

S&P 500 PRICE - PAST THREE YEARS

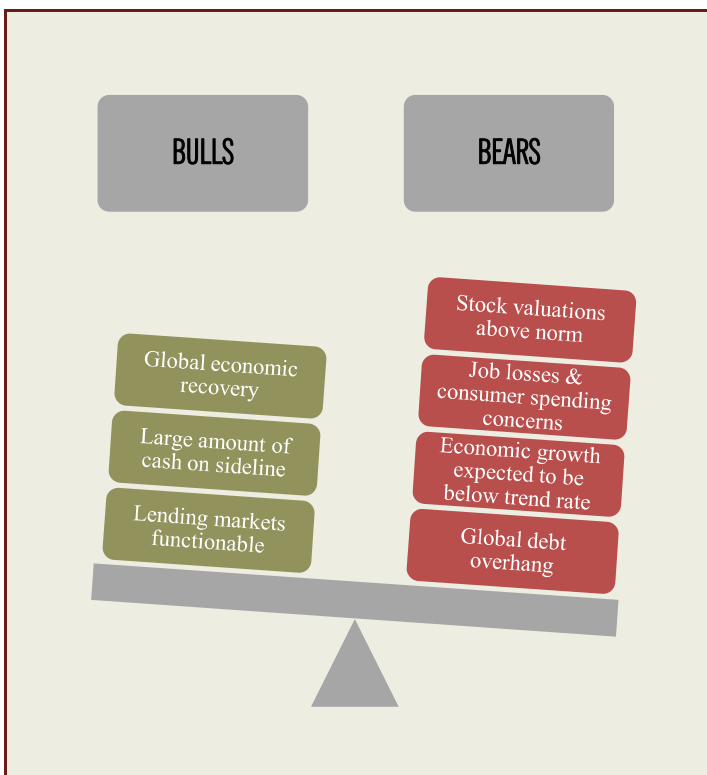


The S&P 500 posted strong and consistent gains in March, wrapping up the index's best first quarter since 1998 and fourth consecutive quarter of gains in a row. On a price basis, the S&P 500 is up 73% from its March 2009 lows, but still off 25% from its October 2007 all-time high.

NOTES/COMMENTARY

While the economic recovery appears to be firmly entrenched, we are still mindful of the potential impact of global debt problems, weak labor markets and U.S. budget issues (and increased taxation). Compressed return expectations have us looking to other areas of a portfolio that can add value, including increased long/short exposure in equity, credit and real assets which can do relatively well in sideways or down markets. **With regards to our positioning, we remain overweight to particular segments of the opportunistic credit space (namely emerging currencies, multi-sector and international bonds) and gold.** These overweight allocations come at the expense of being at our full equity target, and will remain in place as long as thematic reasons for the positions persist or until equity opportunities become overwhelmingly attractive. We have reduced a temporary overweight to core fixed income/cash which was used as a placeholder while we eliminated segments of last year's high yield credit play. Our recommendation is that proceeds go to hedged equity for clients that can access such strategies.

SUMMARY OF CURRENT EQUITY MARKET LEANINGS

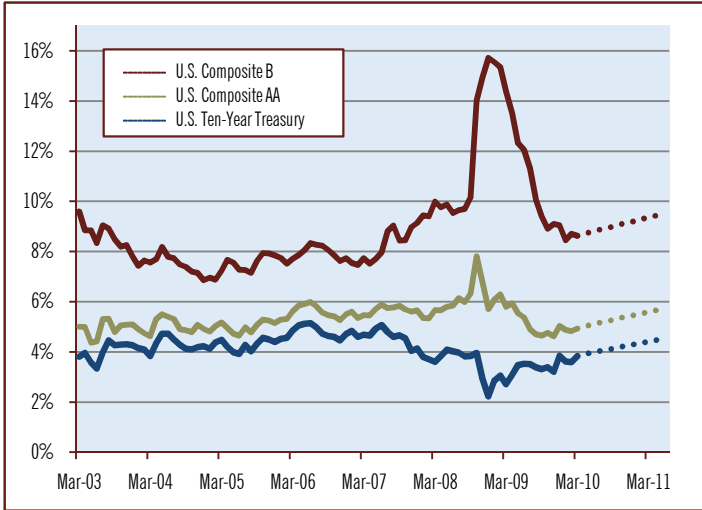


CONVERGENT TACTICAL POSITIONING

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	slight underweight	
REAL ASSETS		
Real Estate	neutral	
Commodities	overweight	
ARBITRAGE/CREDIT		
Multi-Strategy Hedge	neutral	
Opportunistic Credit	overweight	
FIXED INCOME		
Core Fixed Income	neutral	
Cash Equivalents	neutral	

