



ISM MANUFACTURING INDEX

Manufacturing activity climbed to a seven-month high of 54.1 in January. A reading over 50 indicates expansion relative to the prior month, while a reading under 50 indicates contraction.

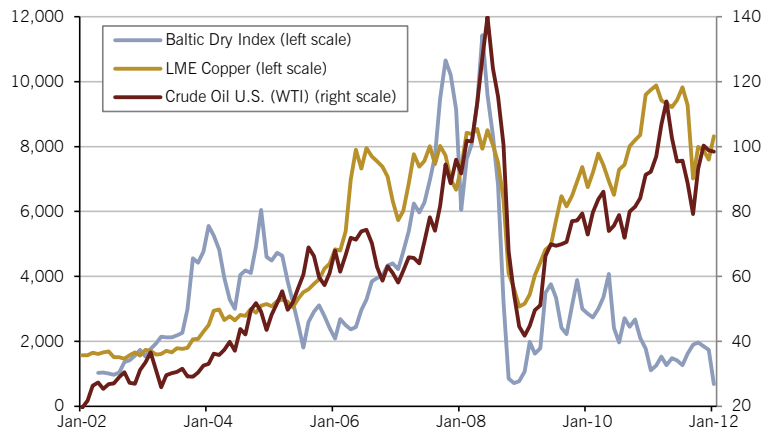
Advantage: Neutral



BALTIC DRY INDEX & COMMODITIES

The Baltic Dry Index, which measures the cost of shipping goods around the world, continued its precipitous plunge. However, most believe the recent declines have been caused by an oversupply of ships and are due less to the demand for these goods.

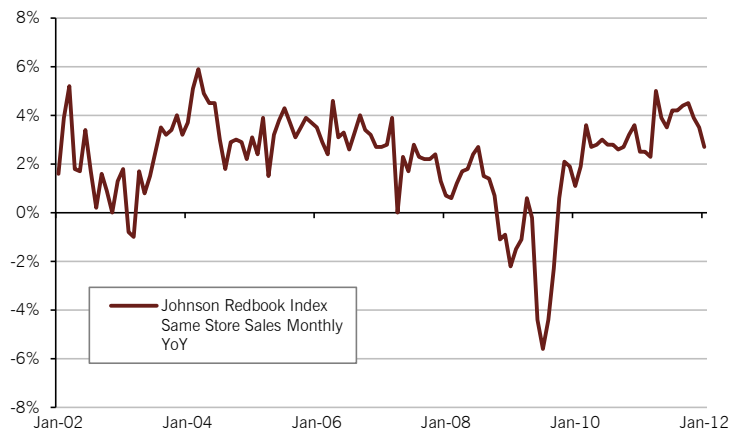
Advantage: Neutral



RETAIL SALES

Retail sales have slowed, especially once the surge in auto sales are excluded. Longer-term, persistently high unemployment could present a challenge to consumer spending.

Advantage: Neutral

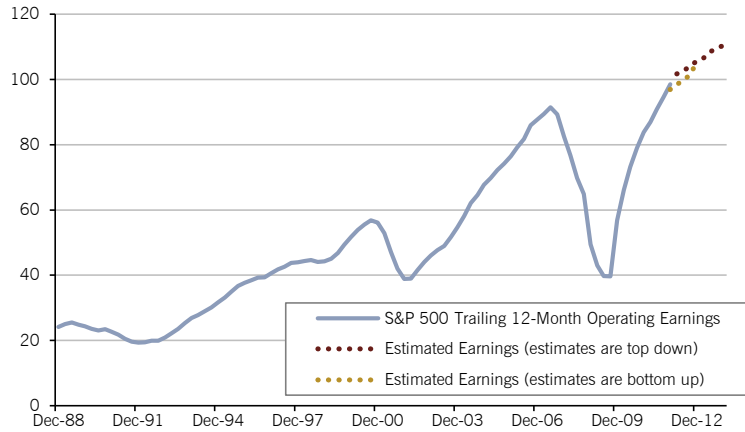


CORPORATE EARNINGS

S&P projects earnings to reach record levels in 2012.

