

S&P500 PRICE & 10YR TREASURY YIELD - PAST 3 YRS



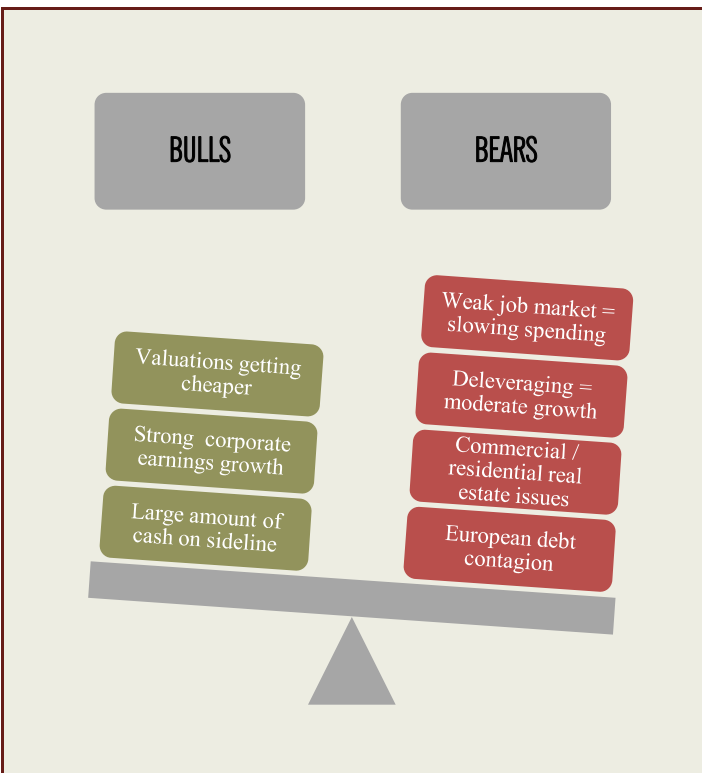
In what has historically been a strong month, stocks posted their worst monthly loss since May and their worst August since 2001. The S&P 500 lost 4.5% in August and is down about the same year-to-date. Meanwhile, Treasury yields continue to drop and are hovering near historic lows.

NOTES/COMMENTARY

Historically low yields in the bond market (especially with regards to Treasuries) are making headlines. Some are calling the steep drop in yields (and converse gains in price and total returns) a "bond bubble" that might soon be reversed. Others maintain that the low absolute level of yields appropriately reflects a deleveraging and deflationary environment, and could continue for some time or even see a further decline.

Regardless, return prospects in the credit markets over the intermediate-term are likely to be compressed due to the negative impact of either: (i) the scant income that investment grade bonds currently produce; or (ii) a potential spike in yields that would hurt bond prices. This is not to say that bonds are more or less attractive than other asset classes on a risk-adjusted basis; rather, total return expectations from fixed income investments might need to be adjusted lower. Until rates reset at higher levels, investors with large bond allocations will face an ongoing dilemma regarding how to maintain their desired level of portfolio return without taking on additional amounts of risk.

SUMMARY OF CURRENT EQUITY MARKET LEANINGS

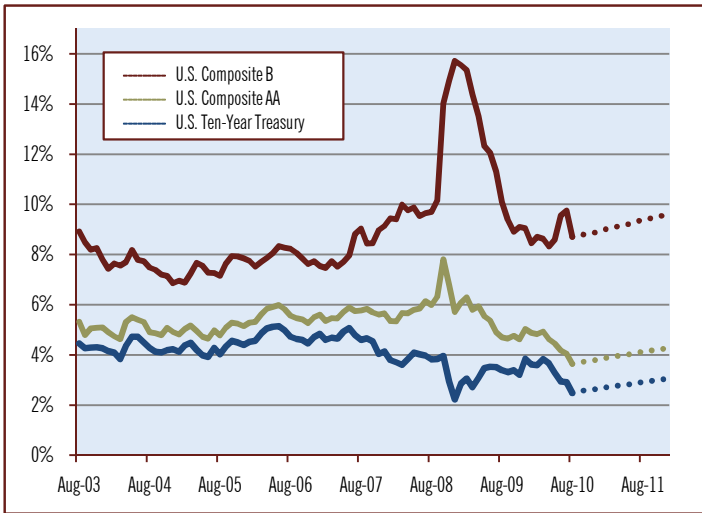


CONVERGENT TACTICAL POSITIONING

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

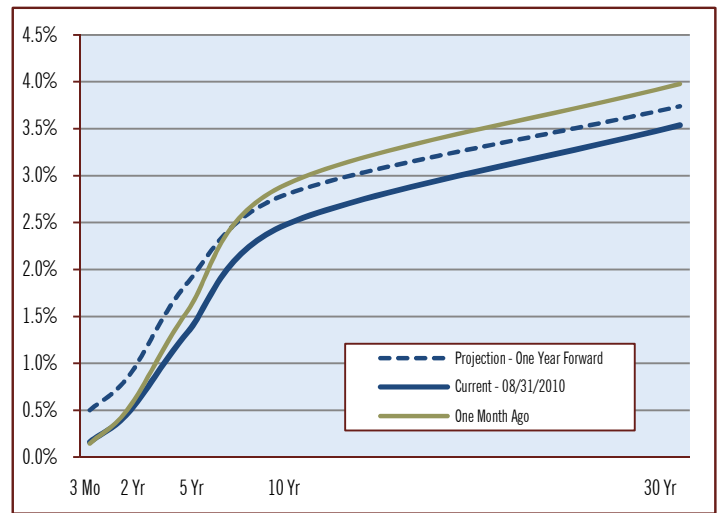
At the expense of a full equity allocation, we are maintaining overweight positions to: (i) certain opportunistic credit segments (multi-sector, emerging market debt/currencies and international bonds) - to collect a current yield while addressing themes such as mitigating equity, deflation/inflation and currency risk; and (ii) gold - as a paper currency hedge and safe-haven asset.