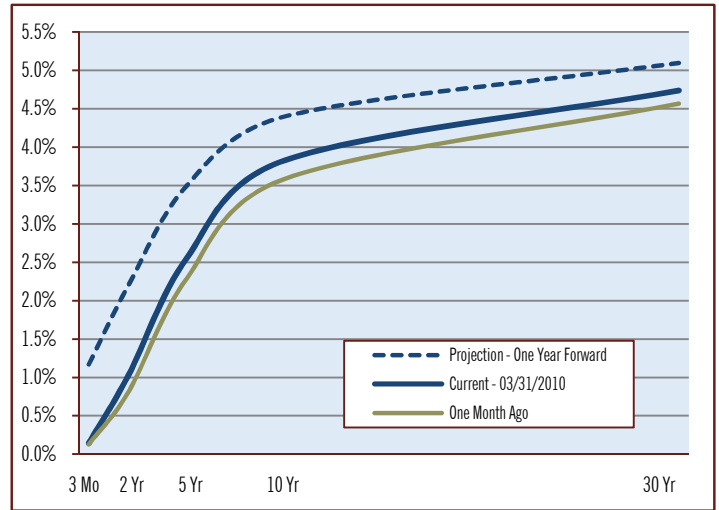
At present we are overweight certain segments of the opportunistic credit market (multi-sector, emerging currencies and international bonds), overweight real assets (gold) and underweight equities. We have removed an overweight to core fixed/cash that was used as a temporary placeholder as the high yield credit opportunity waned.

CREDIT YIELD YIELDS



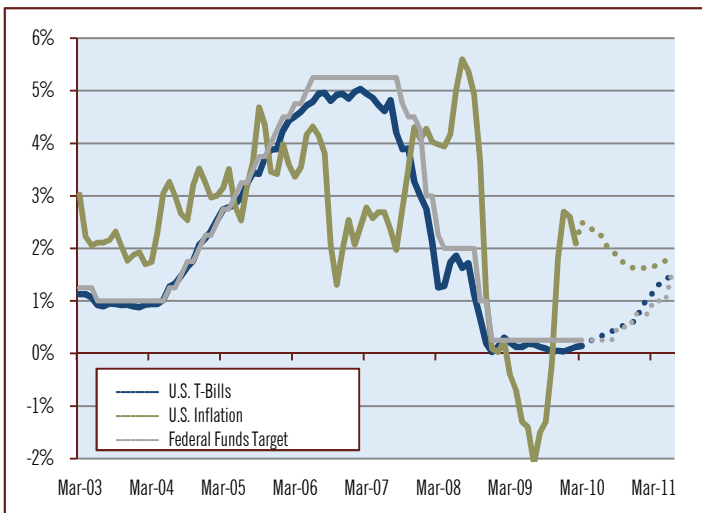
With ten-year Treasury yields approaching 4%, high yield corporate credit yields and spreads have narrowed to near average historical levels. Returns in the high yield space going forward are expected to be much more moderate than the record 2009 gains. **Advantage: Neutral**

U.S. TREASURY YIELD CURVE



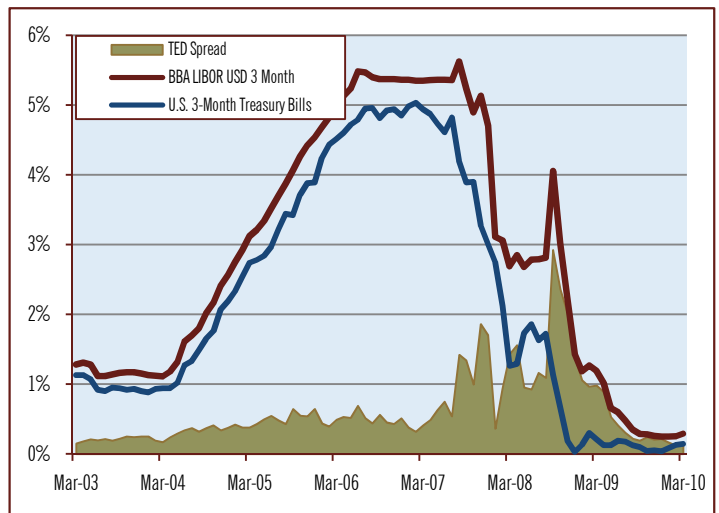
The Treasury yield curve is expected to remain mostly rangebound despite supply issues and the ending of quantitative easing programs. Recent auctions have not been well-received, however, and if yields surge much higher they could begin to provide competition with stocks. **Advantage: Neutral**

T-BILLS, FEDERAL FUNDS AND INFLATION



Expectations of constrained inflation has most expecting that the Fed will keep short-term interest rates at record lows at least until later this year for fear of stalling the economic recovery. Longer-term, however, many fear some form of inflation is inevitable. **Advantage: Neutral**

