As of June 30, 2012

Market Summary

US Stock Market

This Second quarter of 2012, the US stock market faced a number of headwinds, both domestically and abroad.. European debt issues, concerns over a slowdown in China, and weaker than expected US economic data all weighed on stocks and the S&P 500 Index finished down 2.75% for the quarter. On the heels of a relatively calm first quarter, there were signs of a pick-up in market volatility as the VIX Index (a measure of expected volatility on the S&P 500 Index) rose from 15 to 26 over the April 2 – June 1 period. Readings above 20 imply an increased level of volatility in the market, with historical averages generally within the 15 to 20 range.

At the same time, Q2 saw a rise in the unemployment rate from 8.1% to 8.2% and a lower- than- expected job creation weighed on growth prospects and market sentiment. The Federal Reserve provided some support with more accommodative policy in view of downside risks to the global economy and we saw the federal government's bond-buying program, Operation Twist extended an additional six months to the end of 2012.

Despite difficult months for equities during April and May, the quarter closed on a positive note as the S&P 500 rose 4.12% during the month of June. Notably, efforts to stabilize bond markets in Italy and Spain helped lift global equity markets on the final trading day of the quarter with the US market surging 2.5% in the best one-day gain for all of 2012 to date.

In the US we also saw sector divergence. The more defensive sectors were a bright spot, posting positive returns for the quarter. As expected, higher-dividend-yielding stocks, such as telecoms and utilities, led as investors continued to seek income-producing assets. In particular, telecom stocks were the standout across all equity sectors, posting a 14.13% gain for the quarter. Conversely, financials and technology, more economically sensitive sectors, returned -6.83% and -6.68%, respectively for the quarter, lagging during a time that was largely impacted by macroeconomic factors.

Other Markets

International stocks declined during the quarter as the developed market benchmark MSCI EAFE Index returned -6.85%. Currency effects were a headwind for international allocations, in the context of the debt situation in Greece and questions over the future of the Eurozone, a "flight to safety" into the US dollar and depreciation in the euro. Fears intensified of a potential Greek exit ("Grexit") and many feared that the country's banks could experience a bank run with depositors withdrawing euros before a potential currency conversion into Greek drachmas. Even worse, it was suggested that similar actions could spread to other countries, such as Italy and Spain. With that backdrop, the euro dropped below $1.25 by the beginning of June—its lowest level in nearly two years. On a positive note, the month of June saw a sharp reversal as the MSCI EAFE Index returned 7.05%, with positive steps by Greece to remain in the Eurozone and broader efforts by European leaders to support troubled banks.

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Broad bond market returns, as represented by the Barclays US Aggregate Bond Index, were in positive territory for the sixth consecutive quarter, gaining 2.06%. Treasury bonds were the best performing sector, particularly longer-term maturities, as yields fell to historic lows with investors seeking a safe haven from global market risks. Notably, the 10-year Treasury dropped to a record low yield of 1.44% on June 1, as investors reacted to May's weak employment report. Subsequently, Treasuries suffered at the end of the quarter as yields bounced back from the lows and government bonds posted negative returns during June. Looking at other sectors, high yield and emerging market bonds garnered positive returns for the quarter. Developed market bonds were mixed as exposure to the euro dragged on returns, while exposure to Japanese bonds and the stronger yen provided some benefits.

2012 Outlook

Looking ahead to the second half of 2012, we may see a second-half rally for stocks, in contrast to the pattern in 2010 and 2011. Given the shorter and less severe pullback in stocks seen in 2012, Ned Davis Research noted that the current market environment is more typical of a short-term correction within the cyclical bull that started in October 2011.[1] As well, the more modest increase in pessimism is more consistent with a bottoming in stocks, with potential for a reversal in the months ahead. As we continue to look to the broader economic environment, as we have seen in recent prior years, current market conditions reflect a great deal of uncertainty, particularly as it relates to the Eurozone. The European debt crisis remains a risk, and full scale resolution to the problem is needed, rather than focusing on fixing the latest symptom of concern, if the region is going to provide long-term competitiveness. Each band-aid type solution applied to the situation is only "buying time" until the next crisis and, until a global solution is formulated, this approach is likely to lead to an extended periods of volatility where just as the waters start to calm down, the next storm arrives.

Please contact us should you have any questions, whatsoever, and to discuss any changes in your financial goals or investment strategy.

