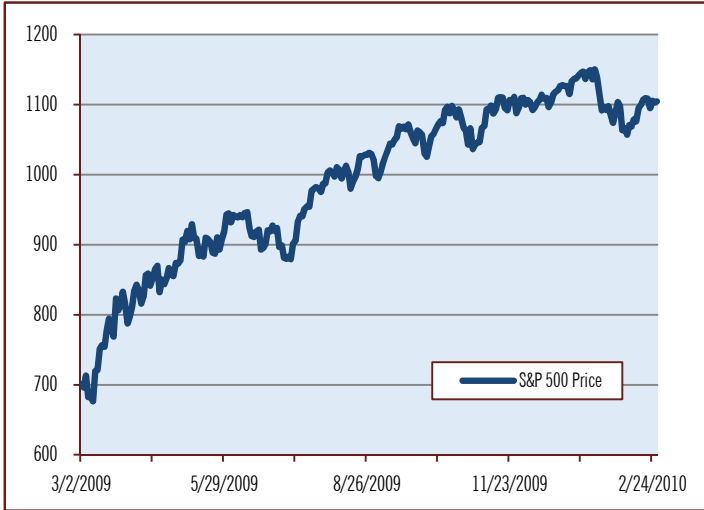


S&P 500 PRICE



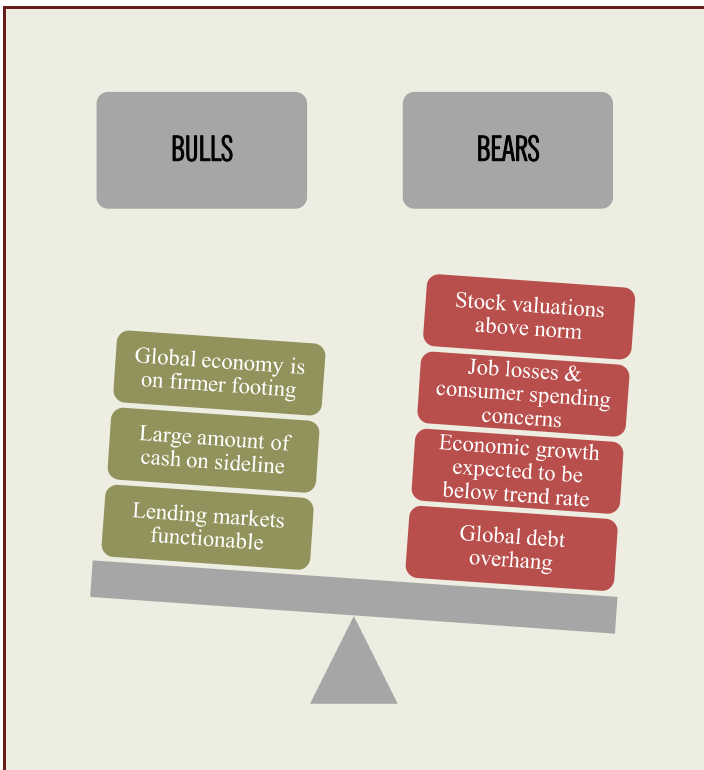
Stocks posted gains in February, though the S&P 500 index is still underwater year-to-date as sovereign credit default worries in several European countries have come front and center. On a price basis, the S&P 500 is up 63% from its March 2009 lows, but still off 29% from its October 2007 all-time high.

NOTES/COMMENTARY

Given how far the recovery has progressed, we feel there is now much less catastrophic downside risk to equities and the global economy than there was a year ago. That being said, there are still plenty of things that could throw a wrench into the mix, such as the government fiscal worries in Europe or the weak labor market in the U.S. Longer term, real estate debt remains a concern and the debate over whether either deflation or inflation could cause problems is far from over.

With regards to our positioning, we are looking to unwind last year's overweight credit position (which served us quite well) in a thoughtful and deliberate manner. As we consider return prospects for many segments of the market to be somewhat compressed, we are in no rush to chase returns. Many of our re-positioning shifts will likely continue to have a focus on increasing diversification (such as our recent addition of international bonds) or exposure to alpha-generating strategies (i.e. long/short) relative to market beta strategies.

