

S&P 500 PRICE - PAST THREE YEARS



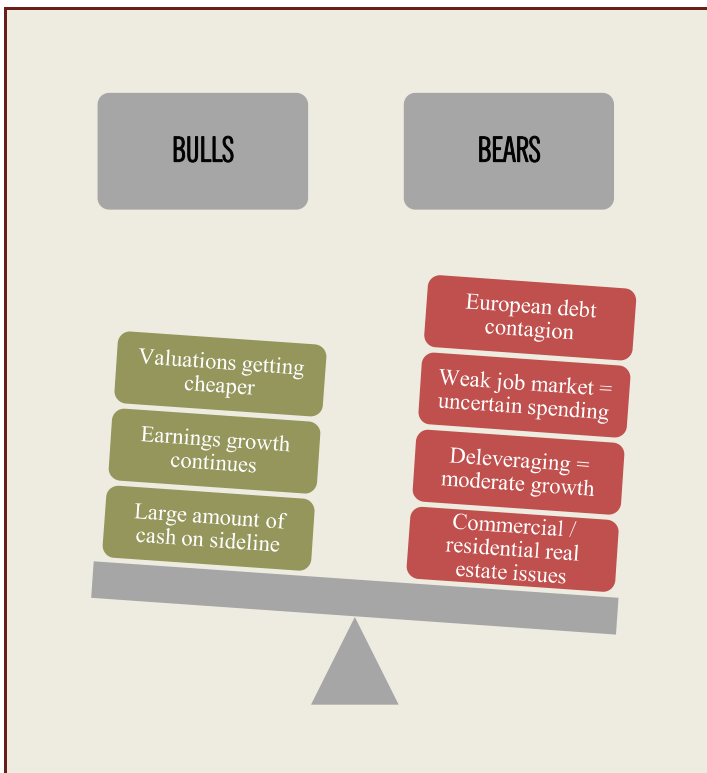
Stocks posted their second month of declines as the S&P 500 fell just over 5% in June. The index is down about 15% from its April peak, firmly entrenched in correction territory but not yet at bear market levels. The market is still more than 50% above the March 2009 lows, but 34% below its all-time high.

NOTES/COMMENTARY

The stock market has fallen to its lowest levels in about nine months, taking a good chunk of recent gains off the table. Investors have been unsettled by recent jobs data and what it means for sustaining or expanding a still shaky recovery. In addition to recent weak economic data, those who subscribe to technical views have seen a rolling over in some indicators. Stock market valuations, however, are starting to reach interesting levels by a variety of metrics as we head into the Q2 earnings reporting season. The S&P 500 currently trades at about 15x trailing twelve month operating earnings, the lowest level by this measure in about 16 years. Of course, price-earnings ratios frequently trough at much lower levels during bear markets as investors price in worst-case scenarios.

We remain cautious and continue to work our way back towards long-term equity target allocations at a measured pace and as opportunities allow. We are increasing our equity exposure at the expense of REITs and gold, but continue to remain underweight our strategic equity targets and overweight gold and opportunistic credit.

SUMMARY OF CURRENT EQUITY MARKET LEANINGS

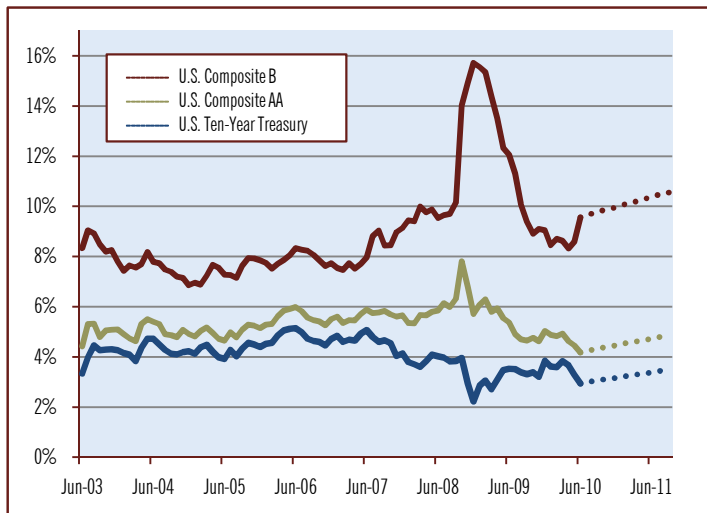


CONVERGENT TACTICAL POSITIONING

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	

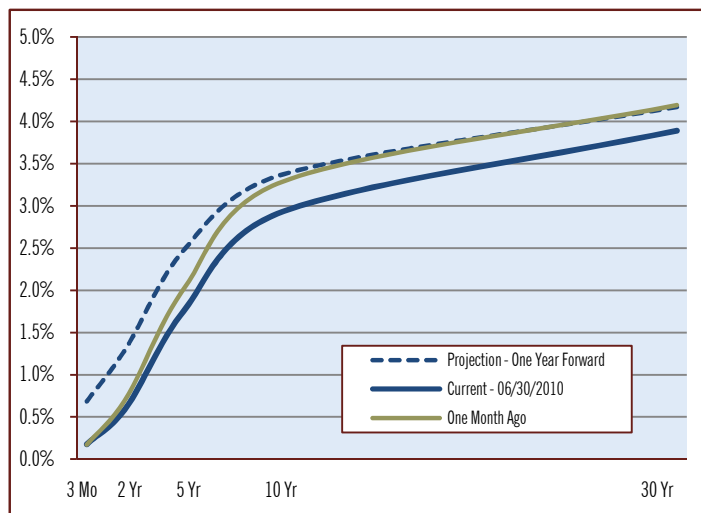
At the expense of a full equity allocation, we are maintaining overweight positions to: (i) gold - as a paper currency hedge and safe-haven asset (though we have recently reduced this allocation); and (ii) certain opportunistic credit segments (multi-sector, emerging market debt/currencies and international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