However, the pace of earnings growth is expected to be slower going forward than the past few years. It is also possible that weakness in overseas sales (particularly in Europe) could start to be felt.

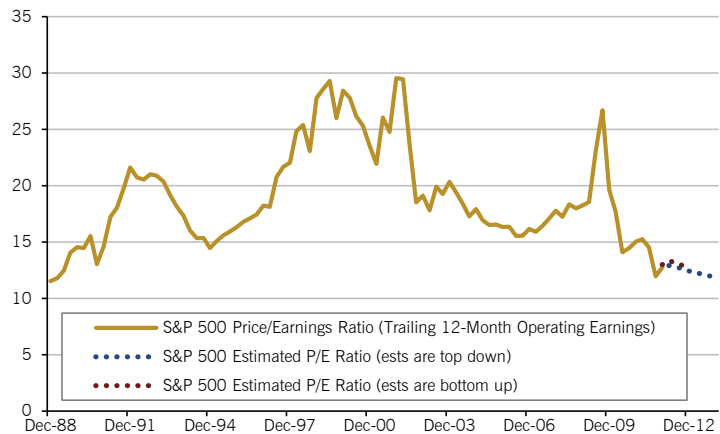
Advantage: Neutral to Bullish



STOCK MARKET VALUATIONS

Thanks to robust earnings, trailing 12-month P/E valuations for the S&P 500 look reasonable and remain below historical averages. Longer-term methods of measuring valuations, however, such as 10-year normalized P/E ratios, remain a bit elevated (around 21).

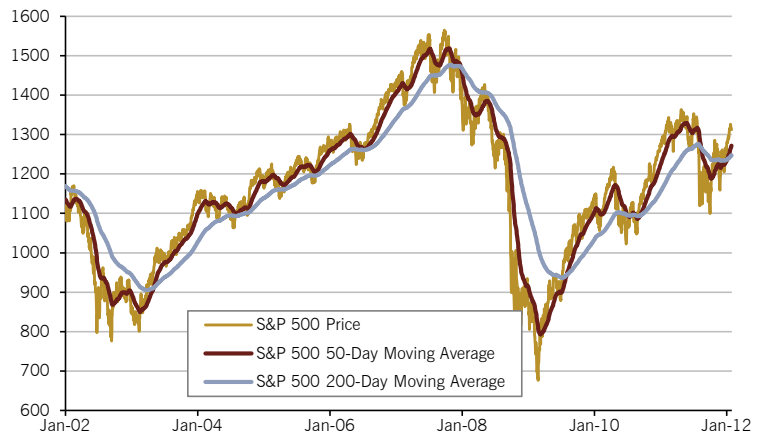
Advantage: Neutral to Bullish



STOCK MARKET TECHNICALS

The level of the S&P 500 50-day moving average has crossed above the 200-day moving average (the so-called "Golden Cross"), interpreted by many as a bullish signal.

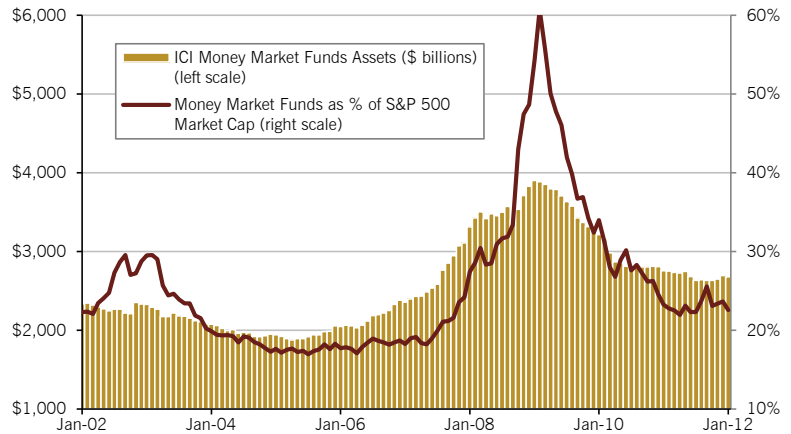
Advantage: Bullish



MONEY MARKET FUNDS ASSETS

Retail investors have not fully returned to the equity markets, as assets in money market funds remain above the typical levels seen before the credit crisis. Furthermore, given historically low yields (near zero), many investors who may otherwise hold cash have short-term bond funds instead.