SUMMARY OF CURRENT EQUITY MARKET LEANINGS

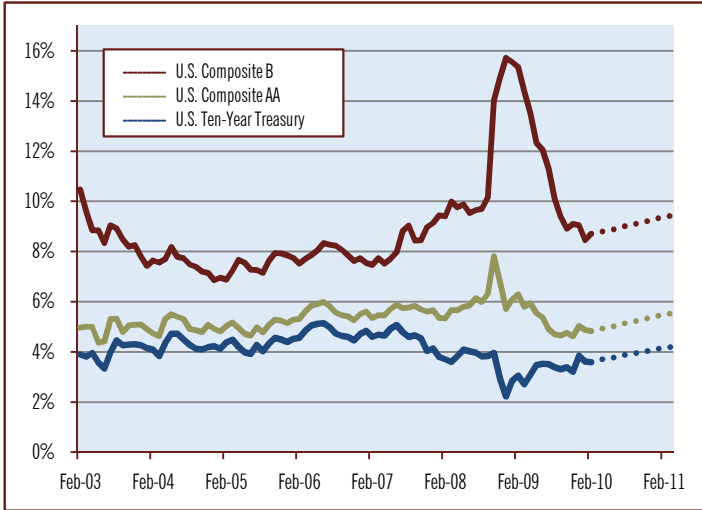


CONVERGENT TACTICAL POSITIONING

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

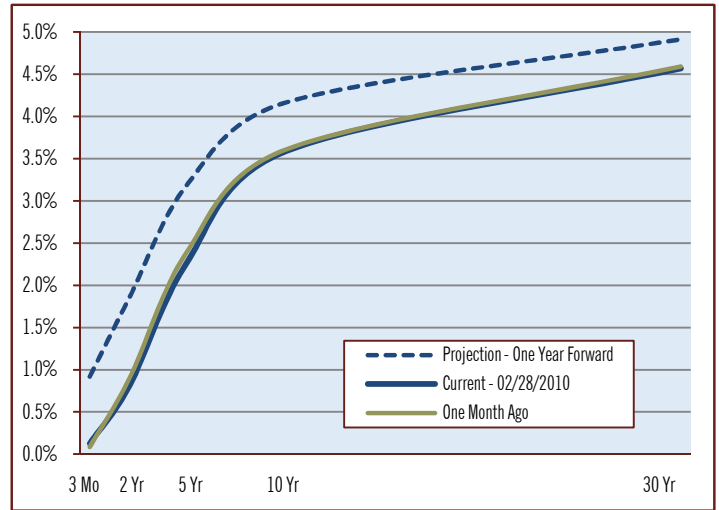
At the present time we are keeping in place shifts to overweight certain segments of the opportunistic/diversified credit market, core fixed income/cash and real assets (gold in particular). Equities, which may still be a bit extended in terms of valuations, remain underweight in our models for the time being.

CREDIT YIELD SPREADS



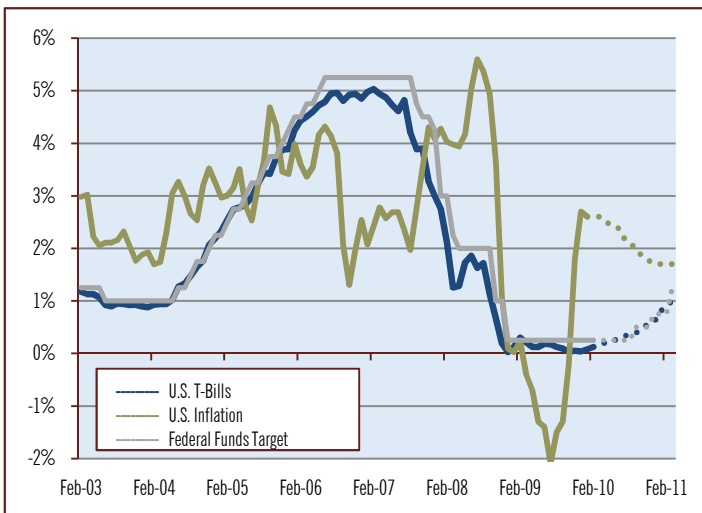
High yield corporate credit yields and spreads are near average historical levels. As such, returns in the high yield space going forward are expected to be much more moderate than the record 2009 gains. **Advantage: Neutral**

U.S. TREASURY YIELD CURVE



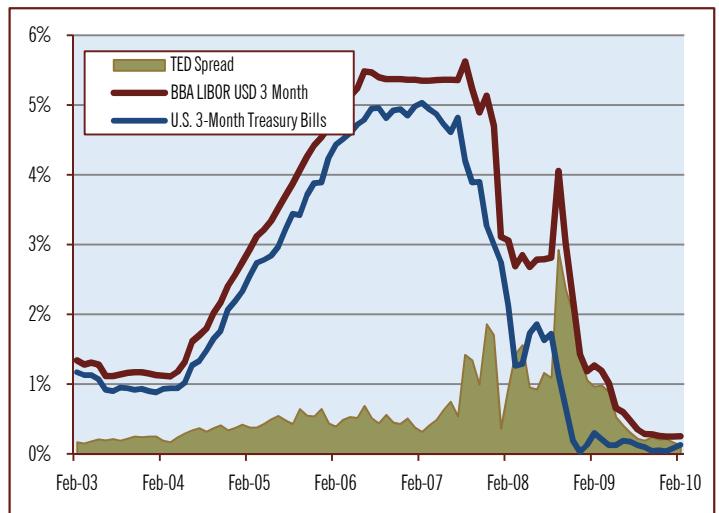
With the Fed committed to keeping interest rates "exceptionally low" for some time to help sustain recent growth, the Treasury yield curve is expected to remain mostly rangebound despite supply issues and the ending of quantitative easing programs. **Advantage: Neutral**

T-BILLS, FEDERAL FUNDS AND INFLATION



The Fed is expected to remain on hold at least through the first half of this year for fear of stalling the economic recovery and as inflation expectations are constrained. Disinflation is expected to continue in the short-term; longer-term, some fear inflation is inevitable. **Advantage: Neutral**