CREDIT YIELDS



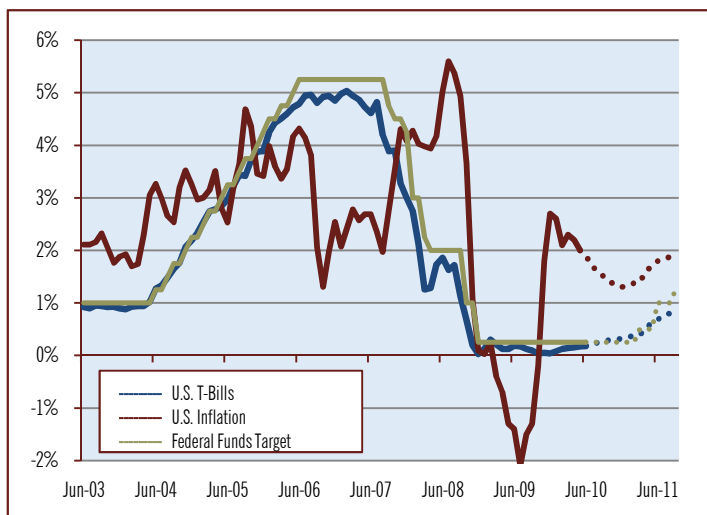
The yield of the ten-year Treasury note fell to 2.9%, the lowest level in more than a year, at the end of June as deflationary and safe-haven pressures continued to drive investors into U.S. government debt. Spreads to corporate debt, which did not fare as well, are widening. **Advantage: Neutral**

U.S. TREASURY YIELD CURVE



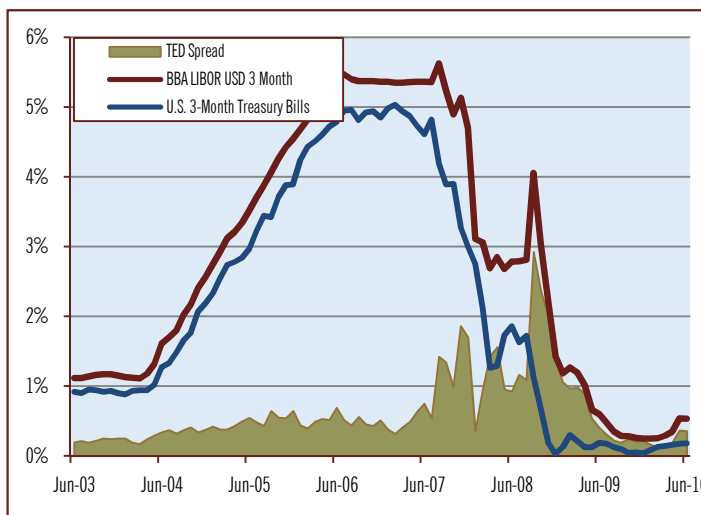
The Treasury yield curve shifted downward in June, though short term rates remain well below long term. For many, this continued steepness indicates a low likelihood of a double dip recession. Further declines in yields and flattening of the curve, however, could be a prelude to economic difficulties. **Advantage: Neutral to Bullish**

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**

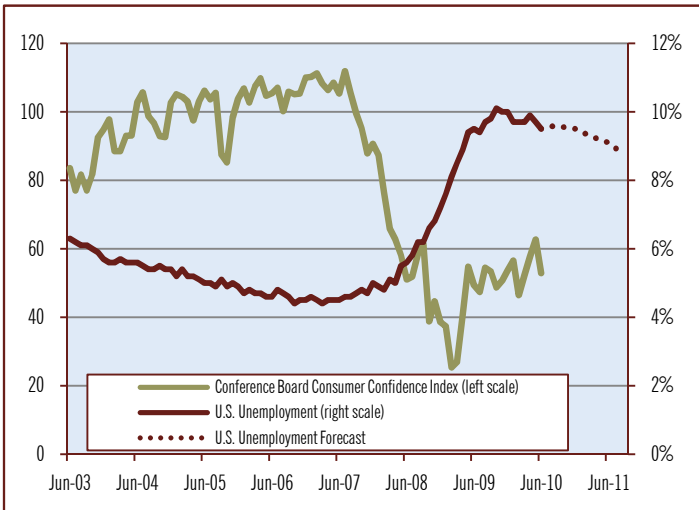
LIBOR/T-BILL RATES AND TED SPREAD



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 levels illustrate that the credit markets are operating with little anxiety. There has been a recent blip higher, but nothing worrisome yet. **Advantage: Neutral**

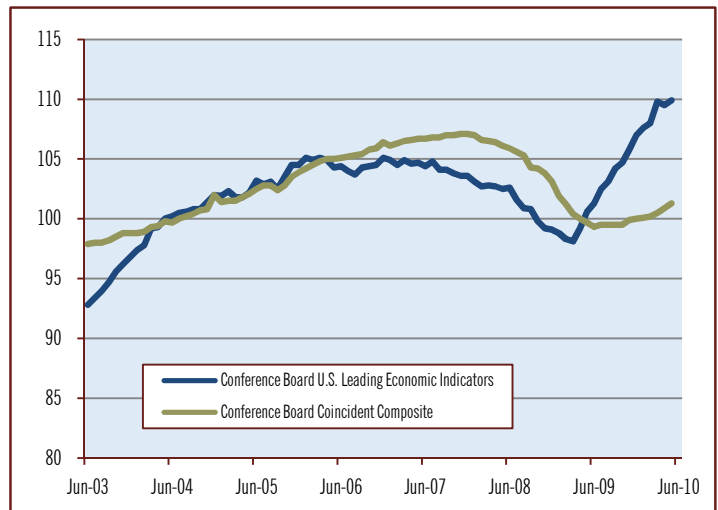
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