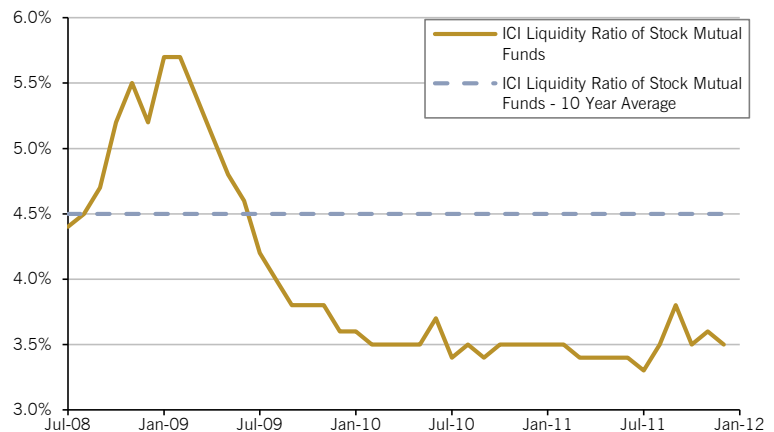
Advantage: Neutral



MUTUAL FUND LIQUIDITY RATIO

Mutual funds have been sitting on unusually low levels of cash, which is typically viewed as bearish as it means few additional dollars to invest. However, managers have less incentive to hold cash given extremely low interest rates.

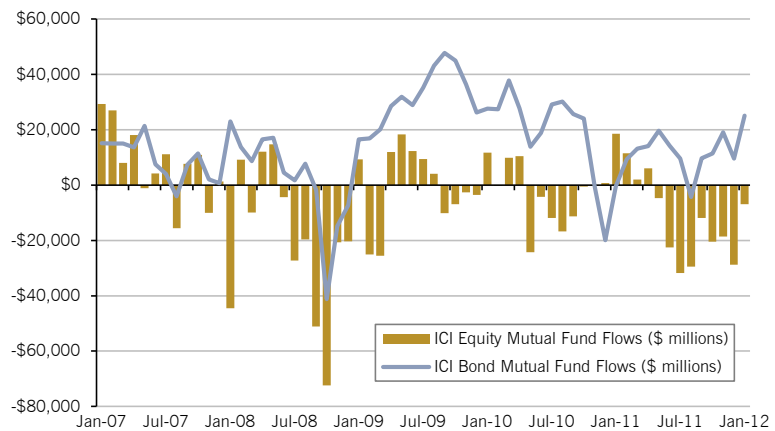
Advantage: Neutral to Bearish



MUTUAL FUND CASH FLOWS

Stock funds stemmed their outflows in January as investor sentiment seemed to improve. Still, bond funds continued to dominate the flow of dollars, as they have since the credit crisis began.