CREDIT YIELDS



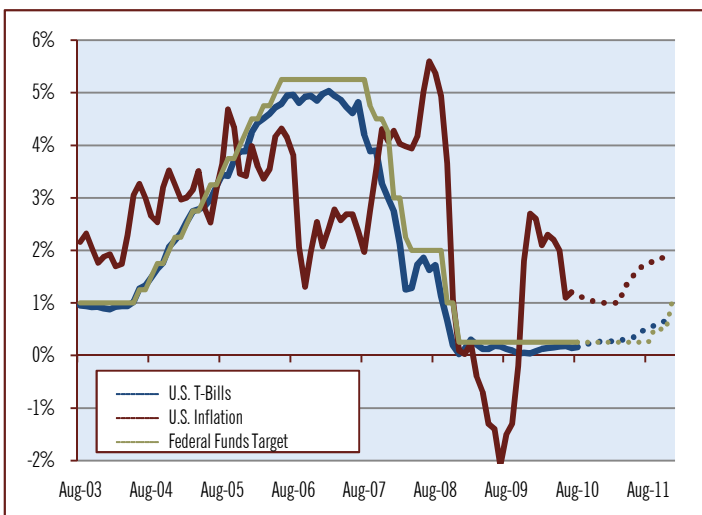
The yield of the ten-year Treasury note fell below 2.5% as deflationary and safe-haven pressures continued to drive investors into U.S. government debt. Some are warning of a bubble in government bonds, while others argue that low yields are appropriate given expectations of a prolonged economic slump. **Advantage: Neutral**

U.S. TREASURY YIELD CURVE



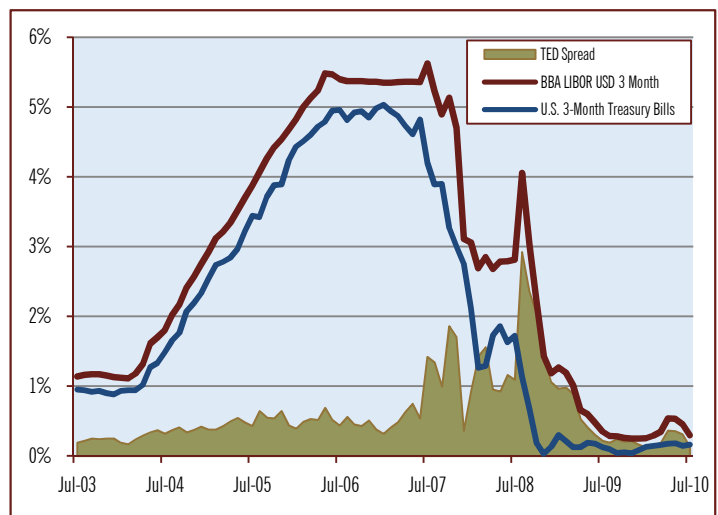
The Treasury yield curve shifted meaningfully lower in August as the near-term economic outlook became more uncertain. The absolute low level of yields indicates that neither robust economic growth nor inflation is expected by the bond market. **Advantage: Neutral**

T-BILLS, FEDERAL FUNDS AND INFLATION



The slow pace of employment growth and constrained inflation has the Fed keeping short-term interest rates at record lows. In the near-term, deflationary pressures are more of a concern than inflation. Longer-term, however, many fear some form of inflation is inevitable and that rates will rise. **Advantage: Neutral**