CONSUMER CONFIDENCE & UNEMPLOYMENT



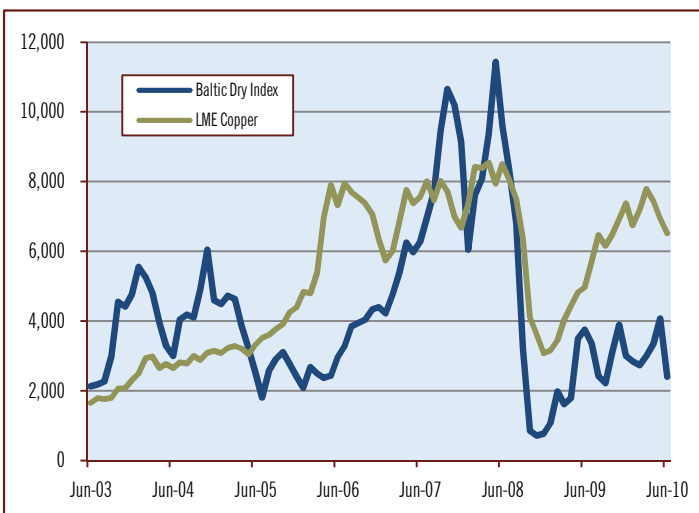
Consumer confidence relapsed in June on apprehension over stubbornly high unemployment and the sluggish economic recovery. The drop in confidence has raised concerns about consumer spending, the biggest driver of the economy, going forward. **Advantage: Bears**

INDEX OF LEADING ECONOMIC INDICATORS



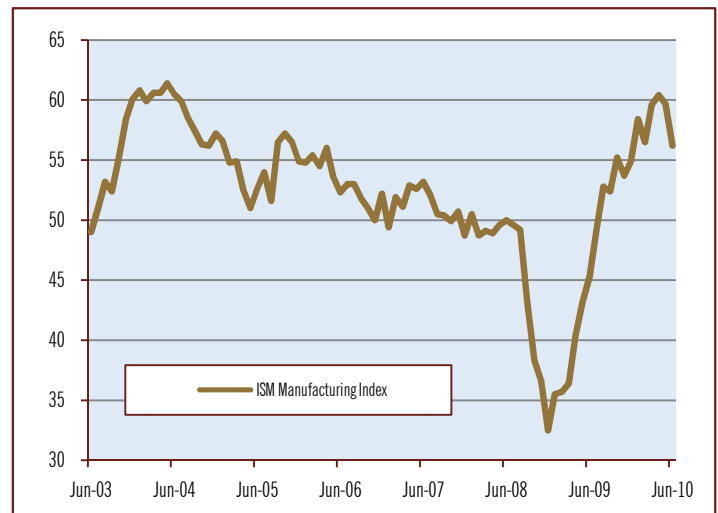
The leading economic index for the U.S. is near its highest levels, having risen steadily for a year. The index of coincident indicators has also been rising modestly. Taken together, the two composites suggest continued improving conditions. **Advantage: Bulls**

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 as the status of the global economy has improved, but has seen choppy trading for several months. **Advantage: Neutral**

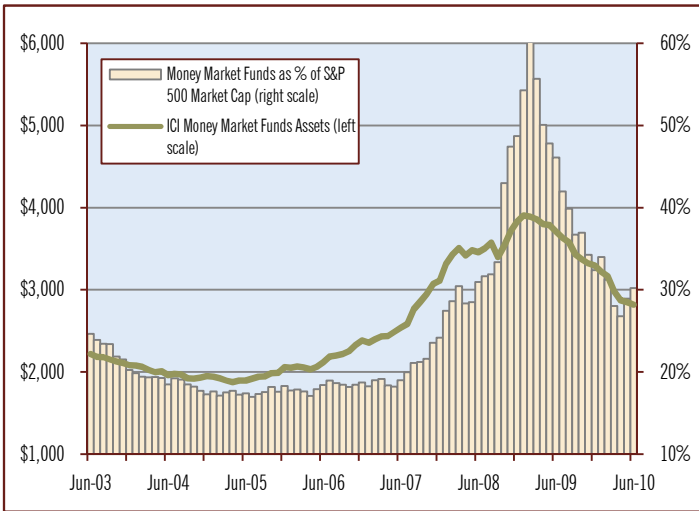
ISM MANUFACTURING INDEX



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

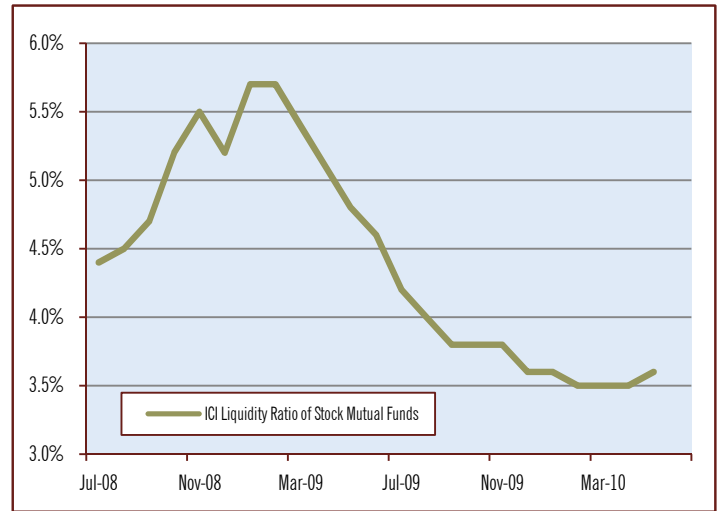
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