Advantage: Neutral

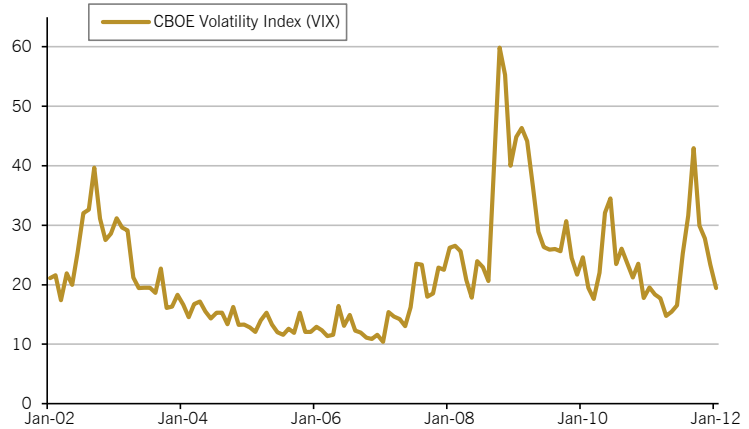


FEAR MEASURES

STOCK MARKET VOLATILITY

Volatility has alleviated over the past few months as concerns about Europe and a global recession have lessened. Readings in excess of 30 generally correspond with times of investor fear or uncertainty, while values below 20 are typically associated with less stressful times.

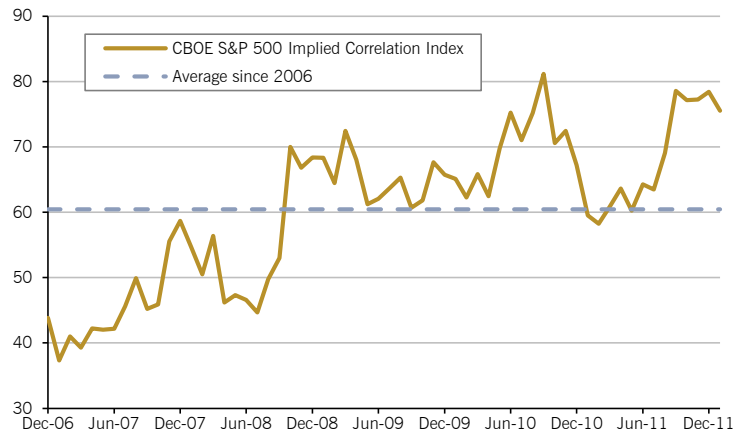
Advantage: Neutral



CORRELATIONS

Correlations between stocks that comprise the S&P 500 pulled back in January from near-record levels. Still, correlations remain elevated as equities have been moving in knee-jerk fashion in both sell-offs and rallies.

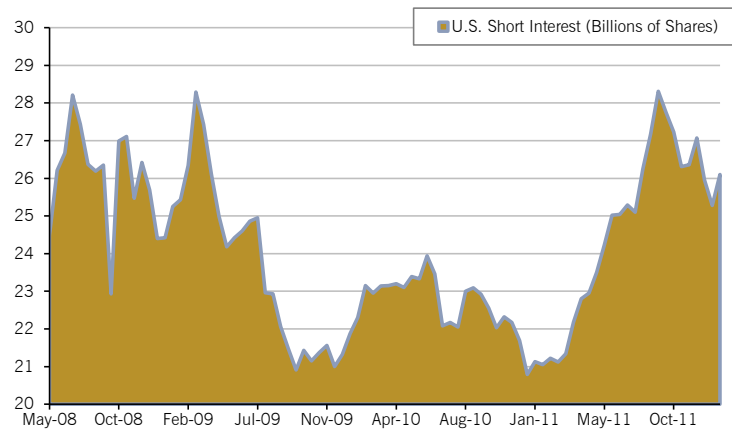
Advantage: Neutral



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.