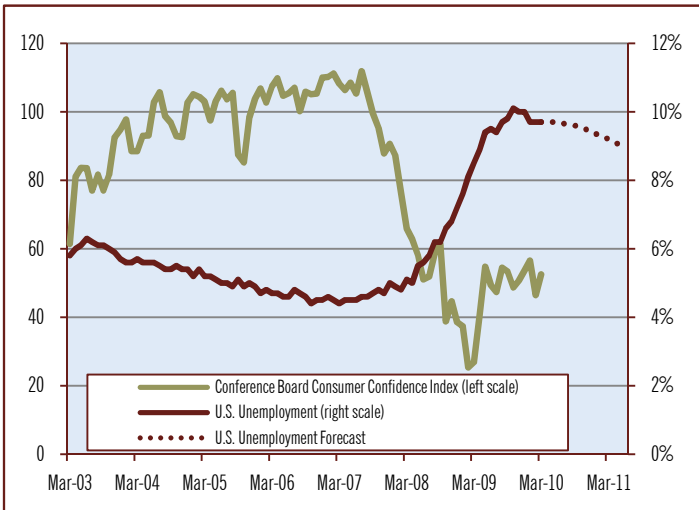
LIBOR/T-BILL RATES AND TED SPREAD



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**

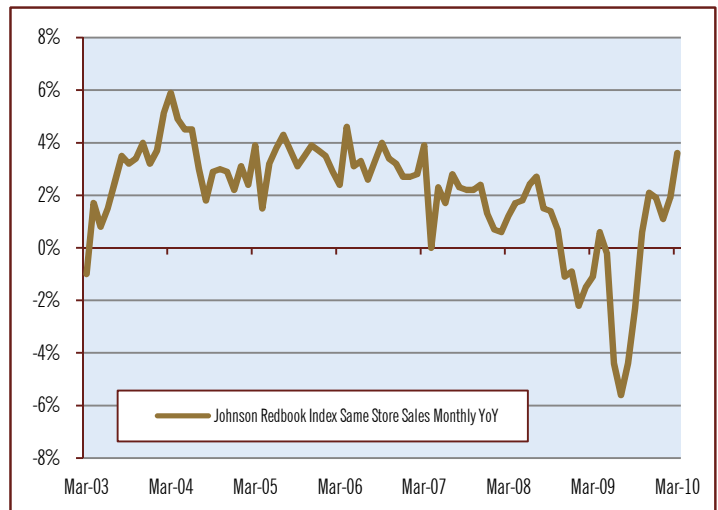
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

CONSUMER CONFIDENCE & UNEMPLOYMENT



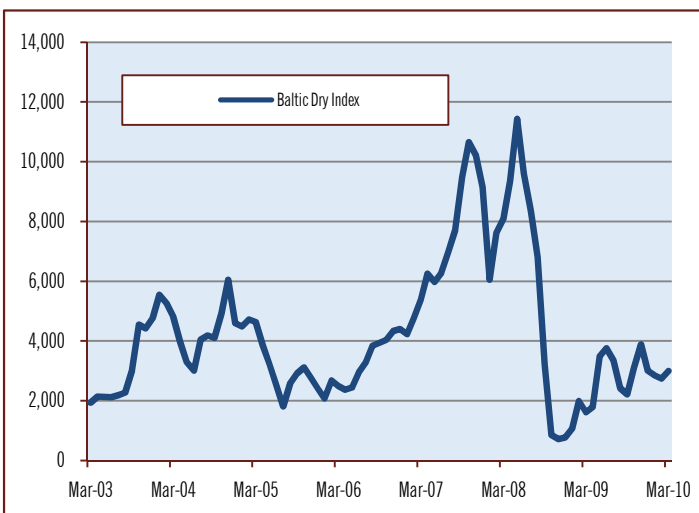
The U.S. unemployment rate remains mired at 9.7%, though some weekly nonfarm payroll figures have been encouraging. Worries about job losses have kept consumer confidence down and well below levels that signify a solid economy. **Advantage: Bears**

RETAIL SALES



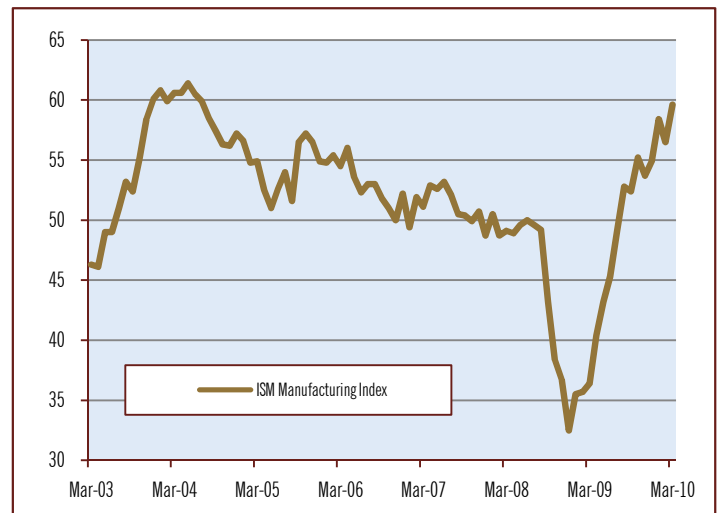
Retail sales figures, which track the dollar value of merchandise sold to consumers, could be an indicator of economic recovery and ultimately inflationary pressures. Recent data has been mostly positive, despite winter snowstorms, tightening credit card terms, high unemployment and low wages. **Advantage: 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, while well off the lows seen a year ago as the status of the global economy has improved, has been trending sideways for several months. **Advantage: Neutral**