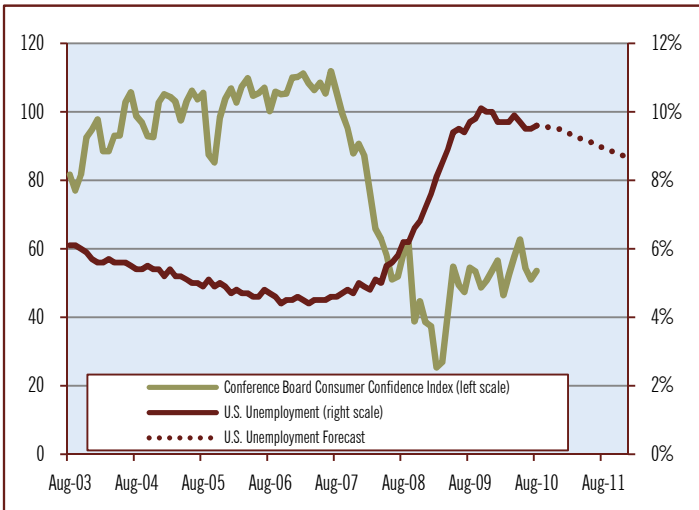
LIBOR/T-BILL RATES AND TED SPREAD



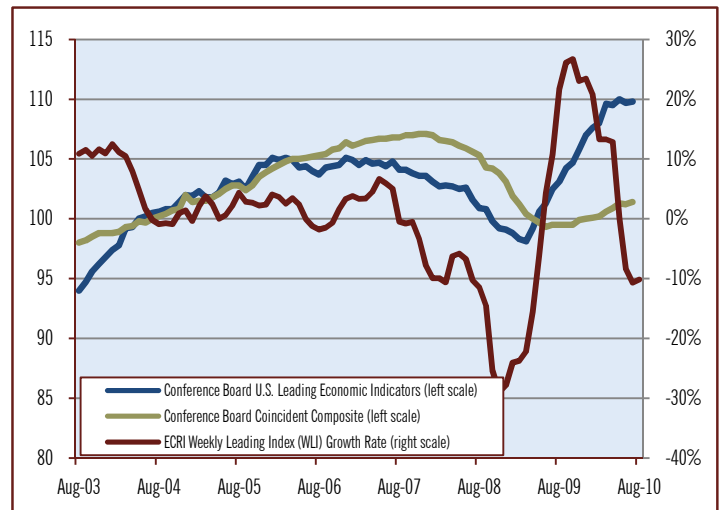
The TED spread is a measure of how tight the credit markets are as illustrated by the difference between T-Bill yields (a risk-free loan) and LIBOR yields (the rate at which banks lend to one another). Low spreads illustrate that the credit markets are operating with little anxiety. A recent blip higher in the TED spread has reverted as the European crisis has played out. **Advantage: Neutral to Bullish**

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

CONSUMER CONFIDENCE & UNEMPLOYMENT



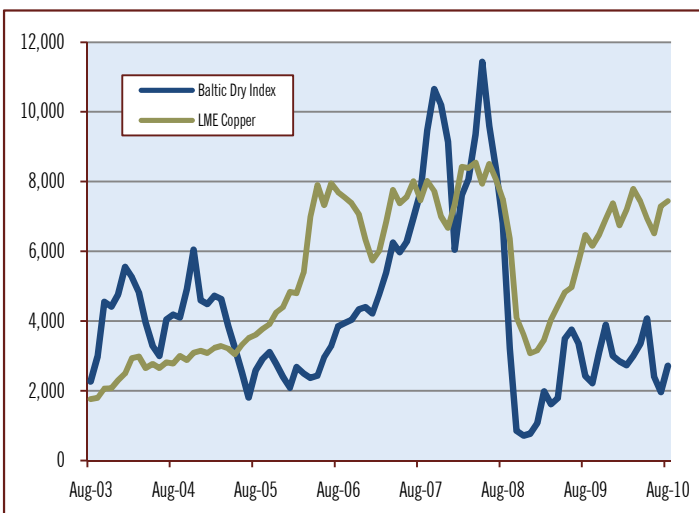
INDEX OF LEADING ECONOMIC INDICATORS



Worries about jobs and trouble in the housing market have kept consumer confidence far below levels that signal a strong economy. The lack of both hiring and confidence have raised concerns about future consumer spending, the biggest driver of the economy. **Advantage: Bears**

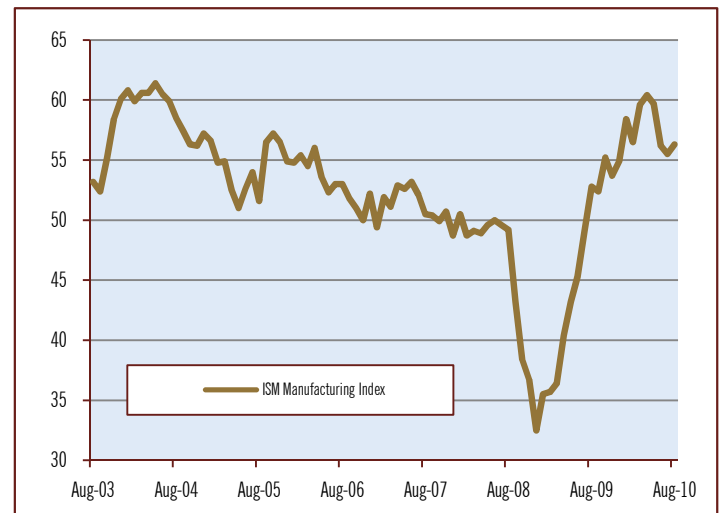
The leading economic index for the U.S. remains at high levels, though the steady rise over the past year appears to be peaking. The Economic Cycle Research Institute (ECRI) weekly leading index, meanwhile, is at levels that signify an imminent slowdown in economic growth. **Advantage: Neutral**

BALTIC DRY INDEX



The Baltic Dry Index (BDI), a measure of world trade, provides a barometer of the shipping costs for commodities. The BDI is off the lows seen a year ago, but has seen choppy trading for several months. **Advantage: Neutral**

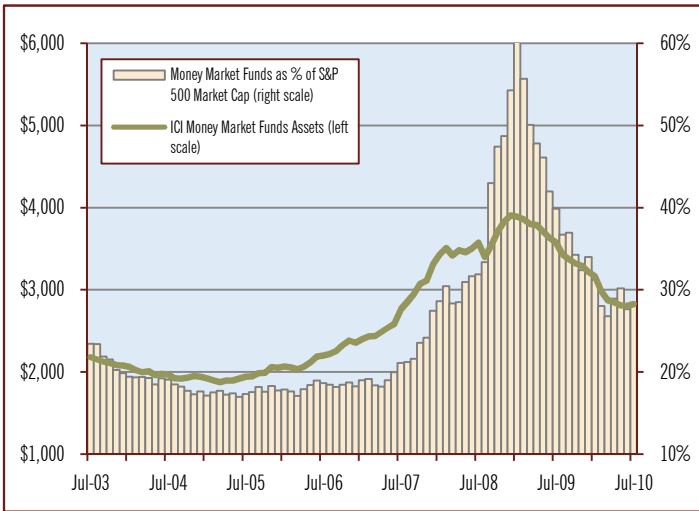
ISM MANUFACTURING INDEX



The ISM report is a national survey of purchasing managers covering such indicators as new orders, production, employment, inventories, delivery times, prices, export orders and import orders. A reading over 50% indicates expansion relative to the prior month, while a reading under 50% indicates contraction. **Advantage: Bulls**