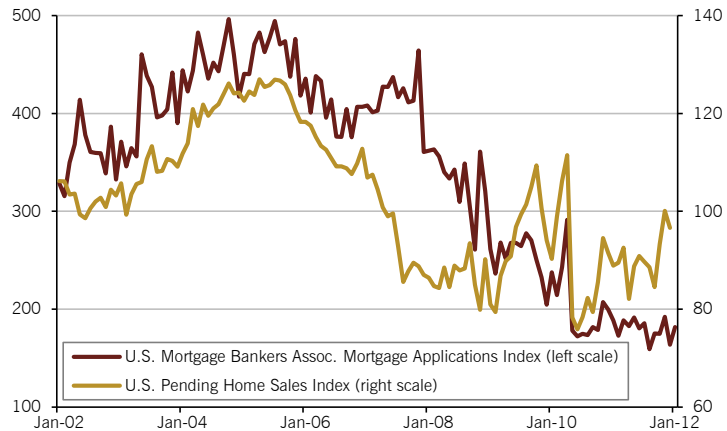
Advantage: Neutral



MORTGAGE APPLICATIONS AND PENDING HOME SALES

Mortgage applications climbed a bit in January as buyers sought to take advantage of low mortgage rates. Pending home sales have also been trending higher over the past several months. Nevertheless, mortgage and sales activity remains depressed by historical standards.

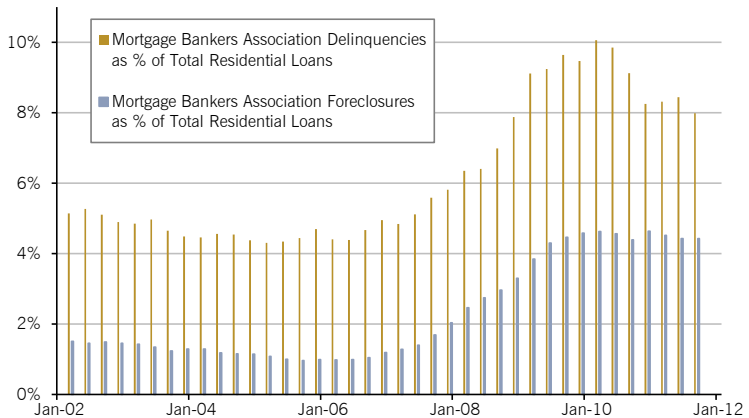
Advantage: Bearish



RESIDENTIAL DELINQUENCIES AND DEFAULTS

Mortgage delinquencies continue to decline as fewer home loans run into trouble, but the number of loans in the foreclosure process remain elevated near all-time highs. Many expect the overall rates to slowly trend lower but remain above typical averages for some time.

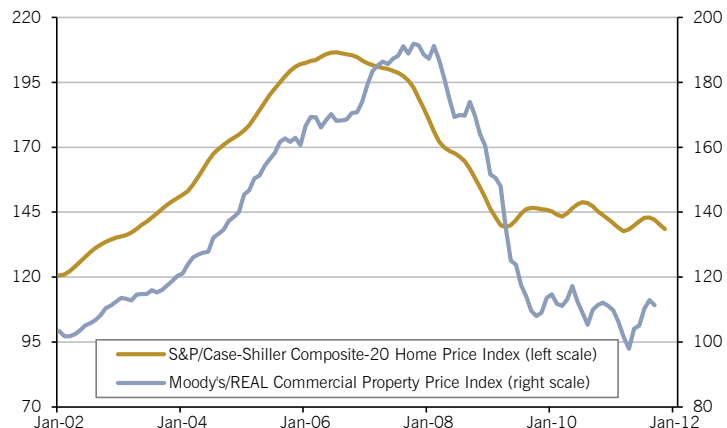
Advantage: Bearish



RESIDENTIAL/COMMERCIAL PROPERTY PRICE INDICES

Home prices continue to decline, however modestly, according to the latest S&P/Case-Shiller data. Tight lending standards and a backlog of foreclosures continue to weigh on prices.