MONEY MARKET FUNDS ASSETS (\$ BILLIONS)



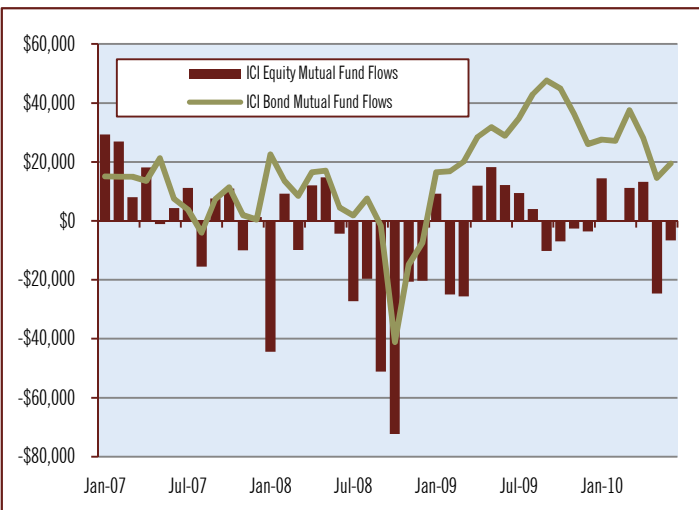
While much of the cash balance built up over the past few years has been put to work, there still remains a large amount on the sidelines. Unless there has been a secular shift towards increased cash and bond allocations there remains plenty of dry powder available for stocks. **Advantage: Bulls**

MUTUAL FUND LIQUIDITY RATIO



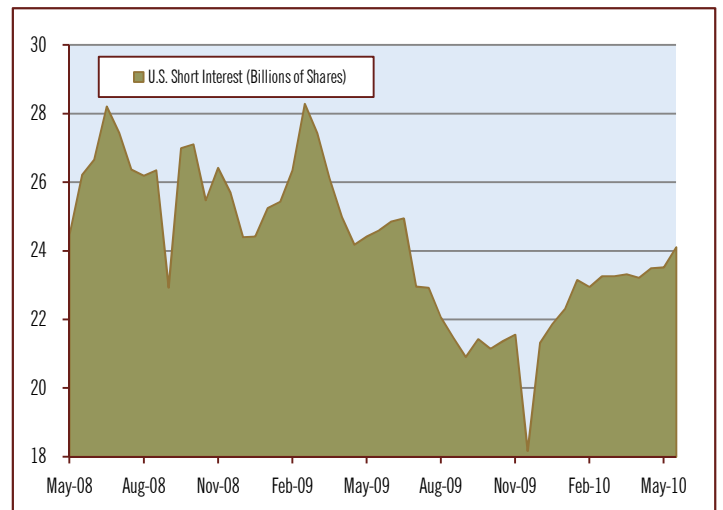
The liquidity ratio compares the amount of cash relative to total assets held by stock mutual funds. As stocks tanked in 2009, mutual fund managers were bearish and sitting on a large amount of cash. Since then, managers have put most of that to work and are now holding unusually low levels of cash.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

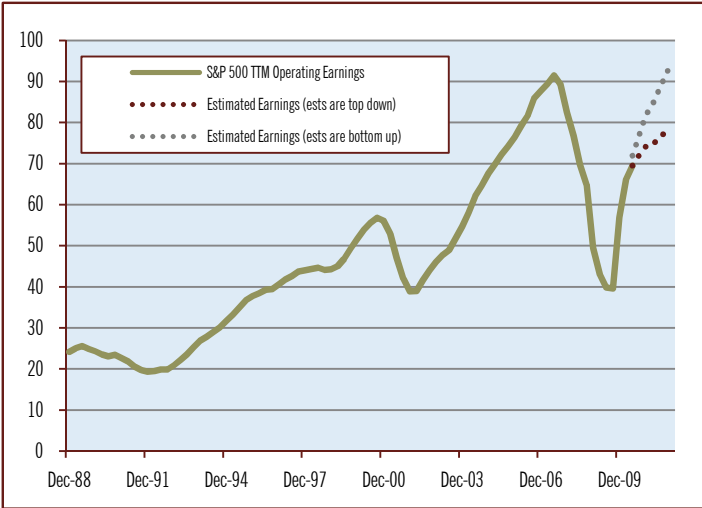
U.S. SHORT INTEREST



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**

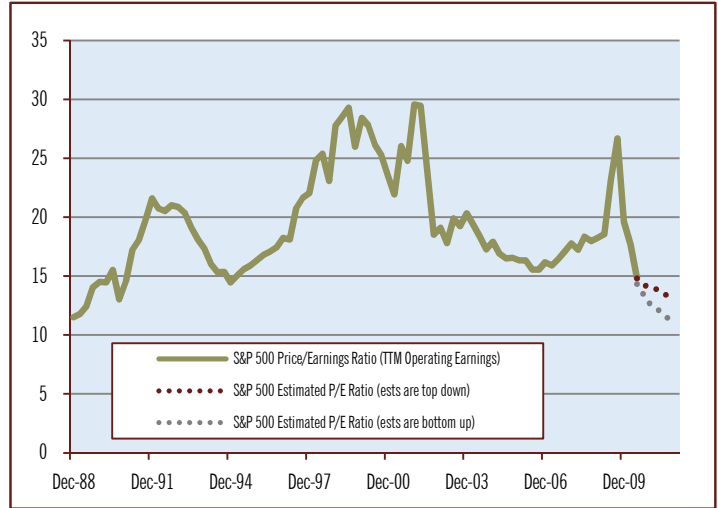
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