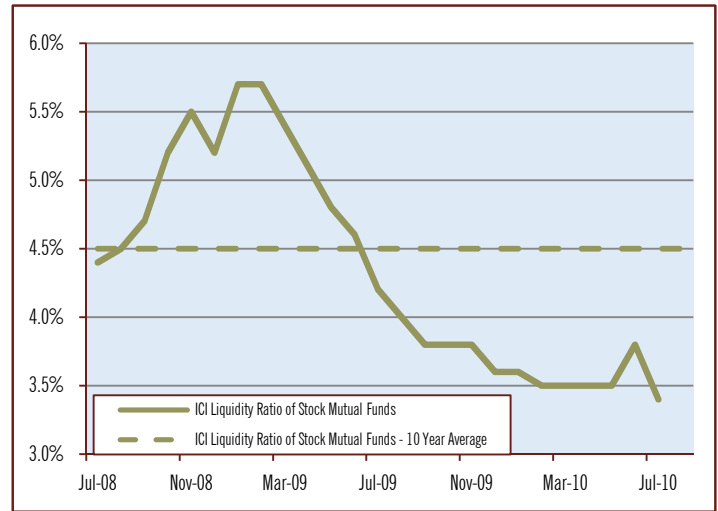
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

MONEY MARKET FUNDS ASSETS (\$ BILLIONS)



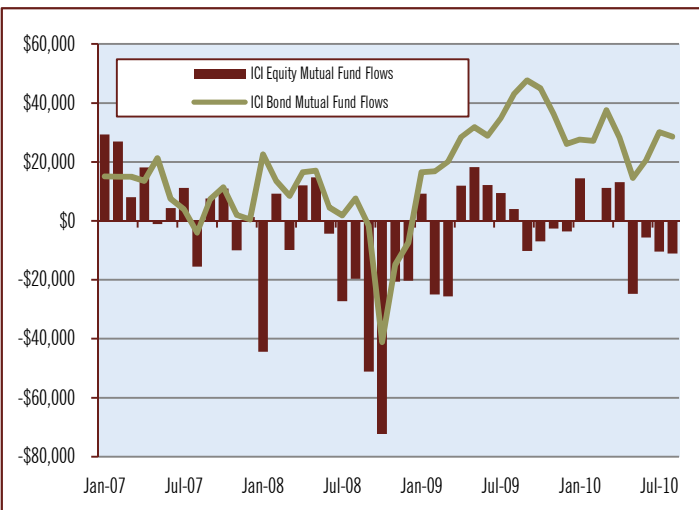
While much of the cash built up over the past few years has been put to work, there still remains a large amount on the sidelines. Barring a secular shift towards increased cash and bond allocations, there remains plenty of dry powder available for stocks. **Advantage: Bulls**

MUTUAL FUND LIQUIDITY RATIO



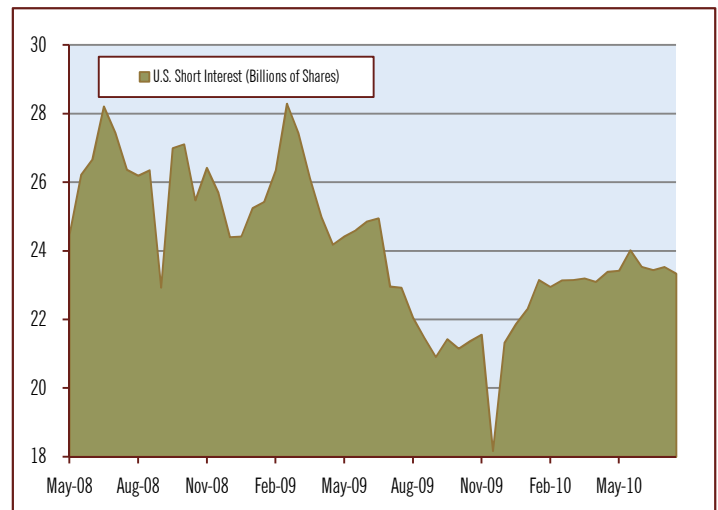
The liquidity ratio compares the amount of cash relative to total assets held by stock mutual funds. As stocks tanked in 2009, mutual fund managers were bearish and sitting on a large amount of cash. Since then, managers have put most of that to work and are now holding unusually low levels of cash. **Advantage: Bears**

MUTUAL FUND CASH FLOWS (\$ MILLIONS)



Since the stock market lows in early 2009, about ten times as many dollars have flowed into bond funds as compared to equity mutual funds. Shifting demographics (an aging of the baby boomer generation) may be resulting in a secular shift towards income generating investments. **Advantage: Neutral to Bearish**