Advantage: Neutral to Bearish

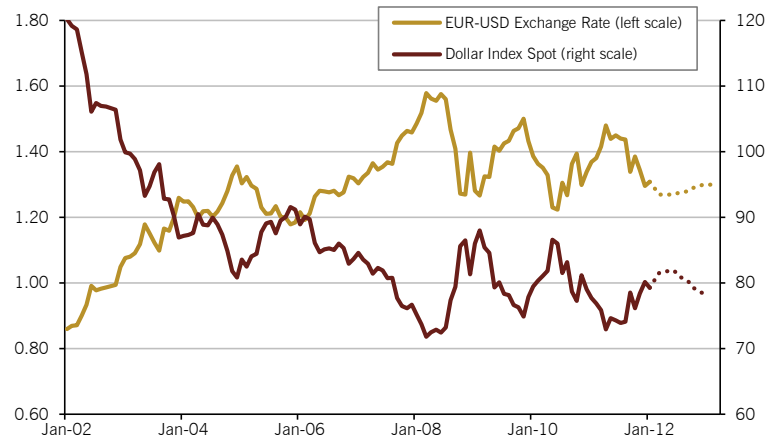


CURRENCY

U.S. DOLLAR

The U.S. dollar slipped 1% in January as risk assets rallied. Longer-term, fundamental factors such as slow economic growth, easy money policies by the Fed, and the U.S.'s heavy debt burden are likely to weigh on the dollar.

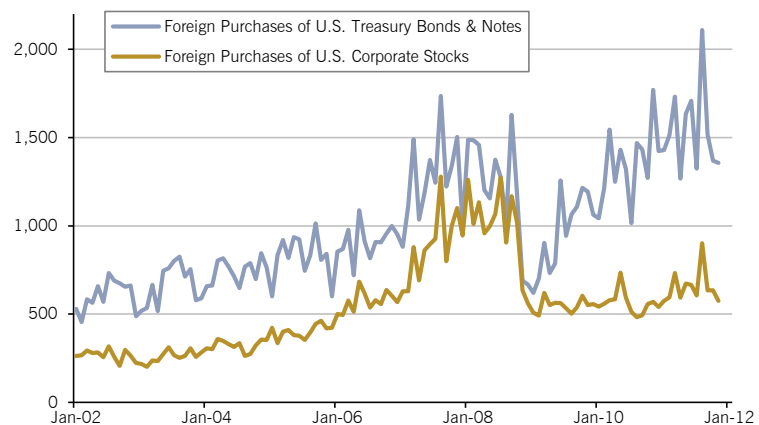
Advantage: Neutral



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

Demand by foreign investors for U.S. Treasuries, which are perceived as a safe haven, slipped as of late but is still trending higher. Regarding Treasury markets, there is concern that U.S. fiscal uncertainties may eventually drive investors away unless they receive higher interest rates.

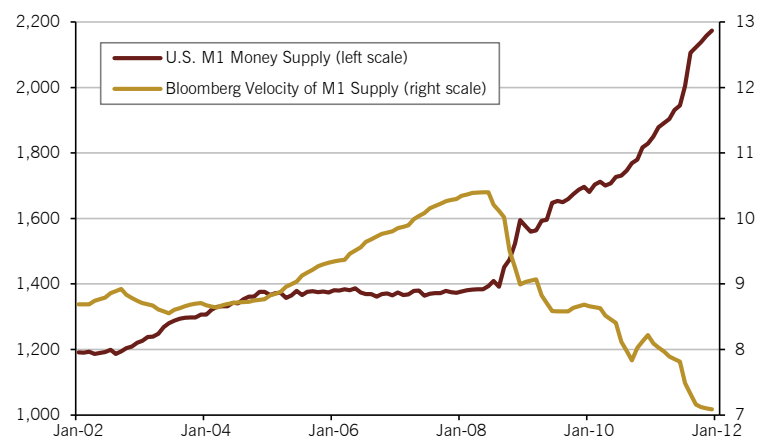
Advantage: Neutral



U.S. M1 MONEY SUPPLY AND VELOCITY

M1 spiked to unprecedented levels, causing worries of eventual inflation and U.S. dollar weakness. However, the velocity of money remains low (and deflationary) as consumers and businesses are not spending or borrowing at high levels.