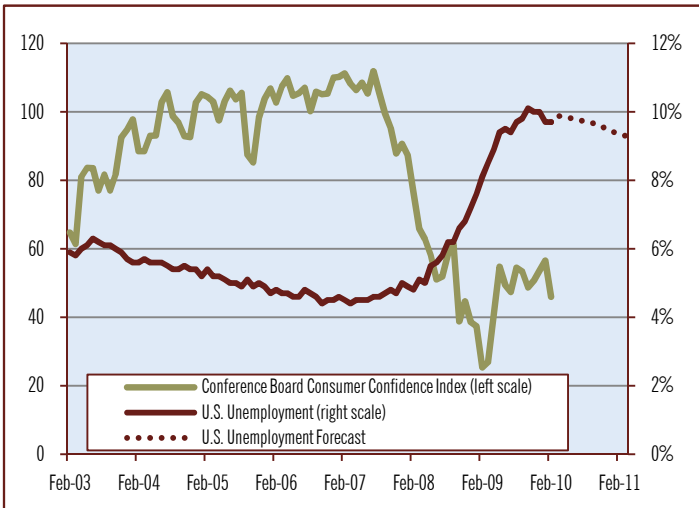
LIBOR/T-BILL RATES AND TED SPREAD



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). Lower levels illustrates that the functionality of credit markets has improved markedly. **Advantage: Bulls**

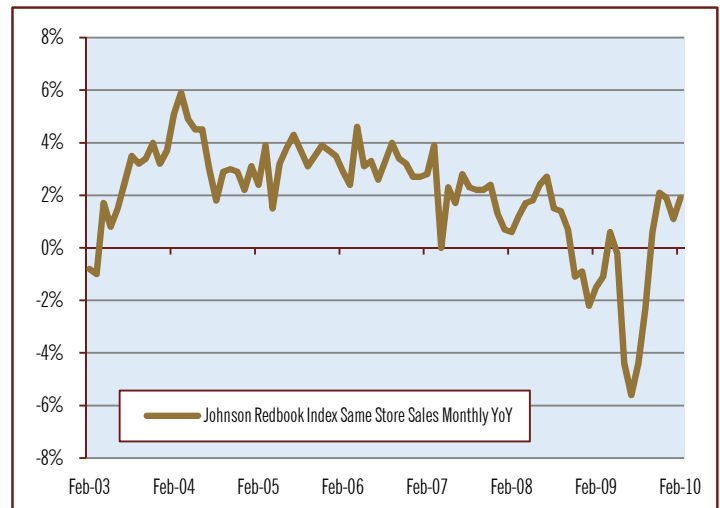
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

CONSUMER CONFIDENCE & UNEMPLOYMENT



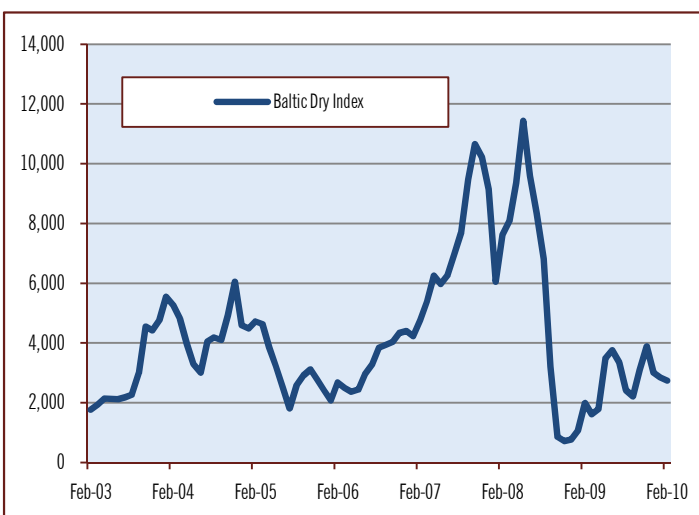
The U.S. labor market remains weak. Worries about job losses have kept consumer confidence down and well below levels that signify a solid economy. As consumer spending accounts for about 2/3 of economic activity, fears are that restrained spending will hamper the recovery. **Advantage: Bears**

RETAIL SALES



Retail sales figures, which track the dollar value of merchandise sold to consumers, could be an indicator of economic recovery and ultimately inflationary pressures. Recent data has been mixed. **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 well off the lows seen a year ago as the status of the global economy has improved. **Advantage: Neutral**

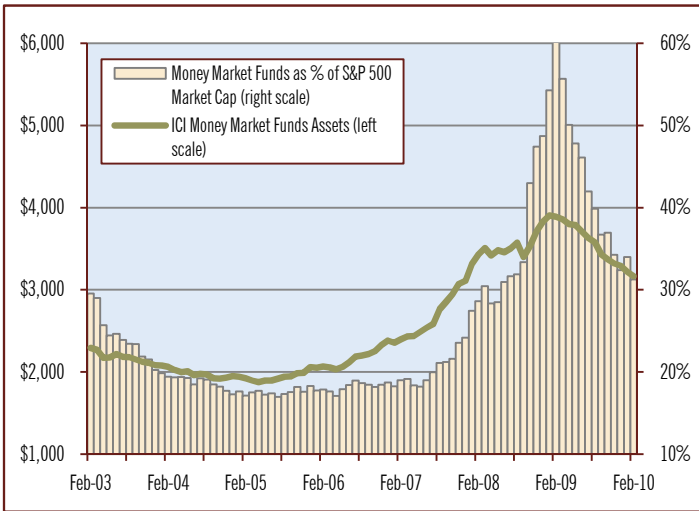
ISM MANUFACTURING INDEX



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 sub-50% reading indicates contraction. **Advantage: Bulls**