CORPORATE EARNINGS



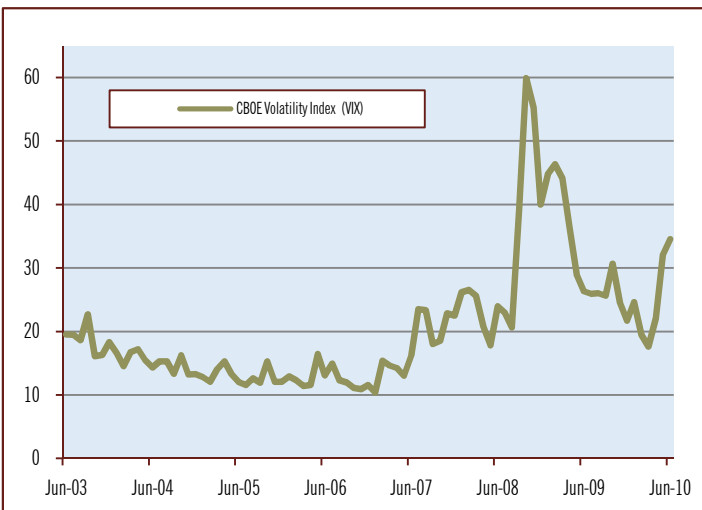
Forward earnings growth still looks strong... the bottom up estimate for Q3 2011 would surpass Q2 2007 as an all-time high. Some fear that future growth may be harder to come by, however, and that high margins supported by cost cuts and recent strong consumer spending are unsustainable. Nevertheless, projections have not been affected as of yet. **Advantage: Neutral to Bullish**

STOCK MARKET VALUATIONS



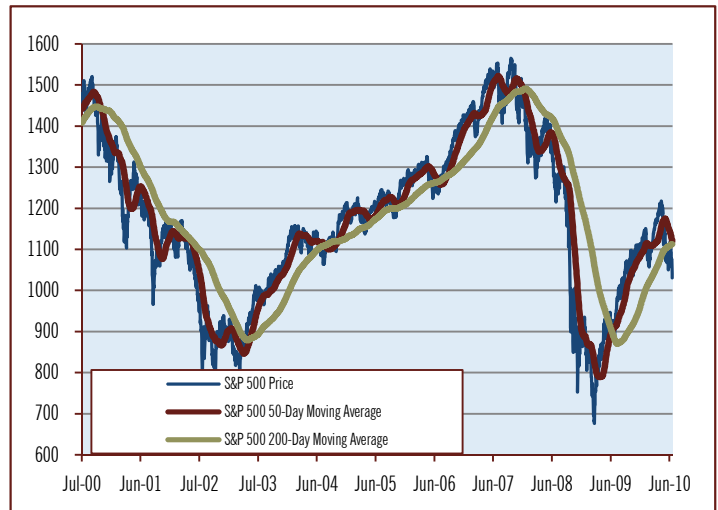
The recent stock price declines have helped trailing twelve month and forward P/E valuations start to look attractive (below historical average levels) as earnings projections remain robust. Longer-term methods of measuring valuations, however, such as the 10-year real P/E pioneered by Yale economist Robert Shiller, remain a bit elevated (near 20). **Advantage: Neutral to Bullish**

STOCK MARKET VOLATILITY



Volatility as measured by the Chicago Board Options Exchange Volatility Index, has spiked during the recent price declines. **Advantage: Neutral to Bearish**

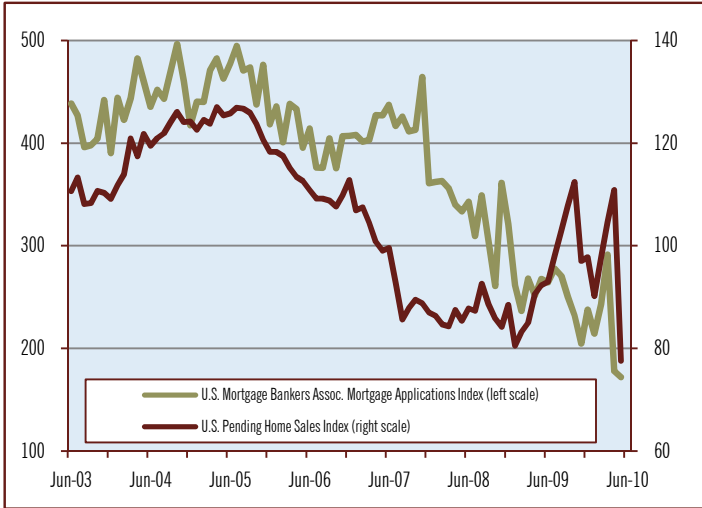
STOCK MARKET TECHNICALS



Some technical indicators, while still supportive of the equity market, are showing signs of breaking down. For the S&P 500, the 50-day moving average remains just slightly higher than the 200-day moving average. This is not the case for several international indices, however. **Advantage: Neutral to Bearish**