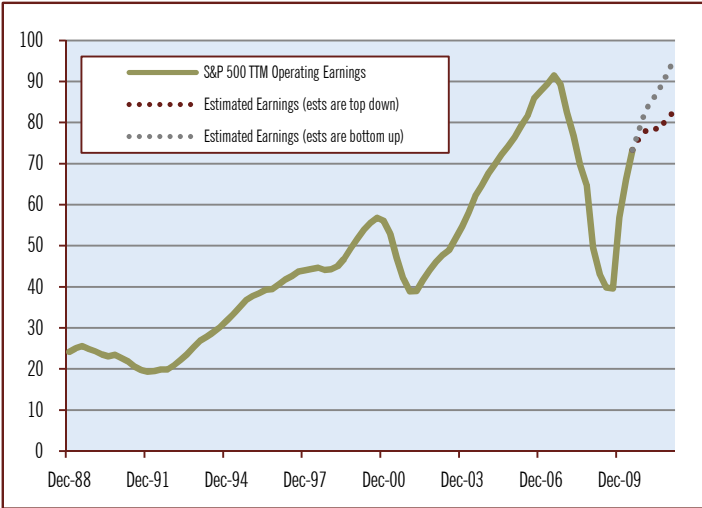
U.S. SHORT INTEREST



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**

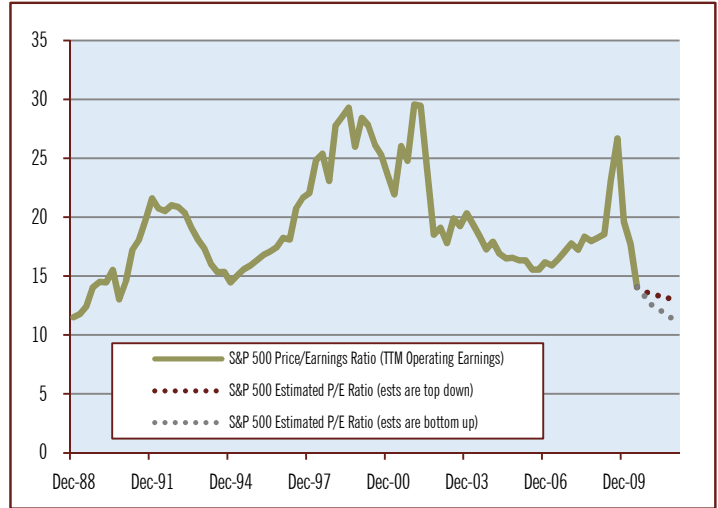
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

CORPORATE EARNINGS



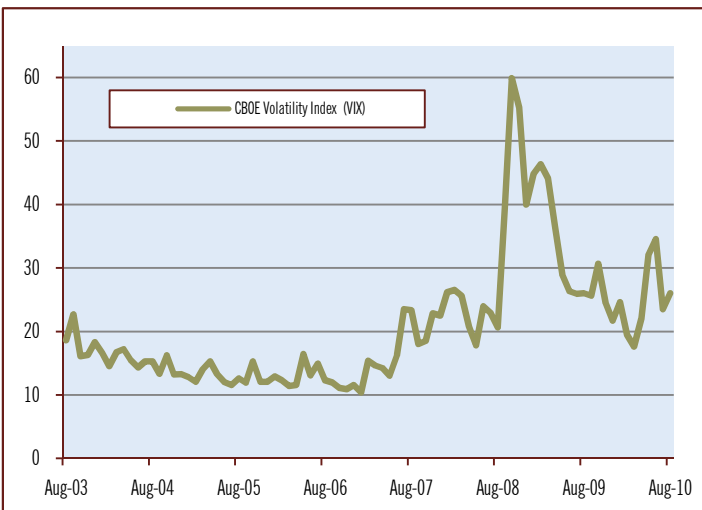
There is a concern among some that recent weaker economic reports may translate into smaller earnings growth than previously thought, especially if the recovery runs out of steam. These worries are only starting to show up in S&P's bottom-up earnings estimates, however. **Advantage: Neutral to Bullish**

STOCK MARKET VALUATIONS



Sustained earnings growth over the past year has helped trailing 12-month and forward P/E valuations look more and more compelling (below historical average levels). Longer-term methods of measuring valuations, however, such as the ten-year real P/E pioneered by Yale economist Robert Shiller, remain a bit elevated (near 20). **Advantage: Neutral to Bullish**

STOCK MARKET VOLATILITY



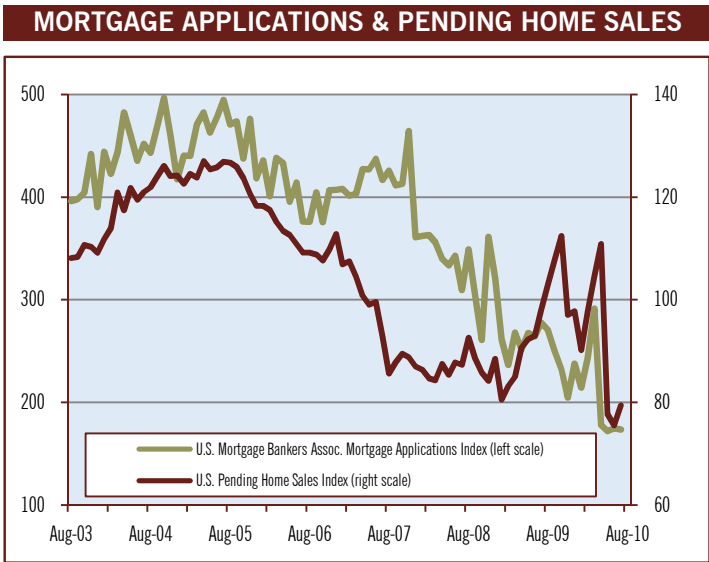
After retreating dramatically in July, volatility, as measured by the Chicago Board Options Exchange Volatility Index, rose in August. **Advantage: Neutral**