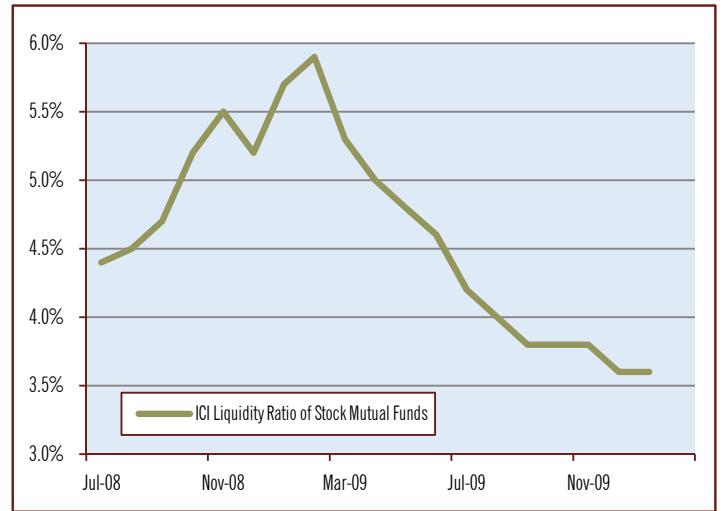
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

MONEY MARKET FUNDS ASSETS (\$ BILLIONS)



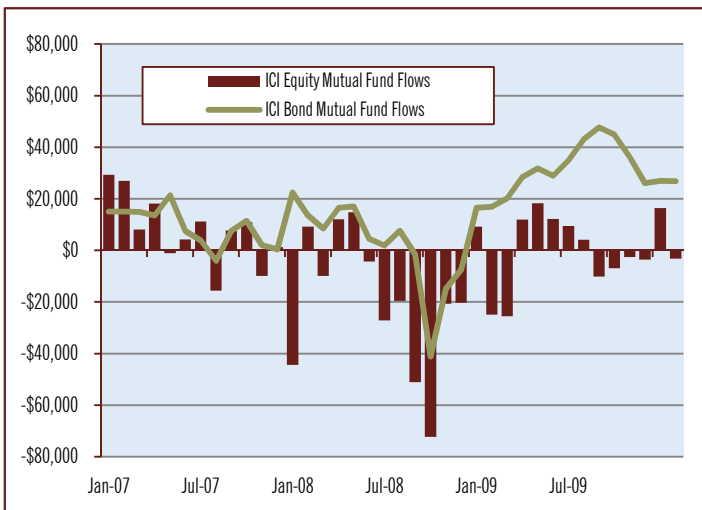
Some of the cash balance built up over the past few years has been put to work, but there still remains a large amount on the sidelines. Unless there has been a secular shift towards increased savings and higher bond allocations there remains plenty of powder available for stocks. **Advantage: Bulls**

MUTUAL FUND LIQUIDITY RATIO



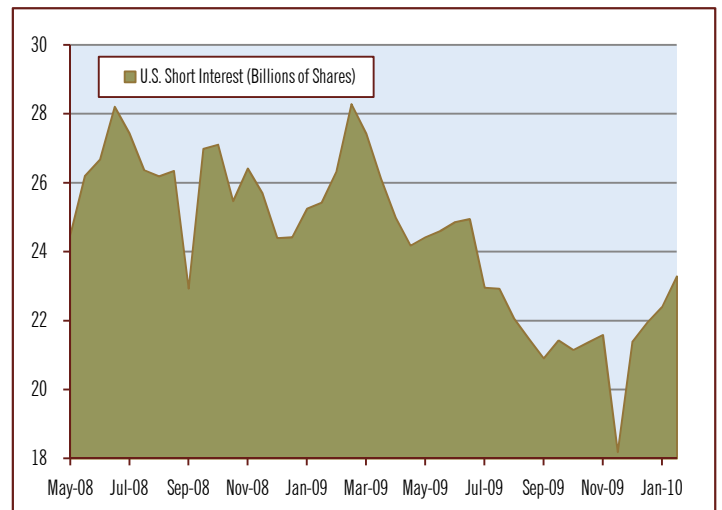
The liquidity ratio compares the amount of cash relative to total assets held by stock mutual funds. As stocks tanked in 2009, mutual fund managers were bearish and sitting on a large amount of cash. Since then, managers have put most of that to work and are now holding unusually low levels of dry powder.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

MUTUAL FUND CASH FLOWS (\$ MILLIONS)



Dollars continue to head into bond funds while equity mutual funds see little inflows. Is this evidence of a secular shift in investor behavior? Perhaps. Whether (and when) retail investors jump back into equities remains to be seen. **Advantage: Neutral**