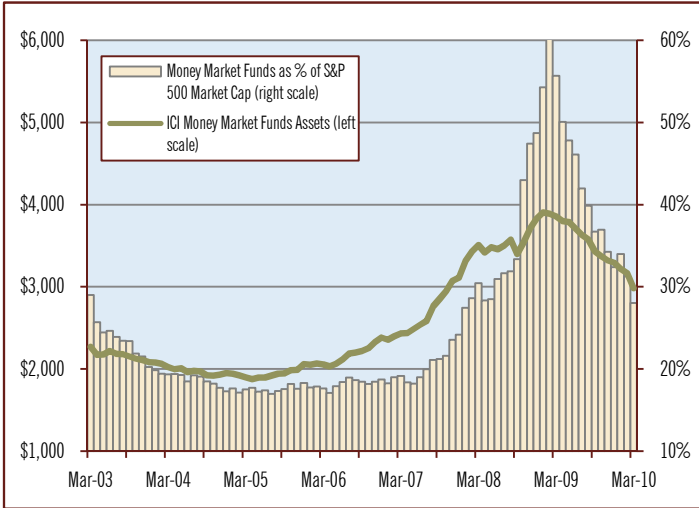
ISM MANUFACTURING INDEX



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**

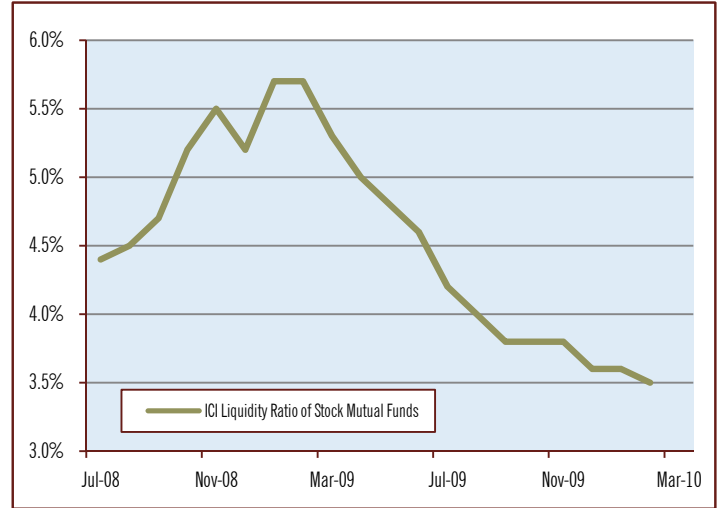
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**MONEY MARKET FUNDS ASSETS (\$ BILLIONS)**



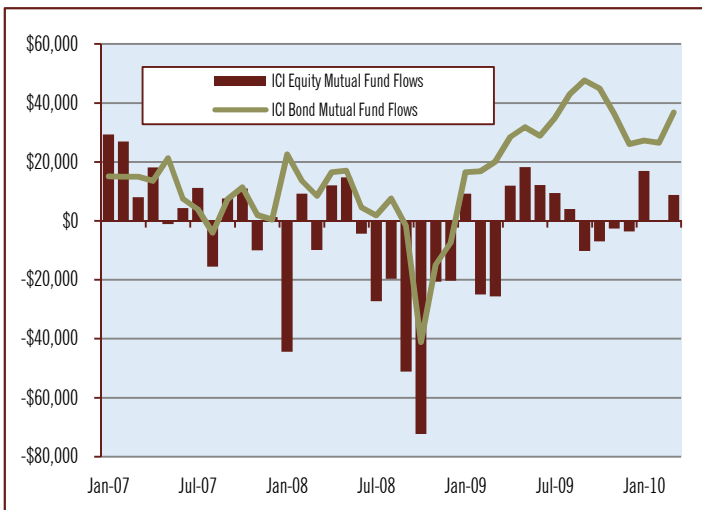
Some of the cash balance built up over the past few years has been put to work, but there still remains a large amount on the sidelines. Unless there has been a secular shift towards increased savings and higher bond allocations there remains plenty of powder available for stocks. **Advantage: Bulls**

**MUTUAL FUND LIQUIDITY RATIO**



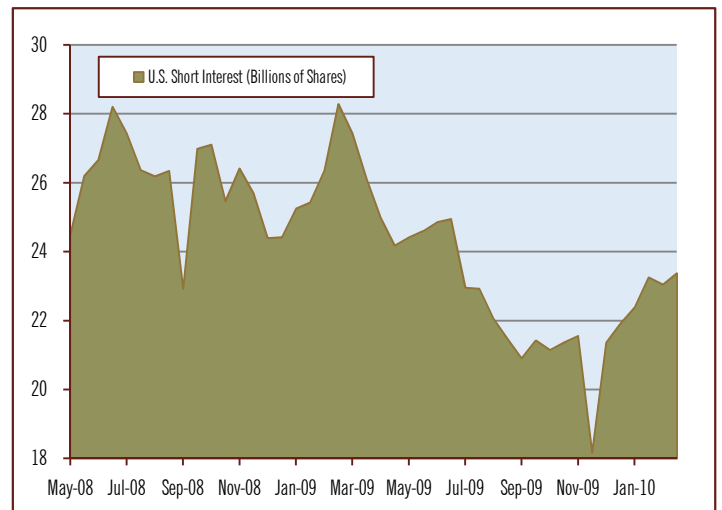
The liquidity ratio compares the amount of cash relative to total assets held by stock mutual funds. As stocks tanked in 2009, mutual fund managers were bearish and sitting on a large amount of cash. Since then, managers have put most of that to work and are now holding unusually low levels of dry powder.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