STOCK MARKET TECHNICALS

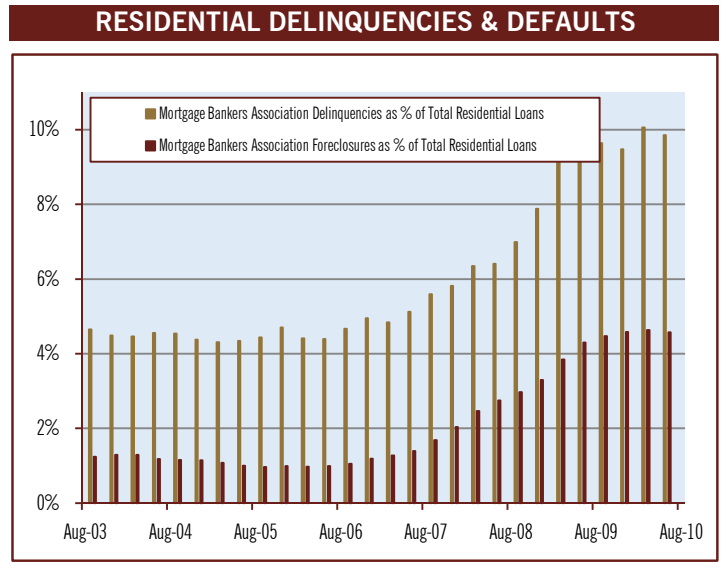


For the S&P 500 (as well as several other global market indices), the level of the 50-day moving average has fallen below the 200-day moving average, interpreted by many as a bearish signal. **Advantage: Bearish**

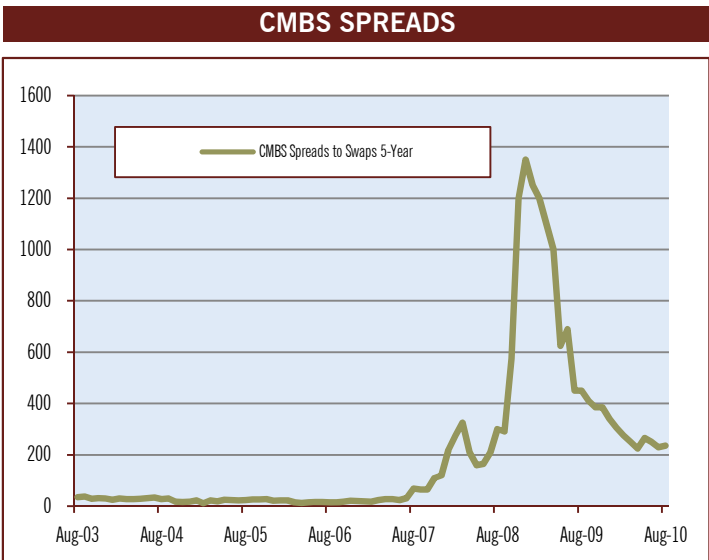
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute



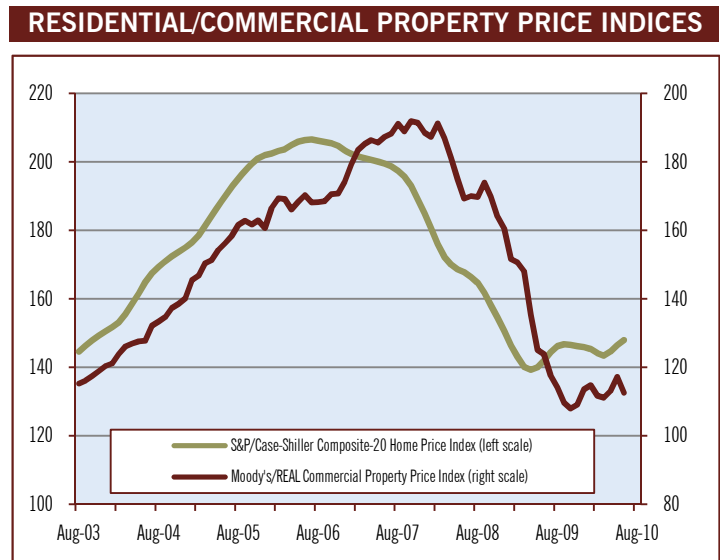
Pending home sales remain near the lowest levels on record going back to 2001. Weak mortgage application figures, despite historically low mortgage rates, point to little in the way of new demand for housing. **Advantage: Bears**



Mortgage delinquencies and foreclosures have surged to record levels. With unemployment and unsold inventories remaining high, the wave of foreclosures is expected to be a headwind to the housing market and economy for some time. **Advantage: Bears**



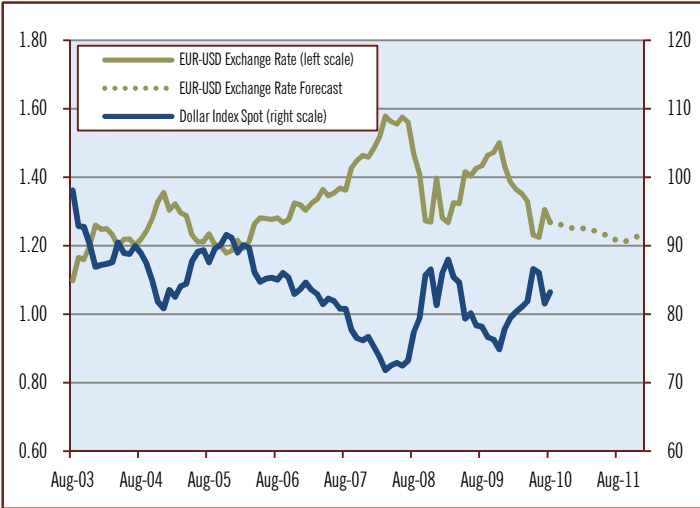
Problems in the commercial real estate market are slowly working themselves out, as banks are systematically moving troubled loan assets through their books (or perhaps simply pushing distress into the future). **Advantage: Neutral**