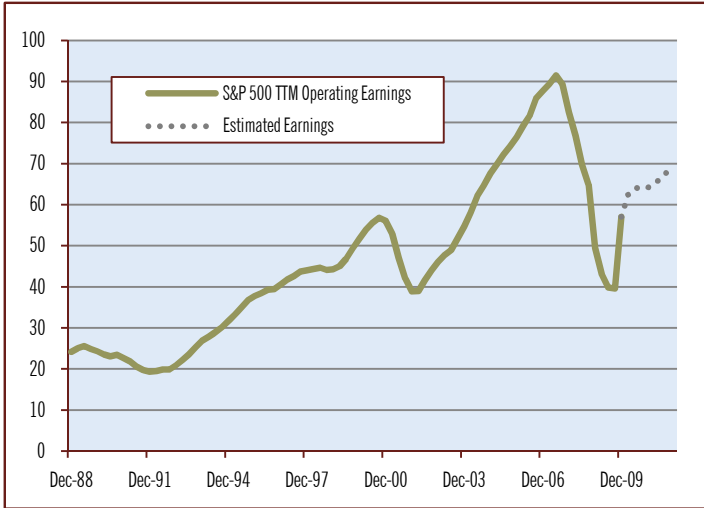
U.S. SHORT INTEREST



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. Short covering has been heavy since early 2009, and perhaps a contributor to stock gains. **Advantage: Neutral**

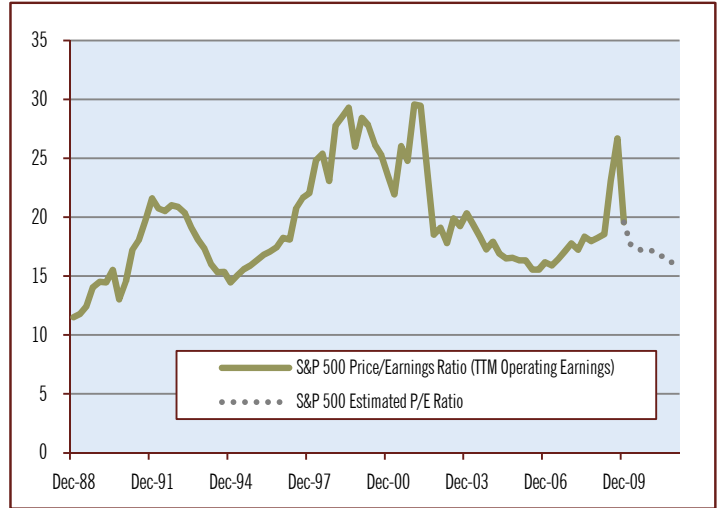
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

CORPORATE EARNINGS



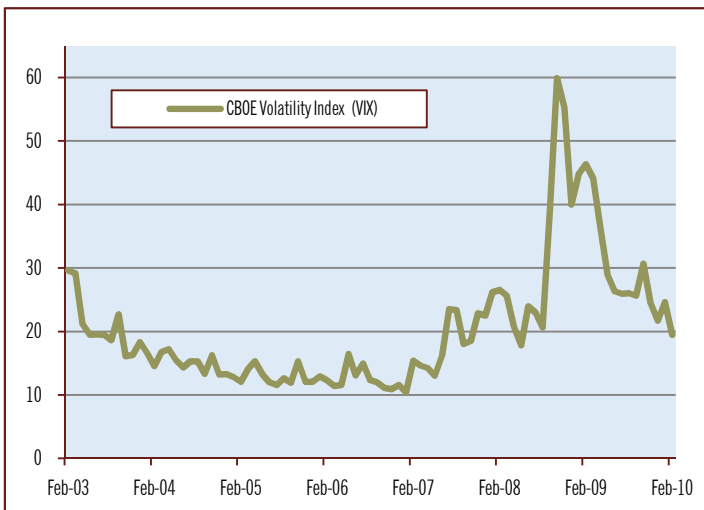
The mood towards corporate earnings continues to improve, and estimates for the remainder of the year are inching higher. Top-line growth is still slow, however, and future expansion in sales depends on jobs and consumer spending. **Advantage: Neutral**

STOCK MARKET VALUATIONS



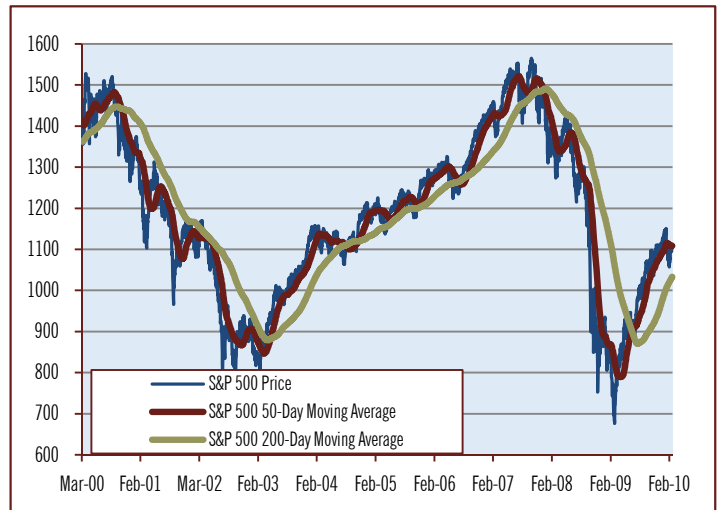
Valuations remain a bit expensive on a historical basis by most measures, but as long as revenue growth continues to show improvement price-earnings ratios are not considered to be at unreasonable levels. **Advantage: Neutral**