Advantage: Neutral



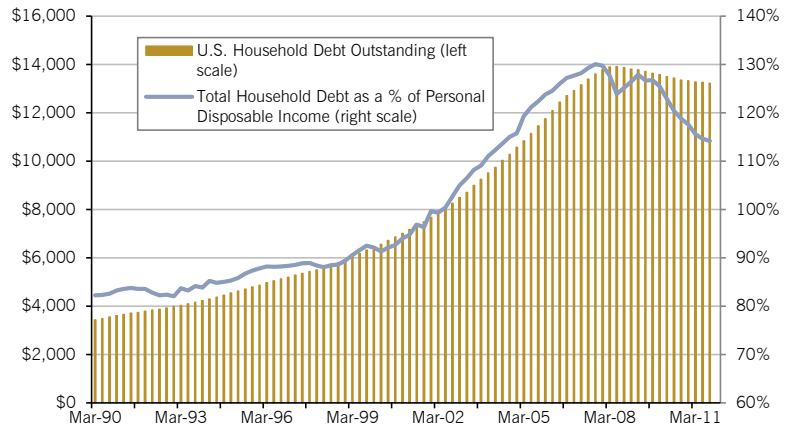
BORROWING

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

U.S. households have been deleveraging over the past few years, at least to a modest degree, as total debt as well as debt relative to disposable income has contracted.

However, the same cannot be said for the overall economy, as government debt levels continue to expand.

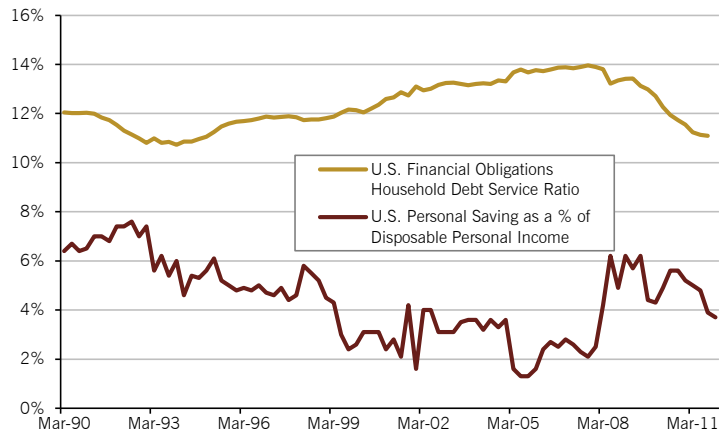
Advantage: Neutral to Bearish



U.S. SAVINGS AND HOUSEHOLD DEBT SERVICE RATIO

Despite the increase in total debt over the past 20 years, lower borrowing costs (interest rates) have eased the burden of servicing this debt, freeing cash flow for other spending. However, if rates rise, so too will debt payments.

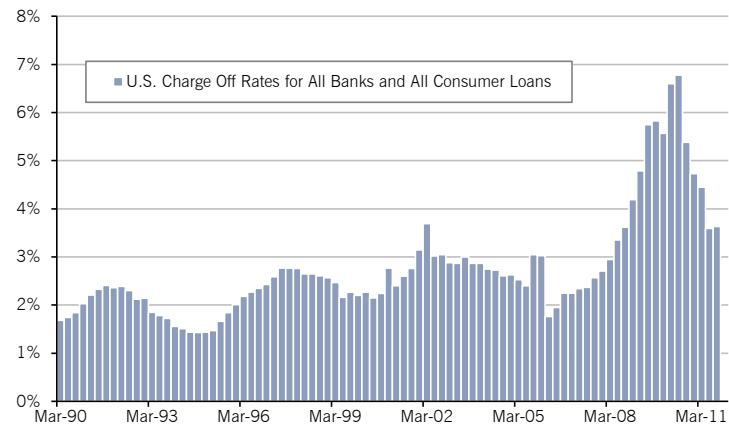
Advantage: Neutral to Bearish



U.S. CONSUMER LOAN CHARGE-OFF RATES

Default rates on consumer bank loans (excluding real estate) have declined significantly from their peak rates, but are still at higher than historical average levels.

Advantage: Neutral to Bearish



DISCLOSURE

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