Many analysts believe the backlog of homes for sale or headed for foreclosure will cause home prices to slip again this fall and into next year. This could put further pressure on the economic recovery, as falling home prices tend to accompany cutbacks in consumer spending. **Advantage: Neutral to Bearish**

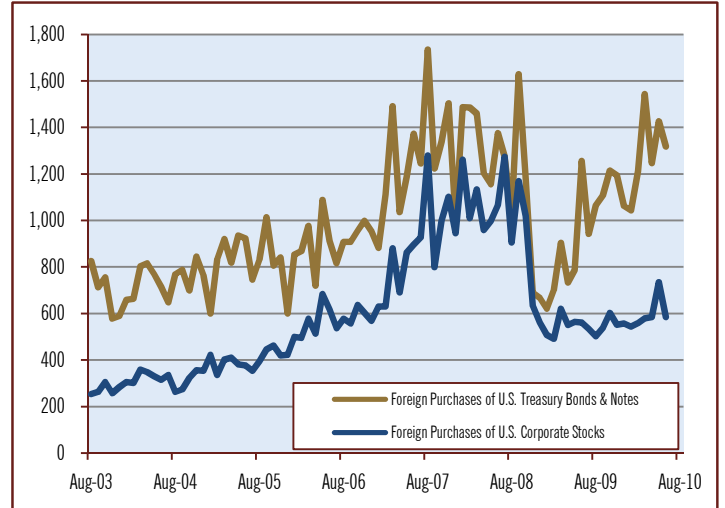
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U.S. DOLLAR



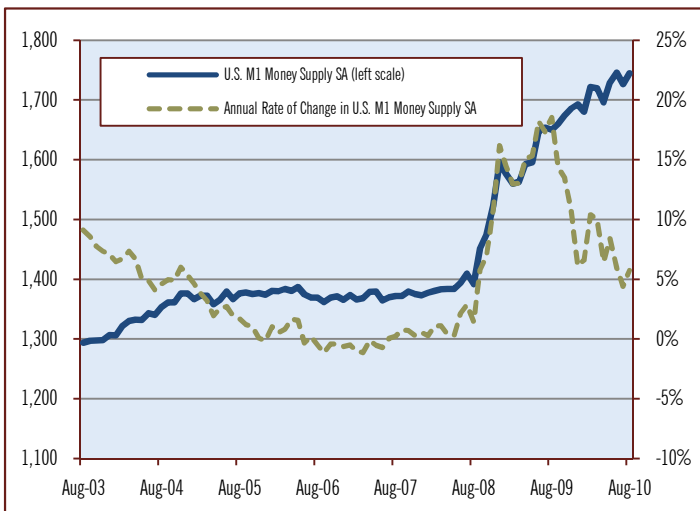
Although the euro has recently been weak, the yen has been testing multi-year highs against the dollar. Given longer-term issues such as the size of the U.S. budget deficit, most expect the dollar to struggle against many currencies for some time. **Advantage: Neutral**

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



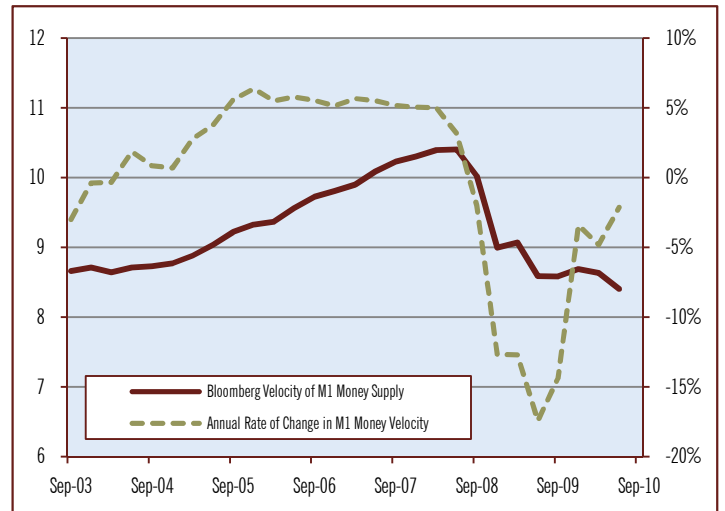
Treasury securities are still in demand from global investors, particularly as the European debt crisis plays out. Foreign purchases of U.S. stocks, meanwhile, remain constrained. There is concern that over the long-run U.S. fiscal uncertainties may keep some investors away. **Advantage: Neutral**

U.S. M1 MONEY SUPPLY



M1, the most narrowly defined measure of money in circulation, consists of the most liquid forms of money, namely currency and checkable deposits. With the recent Fed-initiated stimulus, M1 has spiked to unprecedented levels, causing fears of eventual inflation and dollar weakness. **Advantage: Neutral**