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SYNERGIST
WEALTH ADVISORS LLC

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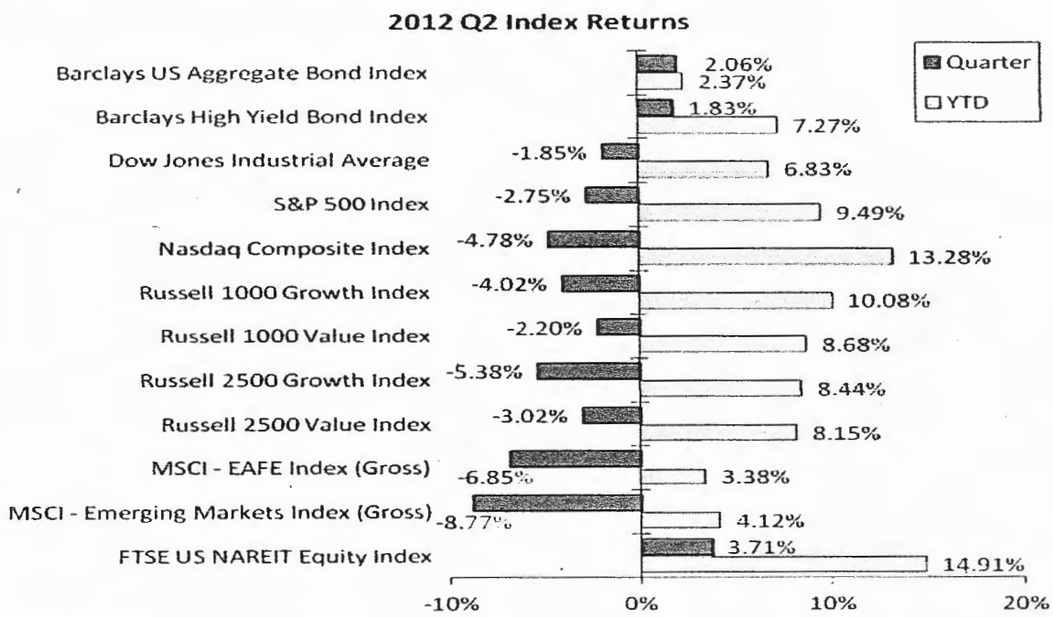
Economic & Market Statistics

At the end of the second quarter of 2012, the Dow Jones Industrial Average closed down 1.85% for the quarter but held a 6.83% gain on a year-to-date basis.[1] The S&P 500 Index finished with a loss of 2.75% for the quarter and gained 9.49% year to date.[2] Within US equity markets, large cap stocks outperformed small caps during the quarter, and value led growth in both large and small caps. In the international arena, the MSCI EAFE Index (a proxy for developed international markets) recorded a loss of 6.85%. The MSCI Emerging Markets Index declined 8.77%.[3] The FTSE NAREIT increased 3.71% during the quarter. In the bond markets, the Barclays US Aggregate Bond Index returned 2.06%.The US economy grew 1.9% during the first quarter of 2012, slowing relative to the 3.0% expansion experienced during the fourth quarter of 2011. The Federal Reserve ("the Fed") continued to keep the Fed Funds target rate within the 0.00% - 0.25% range. Measured by the Consumer Price Index, inflation for the month of May was 1.7% on a year-over-year basis.[4] Unemployment, as measured by the jobless rate released by the Bureau of Labor Statistics in May was 8.20%. Oil futures closed at $84.96 per barrel in June, a price decrease of 17.53% from their close in March.[5] The US dollar appreciated 5.99% against the euro and depreciated 3.16% versus the Japanese yen for the quarter.[6]



[1] Bloomberg
[2] Ibid
[3] Ibid
[4] Bureau of Labor Statistics
[5] Bloomberg
[6] Ibid

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Benchmark Definitions

An index is a portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indexes are unmanaged, with no associated expenses, and investors cannot invest directly in an index. Past performance is no guarantee of future result. All index returns shown in the table represent "Total Return" figures with dividends reinvested, which means the return includes not only the change in price for the securities in the index, but any income generated by those securities. Sources: Bloomberg, Barclays Capital, Dow Jones, MSCI Barra, Russell, Zephyr Associates.

Barclays Capital US Aggregate Bond Index: a broad-based index that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABSs, and CMBs.

Barclays Capital High Yield Bond Index: an index that measures the market of US dollar-denominated, non-investment grade, fixed-rate, taxable corporate bonds.

Dow Jones Industrial Average: an index of 30 stocks that represents large and well-known US companies and covers all industries with the exception of Transportation and Utilities.

S&P 500® Index: an index of 500 leading companies in leading industries of the US economy, capturing 75% coverage of US equities.

NASDAQ Composite Index: a broad-based index that measures all NASDAQ domestic and international common stocks listed on the NASDAQ stock market.

Russell 1000 Growth Index: an index that measures the performance of the large cap growth segment of the US equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.

Russell 1000 Value Index: an index that measures the performance of the large cap value segment of the US equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.

Russell 2500 Growth Index: an index that measures the performance of the small to mid cap growth segment of the US equity universe. It includes those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.

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MSCI EAFE Index (Europe, Australasia, Far East): a free-float-adjusted, market-capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the US and Canada.

MSCI Emerging Markets Index: a free-float-adjusted, market-capitalization-weighted index that is designed to measure the equity performance of emerging markets.

FTSE NAREIT US Equity REIT Index: an index of US publicly traded REITs. Equity REITs include those firms that own, manage and lease investment-grade commercial real estate. Specifically, a company is classified as an equity REIT if 75% or more of its gross invested book assets are invested in real property.

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[1] Ned Davis Research, Inc., "How Does This Year's Correction Compare to 2010 and 2011?" June 12, 2012.

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