STOCK MARKET VOLATILITY



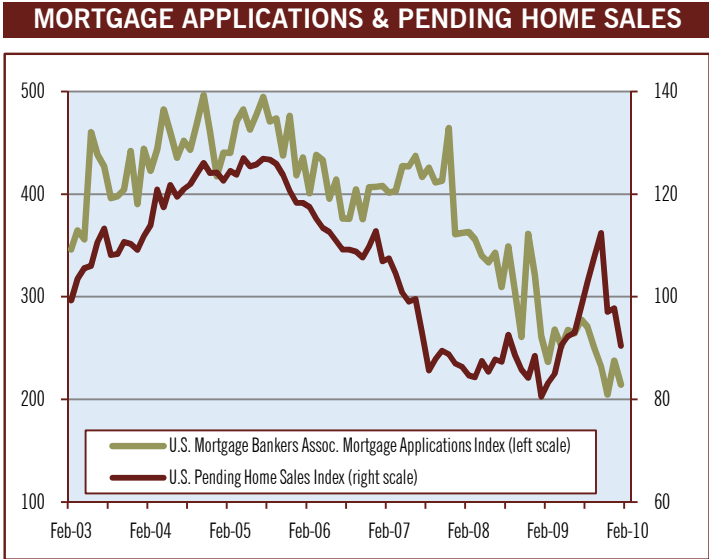
Volatility (as measured by the Chicago Board Options Exchange Volatility Index) continues to trend lower. Bears argue that a low VIX could be a sign of complacency, while bulls point out that it allows investors to remain more confident and fully invested as the cost of hedging has become cheaper. **Advantage: Neutral**

STOCK MARKET TECHNICALS

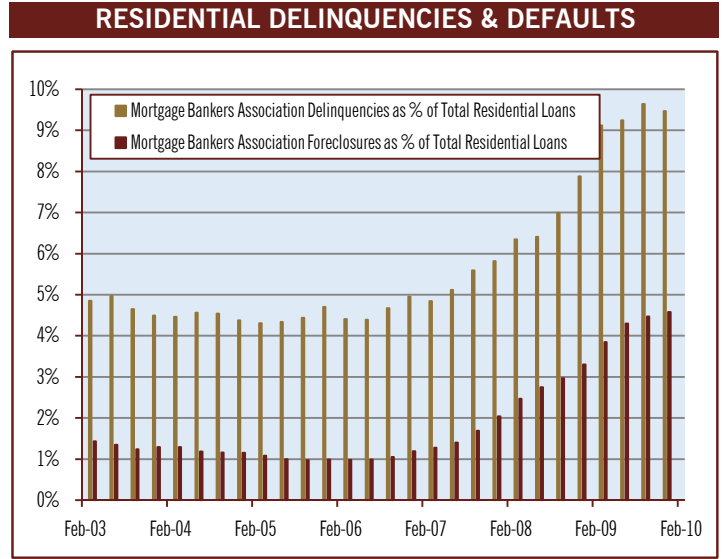


Several technical indicators continue to be supportive of the equity market. The 50-day moving average of the S&P 500 is higher than the 200-day moving average, interpreted by many as a bullish signal. **Advantage: Bulls**

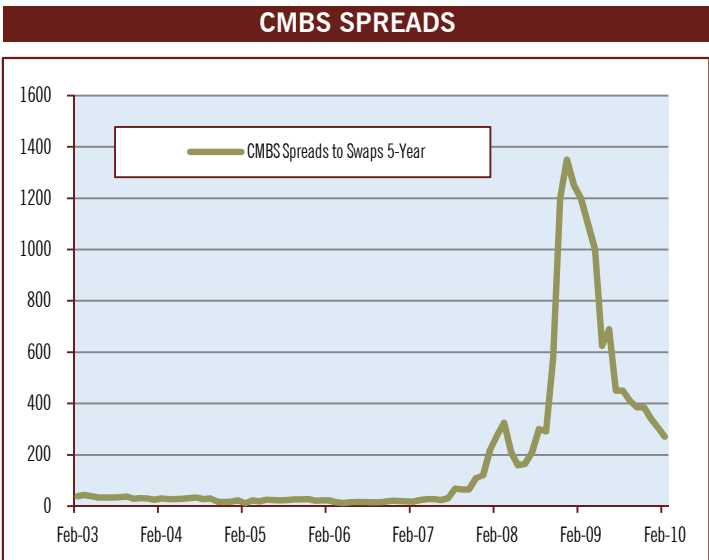
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute



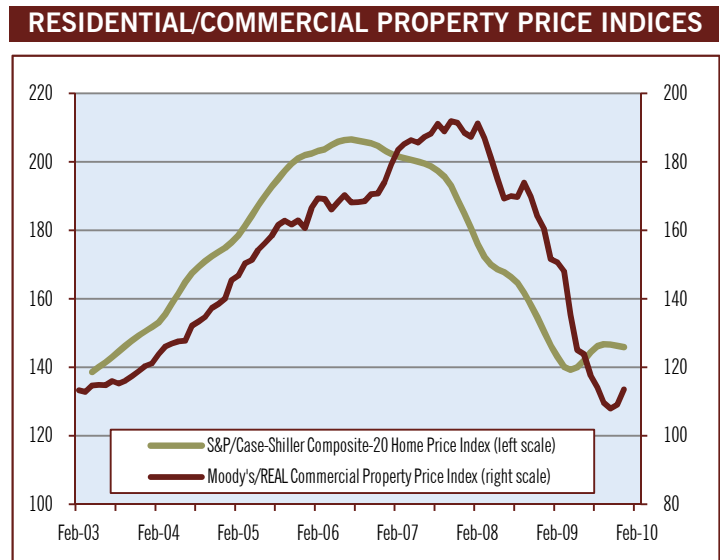
Many feel that the recent drop in pending home sales figures were driven by the anticipated expiration of tax incentives and poor winter weather. While any improvements in the housing markets are welcome, high unemployment and a large amount of supply is likely to dampen any gains. **Advantage: Bears**