**MUTUAL FUND CASH FLOWS (\$ MILLIONS)**



Dollars continue to head into bond funds while equity mutual funds see little in the way of 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**

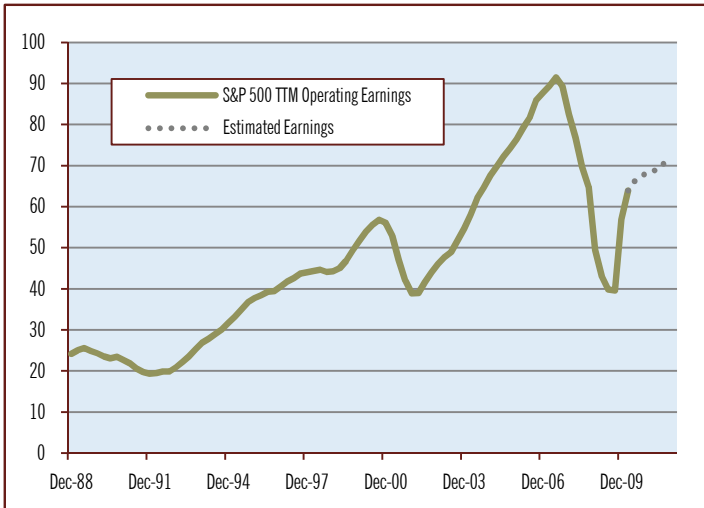
**U.S. SHORT INTEREST**



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**

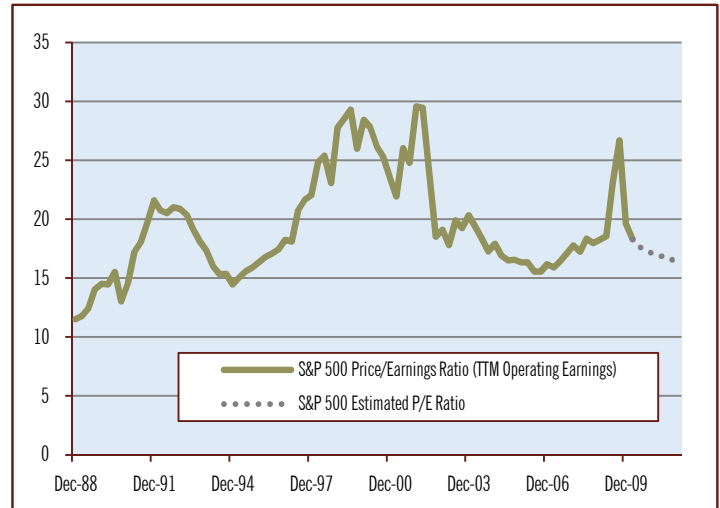
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

CORPORATE EARNINGS



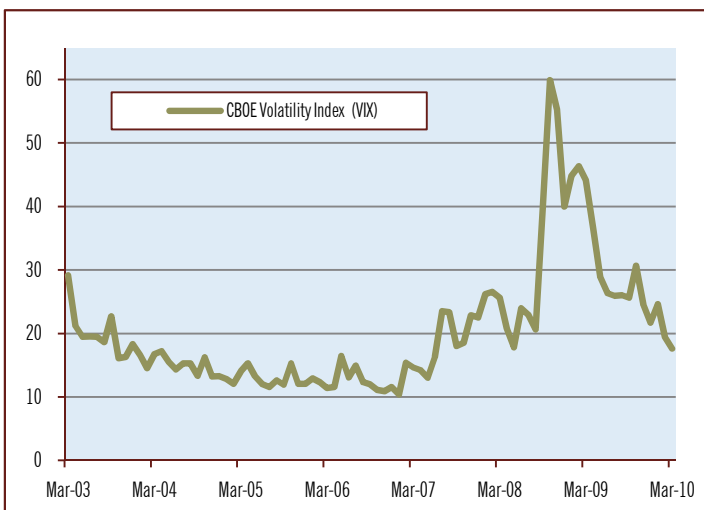
Corporate earnings continue to improve. Top-down estimates for the S&P 500 are approaching \$70 for the end of the year. Easy comparisons to last year's poor results skew the growth figures, however, and future expansion still depends on jobs and consumer spending. **Advantage: Neutral**