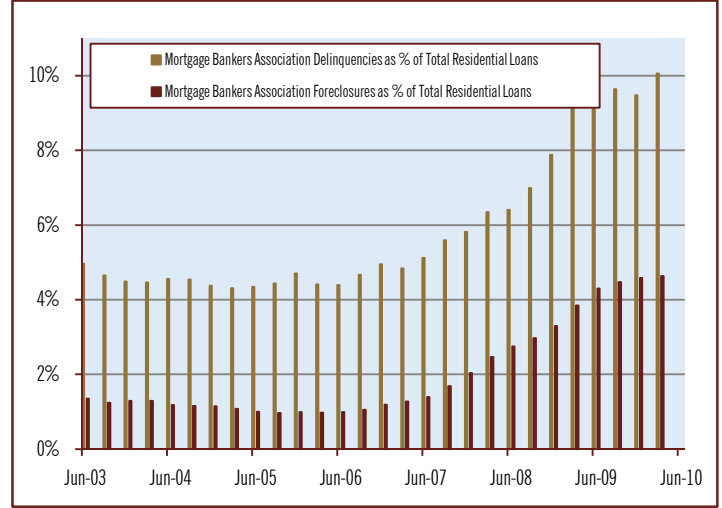
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

MORTGAGE APPLICATIONS & PENDING HOME SALES



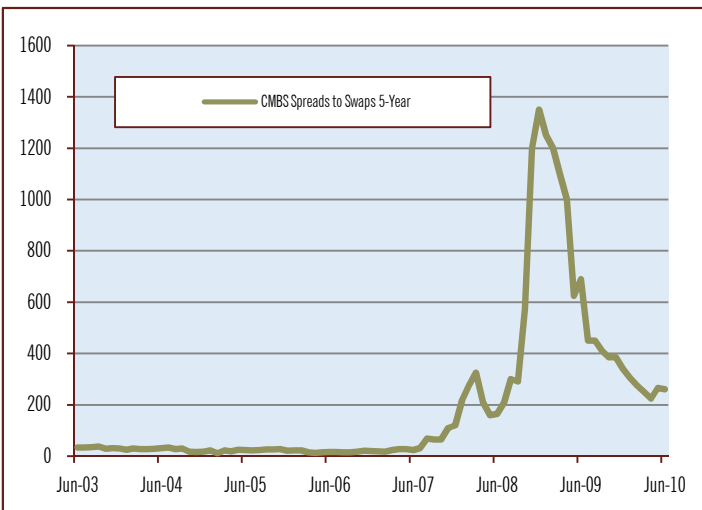
Pending home sales tumbled 30% in May as the government tax credit that has been propping up the housing market expired. Unfortunately, weak mortgage application figures (despite low rates) point to little in the way of new demand for housing. **Advantage: Bears**

RESIDENTIAL DELINQUENCIES & DEFAULTS



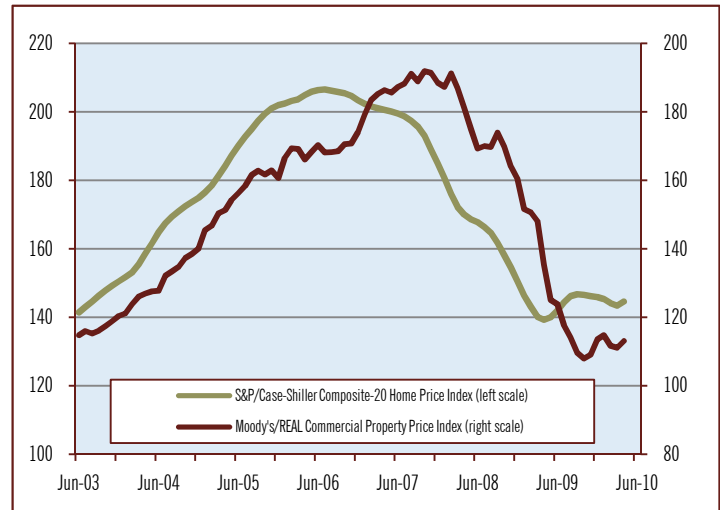
Mortgage delinquencies and foreclosures have surged to record levels. With unemployment remaining high, the wave of foreclosures is not expected to crest until sometime later in the year and will be a headwind to the housing market and economy for some time. **Advantage: Bears**

CMBS SPREADS



Problems in the commercial real estate market are starting to slowly work themselves out, as banks are systematically moving troubled loan assets through their books (or perhaps simply pushing distress into the future). The inflow of new nonperforming commercial real estate loans is also starting to drop. Still, charge-offs may not peak until 2011. **Advantage: Neutral to Bearish**

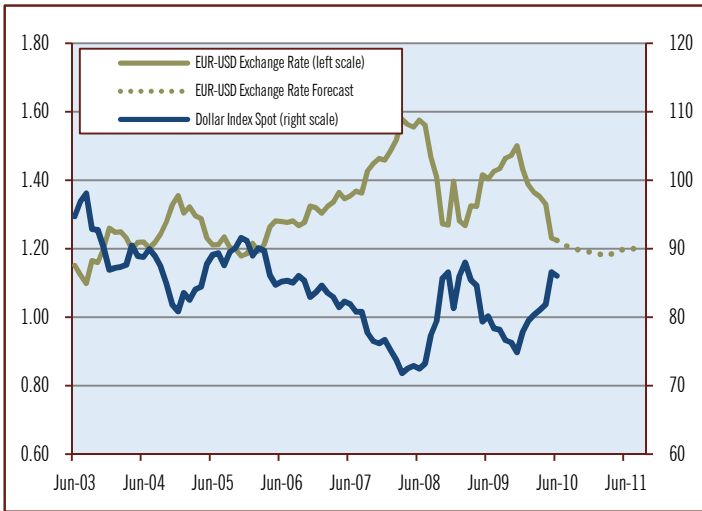
RESIDENTIAL/COMMERCIAL PROPERTY PRICE INDICES