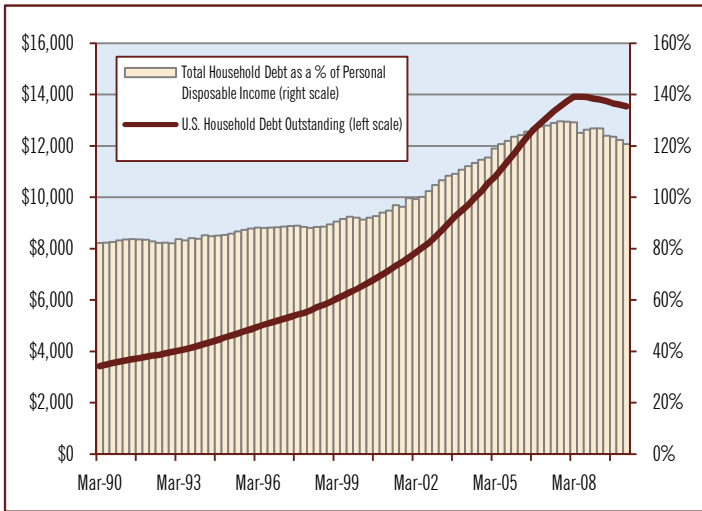
VELOCITY OF M1 MONEY SUPPLY



Velocity of money measures the rate at which money changes hands. While the money supply has surged, velocity has actually dropped as consumers and businesses are unwilling to spend money or are not able to take advantage of lending programs. **Advantage: Neutral to Bearish**

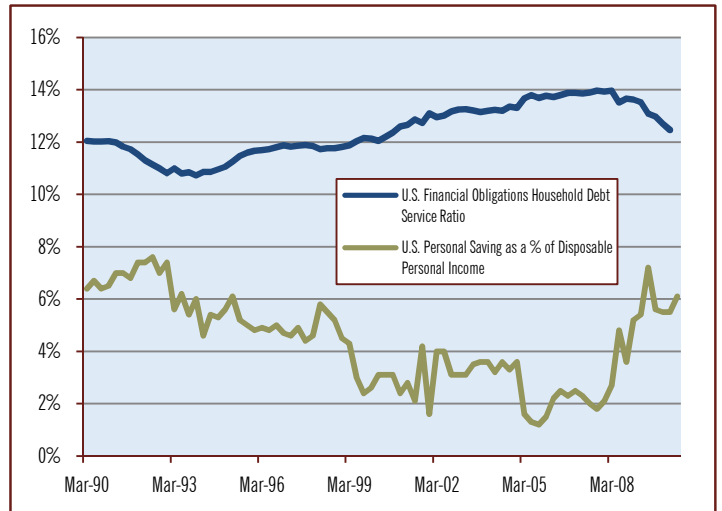
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

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



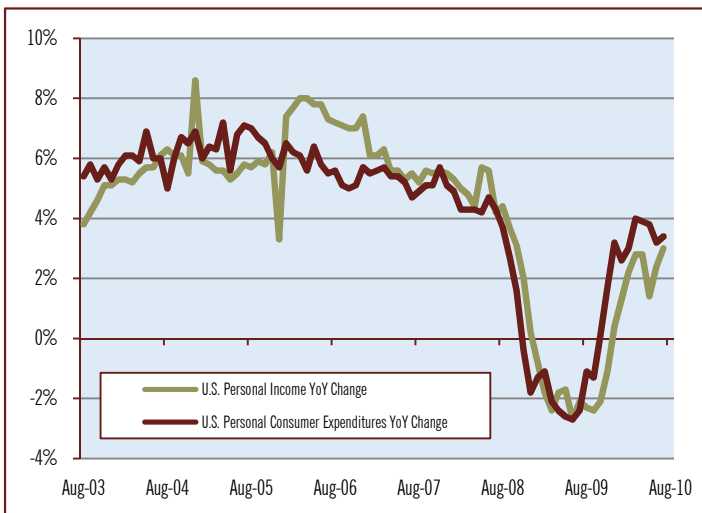
U.S. household debt (including mortgages and consumer credit debt) and its percentage of disposable personal income have increased dramatically since the early 1990's, fueled in part by declining interest rates. Despite all the talk of a deleveraging cycle, thus far consumers have been decreasing debt at a slow pace. **Advantage: Neutral to Bearish**

U.S. SAVINGS & HOUSEHOLD DEBT SERVICE RATIO



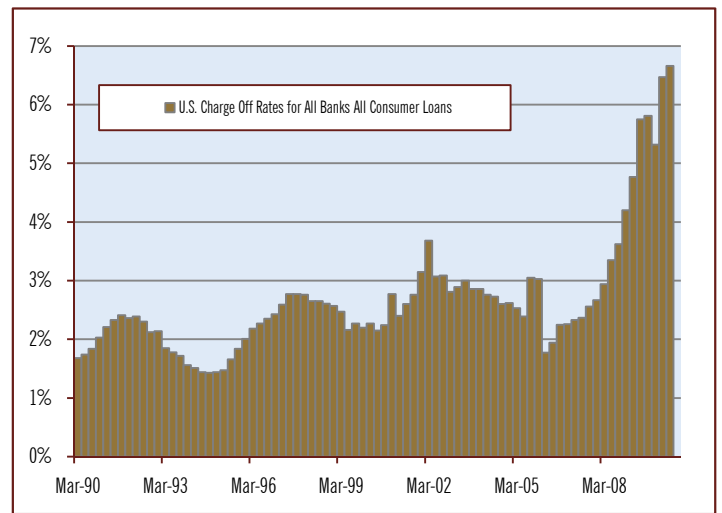
The debt service ratio measures how much of their earnings households spend on debt payments. Despite the remarkable increase in total debt over the past few decades, the rise in service ratios has been more modest due to the decline in interest rates. If rates spike, however, so too could debt payments. **Advantage: Neutral**

U.S. CONSUMER INCOME AND SPENDING



Consumer spending and incomes rose in July, but not enough to rejuvenate the slowing economy. Without signs of job growth, the gains in expenditures are probably not sustainable. **Advantage: Neutral to Bearish**

U.S. CONSUMER LOAN CHARGE-OFF RATES



Even though interest rates remain low, U.S. 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**

Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute, Federal Reserve, Bureau of Economic Analysis

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