STOCK MARKET VALUATIONS



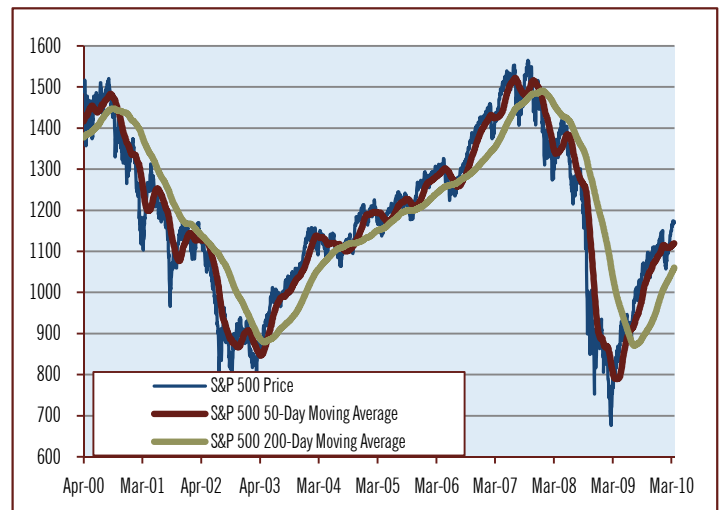
Trailing valuations remain a bit expensive on a historical basis by most measures (as reported, operating or smoothed), but as long as revenue growth continues to show improvement price-earnings ratios are not considered to be at unreasonable levels. **Advantage: Neutral**

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**

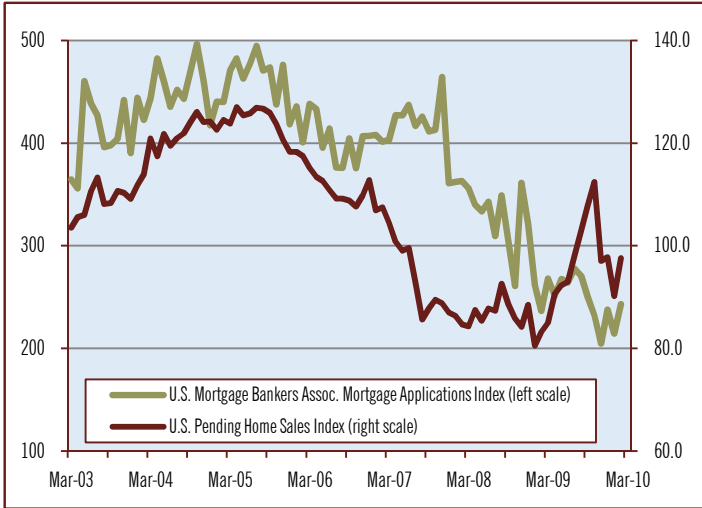
STOCK MARKET TECHNICALS



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**

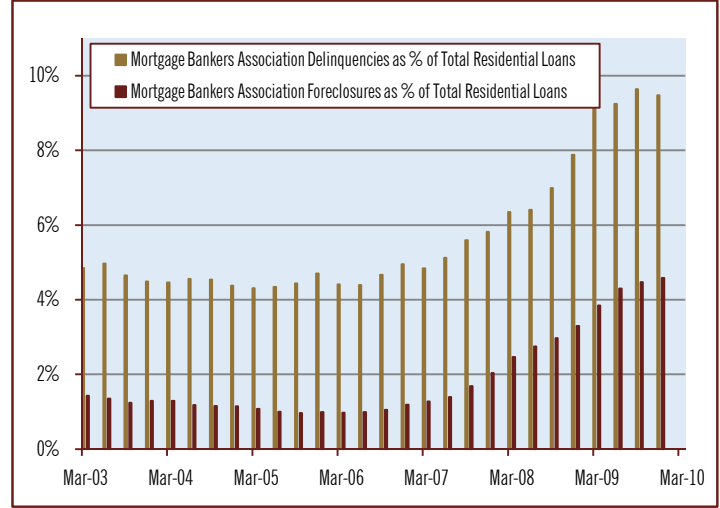
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MORTGAGE APPLICATIONS & PENDING HOME SALES



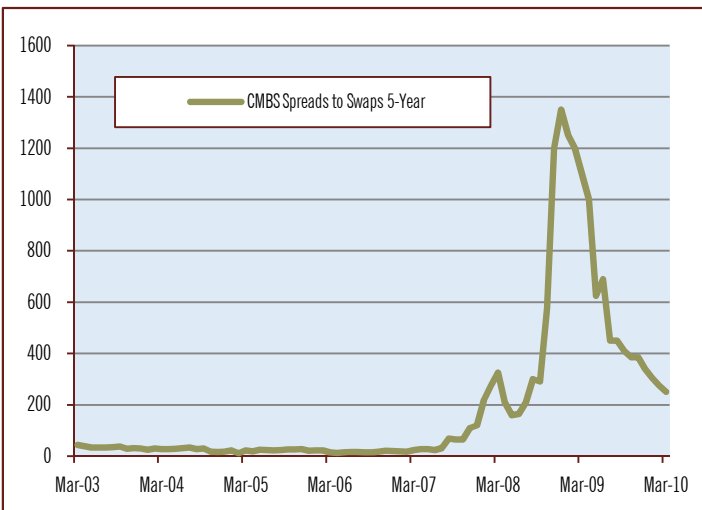
Pending home sales rose in February, potentially suggesting that the housing market may be coming back from winter doldrums and as buyers respond to temporary tax credits. While any improvements in the housing markets are welcome, high unemployment and a large amount of supply is likely to keep a lid on gains. **Advantage: Bears**