In the commercial real estate market, vacancies continue to accumulate, with the national office vacancy rate at 17.4%, the highest level since 1993. This, in turn, has led to declining rents. Until companies get closer to pre-recession staffing levels, the office property market will remain under pressure. **Advantage: Neutral to Bearish**

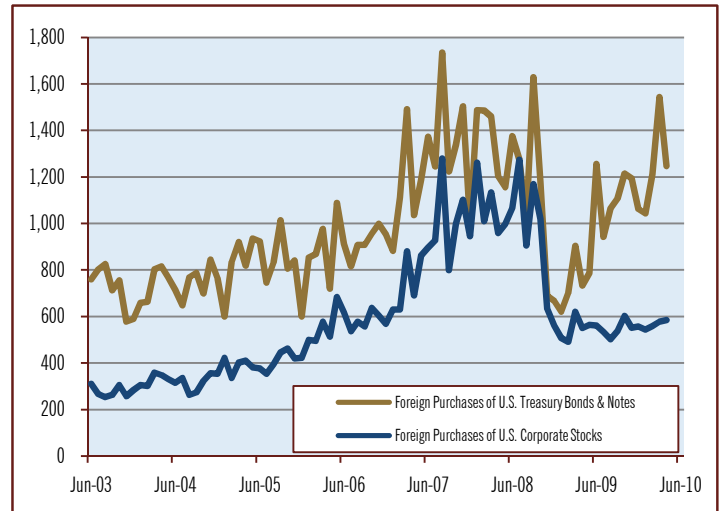
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U.S. DOLLAR



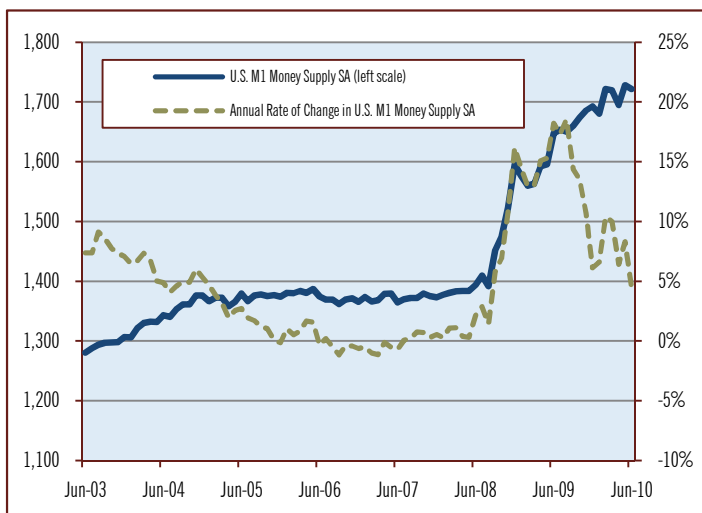
The U.S. dollar has surged while the euro has hit multi-year lows on European debt concerns. Most still consider the dollar to face longer-term issues such as the size of the U.S. budget deficit, however, and expect that it may struggle against certain emerging market currencies. **Advantage: Neutral**

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



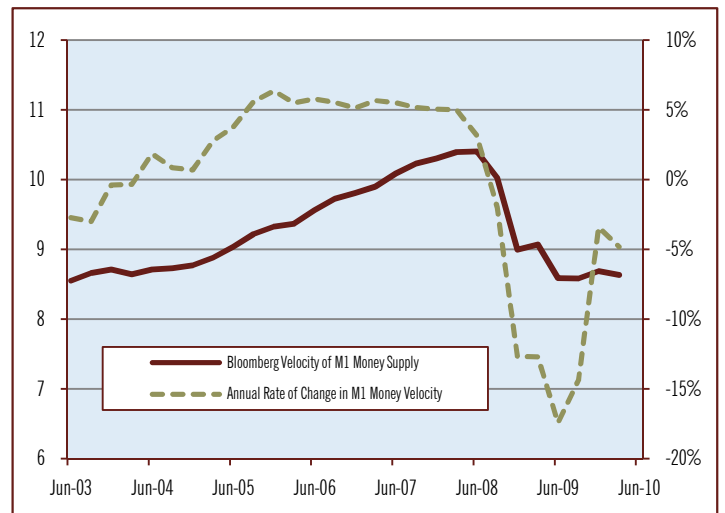
Treasury securities are still in demand from global investors, particularly as the European debt crisis plays out. Foreign purchases of U.S. stocks, meanwhile, remains constrained (as does domestic retail demand for U.S. equity funds). In the long-run, a concern is that U.S. fiscal worries may keep some 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 eventual inflation and dollar weakness. **Advantage: Neutral**