Mortgage delinquencies and foreclosures continue to surge. With high unemployment, the wave of foreclosures is not expected to crest until sometime later in 2010, and will be a headwind to the housing market and economy for some time. **Advantage: Bears**



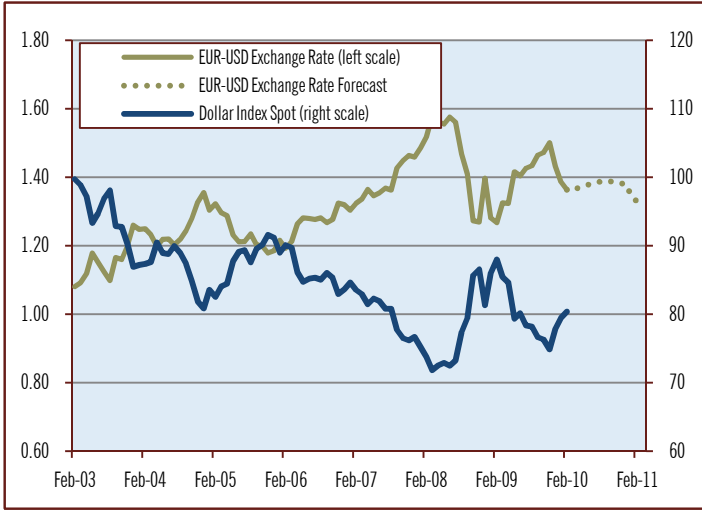
CMBS spreads are still somewhat elevated in a historical context as concerns remain about commercial real estate loans. Loss expectations are high in part due to the huge amount of debt that needs to be rolled over in the next few years at the same time that unemployment is high, vacancies are rising and rental rates are falling. **Advantage: Bears**



Both residential and commercial real estate prices have experienced a dramatic pullback from levels seen a few years ago and are now hovering at or below values last seen back in 2003. Recovery in commercial price index levels may be closely tied to future job growth and will likely be slow. **Advantage: Neutral**

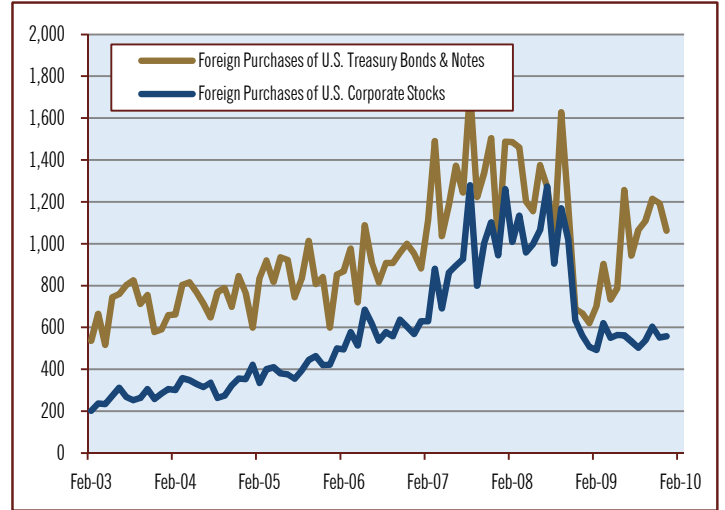
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

U.S. DOLLAR



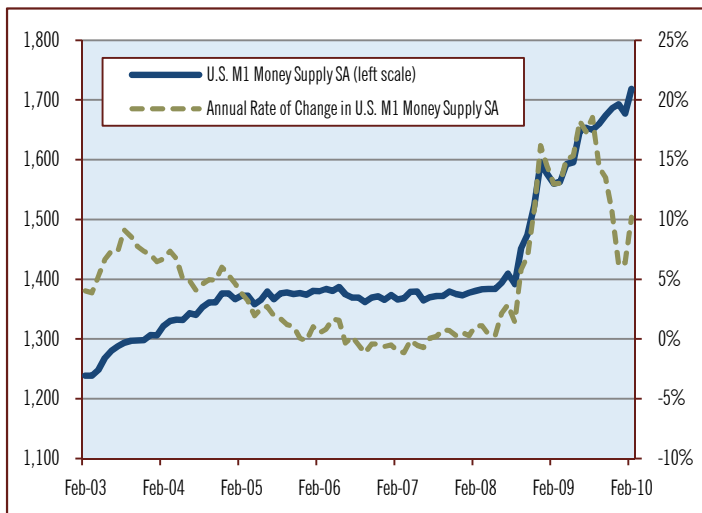
The U.S. dollar continued to rally as the Euro has faltered, reflecting ongoing concerns about credit deterioration in countries such as Greece, Spain and Portugal. Most still consider the dollar to be in a secular decline, however, as it faces longer-term issues such as the size of the U.S. budget deficit. **Advantage: Neutral**