RESIDENTIAL DELINQUENCIES & DEFAULTS



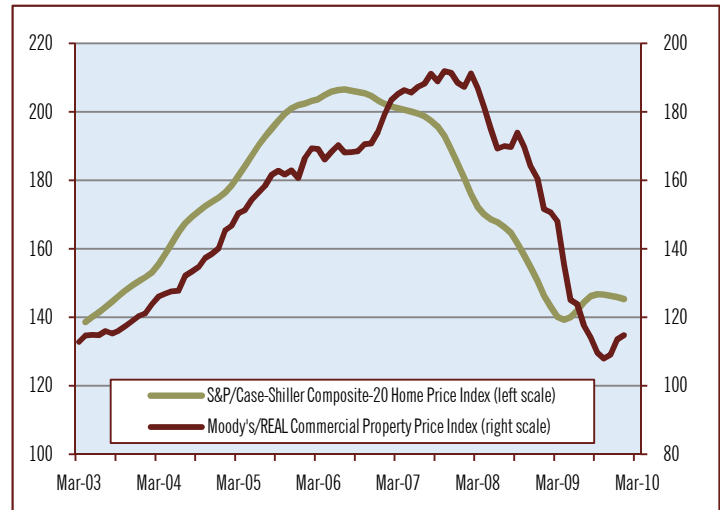
Mortgage delinquencies and foreclosures continue to surge to record highs. With high unemployment, the wave of foreclosures is not expected to crest until sometime later in 2010, and will be a headwind to the housing market and economy for some time. **Advantage: Bears**

CMBS SPREADS



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**

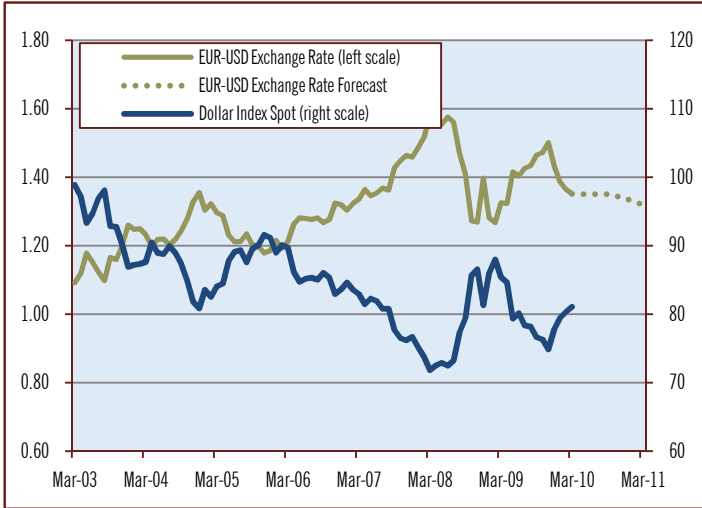
RESIDENTIAL/COMMERCIAL PROPERTY PRICE INDICES



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**

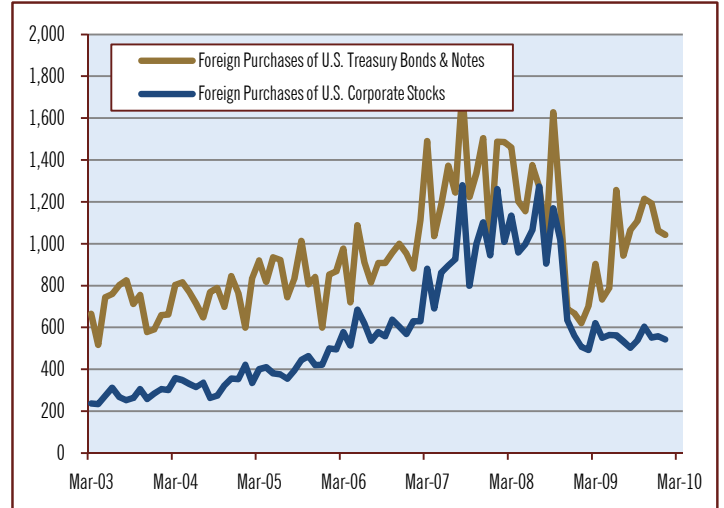
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U.S. DOLLAR