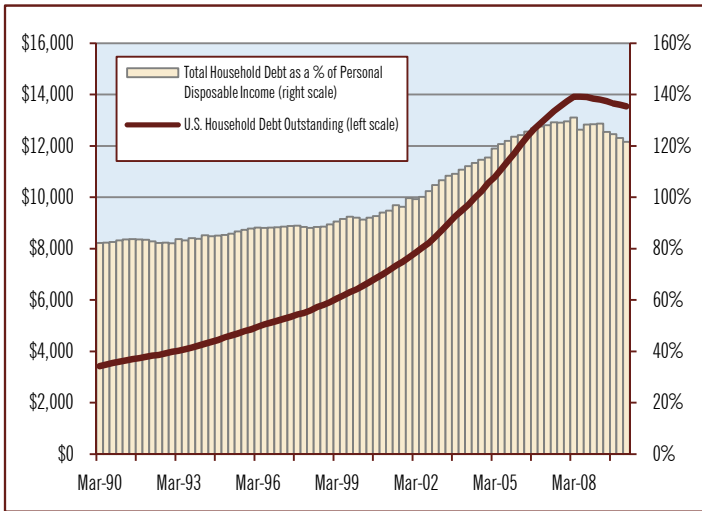
VELOCITY OF M1 MONEY SUPPLY



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 to Bearish**

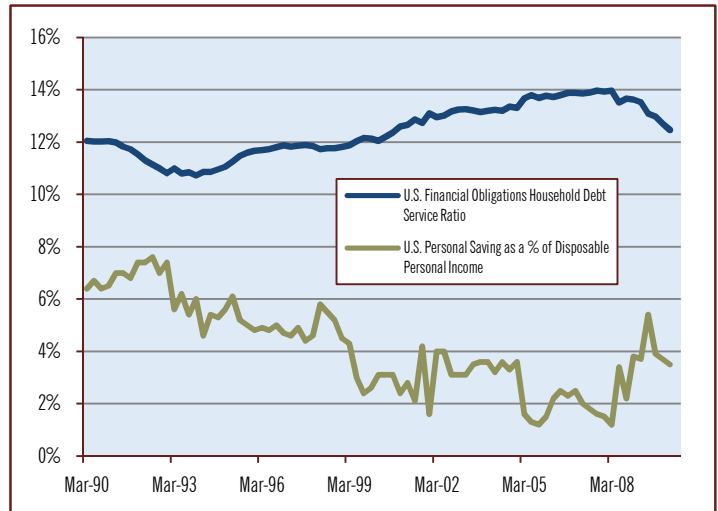
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

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



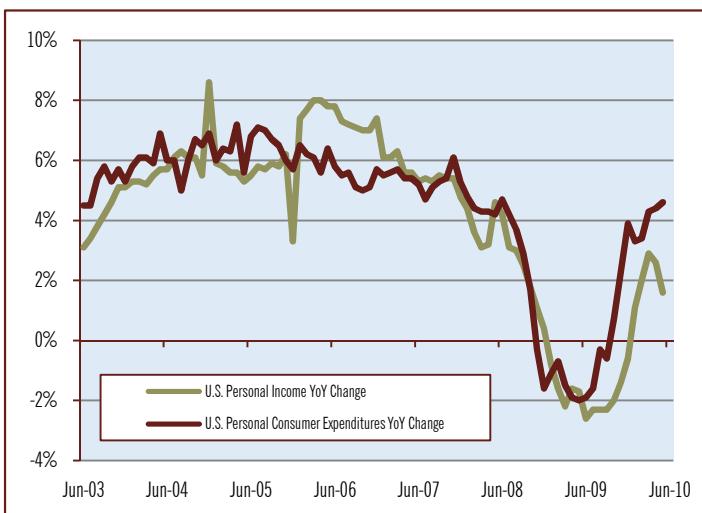
U.S. household debt (including mortgages and consumer credit debt) and its percentage of disposable personal income has increased dramatically since the early 1990's, fueled in part by declining interest rates. Despite all the talk of a deleveraging cycle, consumers so far have been decreasing debt at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

U.S. SAVINGS & HOUSEHOLD DEBT SERVICE RATIO



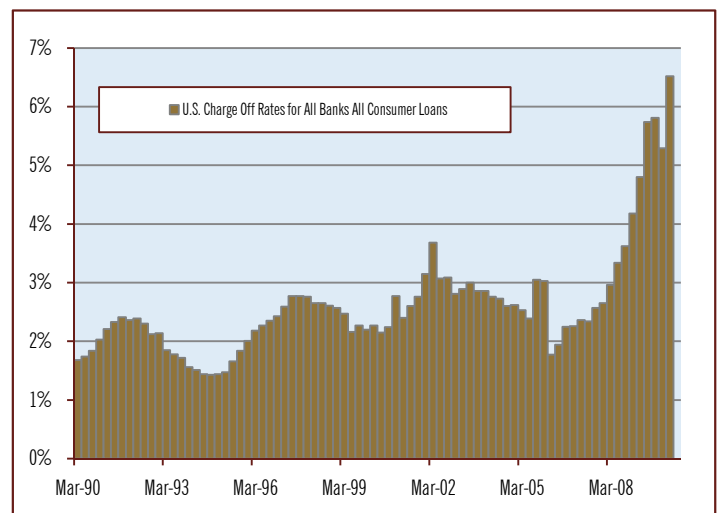
The debt service ratio measures how much of their earnings that households spend on debt payments. Despite the remarkable increase in total debt over the past few decades, the rise in service ratios has been more modest due to the decline in interest rates. If rates spike, however, so too could debt payments, and a low savings rate will not provide much of a buffer. **Advantage: Neutral**

U.S. CONSUMER INCOME AND SPENDING



Consumer spending continues to rebound. Unfortunately, spending is rising faster than incomes and is being financed by declining savings. Without 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. More recent delinquency data from credit card companies, however, indicates that charge-offs may be leveling. **Advantage: Neutral to Bearish**

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

NOTICE AND DISCLOSURE STATEMENT

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