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



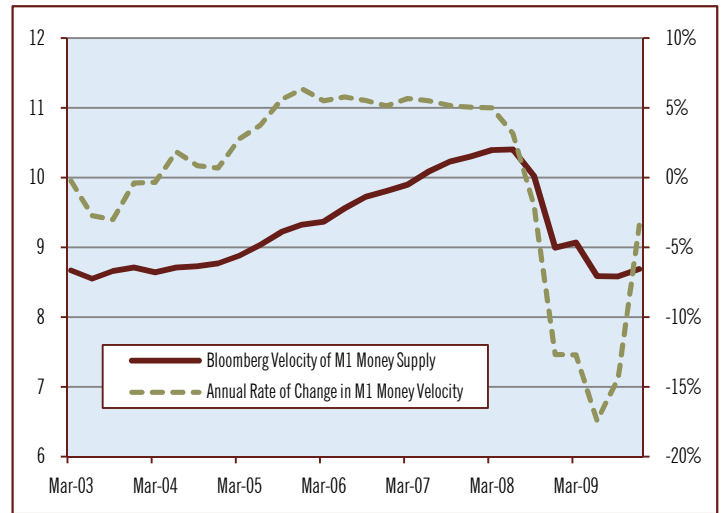
Foreign purchases of U.S. stocks remains constrained, though Treasury securities are still in demand from the global constituency. In the long-run, a concern is that U.S. fiscal and dollar worries may keep some foreign investors away. **Advantage: Neutral**

U.S. M1 MONEY SUPPLY



M1, the most narrowly defined measure of how much money is 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 inflation and dollar weakness. **Advantage: Neutral**

VELOCITY OF M1 MONEY SUPPLY



Velocity of money measures the rate at which money changes hands in order to purchase goods and services. 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**

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

ASSET CLASS COMMENTARY

ASSET CLASS	TACTICAL POSITIONING	THEME	ASSET CLASS NOTES/OBSERVATIONS
EQUITY	underweight		- a conservative allocation to equities in the current environment is warranted
US Large Cap	underweight	Low reward/high risk environment Positioning: underweight equities, particularly long-only, while overweighting long/short and focusing on fundamentals	- given economic and forward earnings uncertainty, along with rich valuations, there is a level of downside risk associated with stocks and an underweight allocation (but not elimination) is recommended - for most taxable clients a passive (low tax, low fee) approach is still recommended as the core - active mgmt focusing on fundamentals (high quality/high dividend) could provide some downside protection
US Small/Mid Cap	slight underweight		- our already low levels of small cap exposure make further reductions not meaningful - we generally have an overweight tilt to small (and value) relative to large - all cap managers, with their increased allocation flexibility, may be able to better position portfolios
Developed Intl	underweight		- a recommended reduction but generally less so than domestic - resulting overweight to international relative to U.S. provides some protection against secular dollar decline - valuations in many international regions are more attractive than that of the U.S.
Emerging Market	slight underweight		- strong long-term economic growth prospects, potentially much greater so than in the developed regions - current valuations are difficult to decipher (i.e. China) and a high level of volatility is expected - as we deem it is appropriate to shift back into risk (growth) assets, we anticipate overweighting developing mkts
Private Equity	neutral		- good opportunity set (with better pricing than public markets), but managers have existing portfolio distractions
Directional Hedge	underweight		- though reduced, L/S allocations are overweight relative to long-only equity allocations - better anticipated protection against equity downturn but may lag in rallies (barring superior stock selection) - managers are seeing correlations among stocks decrease (and dispersions in returns increase)... superior security selection matters
REAL ASSETS	overweight		- increased allocation as currency/inflation hedge and longer-term play on natural resource shortage
Real Estate	neutral	Inflation; U.S. dollar weakness; shortage of natural resources Positioning: overweight (gold in particular)	- commercial real estate refinancing issues remain, but values abound for those private managers with capital - REITs are not necessarily cheap, but becoming divided between thrivers and merely-survivors
Commodities	overweight		- recommend gold exposure for safe haven, weak dollar and inflation posturing - central bank buying of gold, combined with stagnant production = bullish demand/supply attributes - diversified commodity exposure a non-equity manner of playing the emerging market economic growth story
ARBITRAGE/CREDIT	overweight		- low hanging fruit (beta) is played out, but pockets of opportunities remain
Multi-Strategy Hedge	neutral	Low reward/high risk environment; inflation; U.S. dollar weakness; rise in interest rates Positioning: overweight	- superior security selection (both long and particularly short) could be a significant value-add - corporate defaults expected to be an issue for several years, providing potential opportunities - redemption, liquidity and restructuring issues are much less of a distraction
Opportunistic Credit	overweight		- as spreads have narrowed, high yield corporate debt/bank debt beta opportunity has waned - emerging market debt could provide a currency/inflation hedge - investment grade global bond exposure could provide credit diversification
FIXED INCOME	overweight		- increased allocation while waiting to deploy back into overpriced growth assets
Core Fixed Income	slight overweight	Low reward/high risk environment; deflation Positioning: Overweight for risk management purposes	- in the near-term, Treasury/munis may be beneficial as deflation plays out - despite supply issues, demand remains strong from both retail and foreign investors - given low yields, long-term prospects are muted... inflation and rising rates may end the bull market in credit
Cash Equivalents	overweight		- low bond yields relative to cash makes holding dry powder in cash or short-term instruments sensible

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