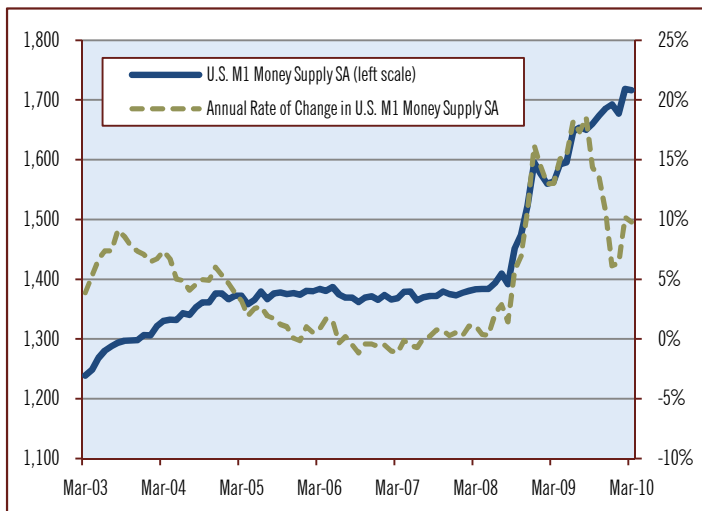
The U.S. dollar continued its recent rally, bolstered by European sovereign debt concerns. The Euro sank to a 10-month low against the U.S. dollar. Most still consider the dollar to be in a secular decline, however, as it faces longer-term issues such as the size of the U.S. budget deficit. **Advantage: Neutral**

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



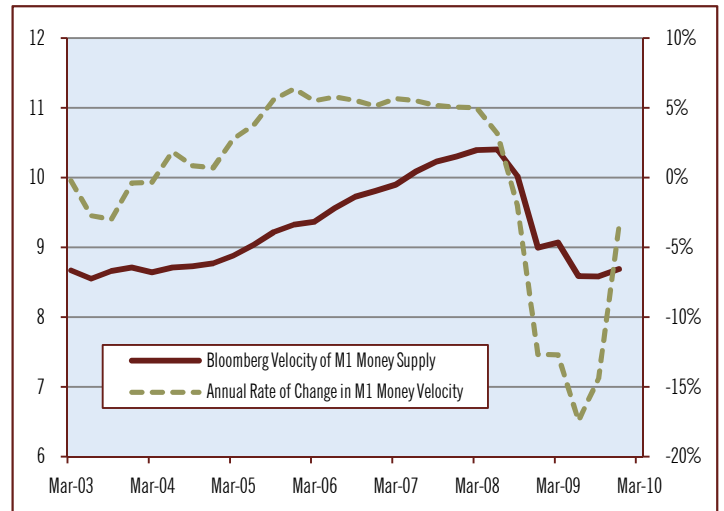
Treasury securities are still in demand from global investors, though it appears that Japan and China did not show much interest in recent auctions. Foreign purchases of U.S. stocks, meanwhile, remains constrained. In the long-run, a concern is that U.S. fiscal and dollar worries may keep some investors 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 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
<b>EQUITY</b>	<b>underweight</b>		<b>- a conservative allocation to equities in the current environment is warranted</b>
US Large Cap	underweight	<b>Low reward/high risk environment</b>  Positioning: underweight equities, particularly long-only, while overweighting long/short and focusing on fundamentals	- given economic uncertainty and high valuations, there is risk associated with stocks and an underweight allocation (but not elimination) is recommended - despite European and global debt worries, the likelihood of systematic failure is thought to be reduced - 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		- 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 - overweight to international relative to U.S. provides some protection against long-term secular dollar decline - Eurozone fiscal concerns have not hindered managers' stock picking
Emerging Market	slight underweight		- strong long-term economic growth prospects, potentially much greater so than in the developed regions - current valuations are potentially expensive; a high level of volatility is expected - as we shift back into risk (growth) assets, we anticipate a longer-term thematic overweight to developing markets
Private Equity	neutral		- good opportunity set (with better pricing than public markets), but managers have existing portfolio distractions
Directional Hedge	slight underweight		- though reduced, L/S allocations are overweight relative to long-only equity allocations - better anticipated protection against equity downturns but may lag in rallies (barring superior stock selection) - managers are seeing correlations among stocks decrease (and dispersions in returns increase)... superior security selection once again could be a differentiator
<b>REAL ASSETS</b>	<b>overweight</b>		<b>- increased allocation as currency/inflation hedge and longer-term play on natural resource shortage</b>
Real Estate	neutral to slight underweight	<b>Inflation; U.S. dollar weakness; shortage of natural resources</b>  Positioning: overweight via increased gold exposure	- commercial real estate issues remain, but well-capitalized managers can find deals - REITs are not cheap, but becoming divided between thrivers and merely-survivors
Commodities	overweight		- recommend 3-4% gold exposure for safe harbor, dollar hedge and potential hedge against inflation spikes - 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
<b>ARBITRAGE/CREDIT</b>	<b>overweight</b>		<b>- low hanging fruit (beta) is played out, but pockets of opportunities remain</b>
Multi-Strategy Hedge	neutral	<b>Low reward/high risk environment; inflation; U.S. dollar weakness; rise in interest rates</b>  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
<b>FIXED INCOME</b>	<b>neutral</b>		<b>- core fixed income at strategic targets</b>
Core Fixed Income	neutral	<b>Low reward/high risk environment; deflation</b>  Positioning: neutral	- given low yields, long-term prospects are muted... inflation and rising rates may end the bull market in credit - in the near-term, deflationary pressures are still being played out and bonds could benefit - despite supply issues, demand and inflows to bond funds remain strong from retail investors
Cash Equivalents	neutral		- little to no yield being generated by cash assets

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