SYNERGIST
WEALTH ADVISORS LLC

Market Summary

As of September 30, 2013

Market Review

Global equity markets were broadly higher during the quarter, even as policy uncertainty weighed on the minds of investors. Despite a looming government shutdown and a number of down market days in September, the US stock market S&P 500 Index returned 5.24%[1] for the quarter. For the first nine months of the year, the index was up 19.79%, and firmly ahead of the broad international indices, especially emerging markets. Small caps outpaced large caps during the quarter on equity risk-taking, with the Russell 2000 Index gaining 10.21%.

The MSCI EAFE Index of international developed equities returned 11.61% during the quarter and beat US stocks, lifted by strength in international currencies. An improving outlook in Europe and supportive central banks helped drive the gains in international markets. Japan lagged other areas on weaker economic data and as strength in the yen was seen to hurt exports. Emerging markets gained 5.90%, trailing international developed markets, as Brazil and India faced headwinds of uncertain growth prospects, including adverse effects from a potential pullback in Federal Reserve stimulus. This was in contrast by stronger performance in China, due to more positive economic reports and stabilizing growth.

Real estate lagged with the domestic NAREIT Equity REIT Index negative at -3.09%. Despite an improving economy, REITs continued to display sensitivity to the rise in bond yields. Commodity returns were also muted relative to equity markets, impacted by higher supplies of agricultural commodities: the Dow UBS Commodity Index rose 2.13%. Notably, gold rose 8.38% this quarter looking to continued accommodative stance from the Fed, but nonetheless is still down 20.89% since the beginning of the year.[2]

The Barclays US Aggregate Bond Index returned 0.57% for the quarter, as prospects of the Fed tapering its bond purchases drove bond yields higher. Prices for shorter bond maturities were generally more resilient. Conversely, longer-term Treasury bonds felt the larger impact ending the quarter with negative returns. More broadly, high yield bonds were among the leading sectors during the quarter, supported by improving economic fundamentals and equity market sensitivity. International bonds saw a lift from currency effects, as emerging market bonds rebounded from declines earlier in the year, with Fed tightening less of an immediate concern.

Economic Highlights

Federal Reserve policy was a key focal point and dominated headlines for much of the quarter prior to the end of the quarter when government shutdown and debt ceiling took center stage. Most analysts believed that the Federal Reserve would begin reducing its purchases on bonds following September's Federal Open Market Committee (FOMC) meeting. The Fed surprised them and maintained its accommodative stance in view of the "tightening of financial conditions." Notably, Fed Chairman Bernanke specifically cited the risks associated with a government shutdown and a failure to raise the debt ceiling. Both equity and fixed income markets responded favorably to the news of continued accommodative policy.

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[1] Index returns from Morningstar Direct
[2] Source: Ned Davis Research

Additionally during the quarter, another topic that weighed on investors' minds was the question of successor to Bernanke as Fed Chairman. Larry Summers was considered leading successor candidate but the decision remained open with tensions in the Middle East and consideration of potential military action in Syria receiving greater attention. Meanwhile, Janet Yellen received increasingly strong support from academics and Democrats in Congress. When Summers pulled out of the running, bond yields declined, suggesting that if Yellen succeeds Bernanke, she is likely to continue with an accommodative Fed policy. .

The FOMC released their updated economic projections during the September meeting. This forecast projected that 2013 real GDP would be in the range of 2.0% to 2.3%, which was down from the 2.3% to 2.6% forecast released at the June meeting.[3] While the unemployment rate was down from its 10% level in 2009 to 7.3% in August 2013, there is increasing concern over the historic low participation rate. Meanwhile, inflation remained in check with the Consumer Price Index (CPI) up 1.5% on a year-over-year basis during August. The core reading was higher at 1.8%, but still below the Fed's longer-term inflation target of 2.0%.[4] In support of growth, most Fed officials believe that short-term rates will remain at current levels through 2014, and below 1% through 2015.

Market Statistics

At the end of the third quarter of 2013, the Dow Jones Industrial Average advanced 2.12% for the quarter and 17.64% on year-to-date basis.[5] The S&P 500 Index finished with gains of 5.24% for the quarter and 19.79% year-to-date.[6] Within US equity markets, small cap stocks outperformed large caps, while growth led value in both large and small caps. In the international arena, the MSCI EAFE Index (a proxy for developed international markets) recorded a gain of 11.61% for the quarter and advanced 16.59% year-to-date.[7] The MSCI Emerging Markets Index gained 5.90% during the quarter, but was down 4.05% year-to-date. The FTSE NAREIT decreased 3.09% for the quarter, but held a 3.20% gain year-to-date. In the bond markets, the Barclays US Aggregate Bond Index gained 0.57% for the quarter, but was down 1.89% year-to-date. The US economy grew 2.5% during the second quarter of 2013, improving relative to the 1.8% expansion experienced during the first quarter of 2013. 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 August was 1.5% on a year-over-year basis.[8] Unemployment was 7.3% in August, as measured by the jobless rate released by the Bureau of Labor Statistics. Oil futures closed at $102.33 per barrel in September, a price increase of 5.98% from their close in June.[9] The US dollar weakened 3.21% against the euro and 1.27% versus the Japanese yen for the quarter.[10]

[3] Source: Federal Reserve
[4] Source: Bureau of Labor Statistics (unemployment and CPI)
[5] Morningstar
[6] Ibid
[7] Ibid
[8] Bureau of Labor Statistics
[9] Bloomberg
[10] Ibid

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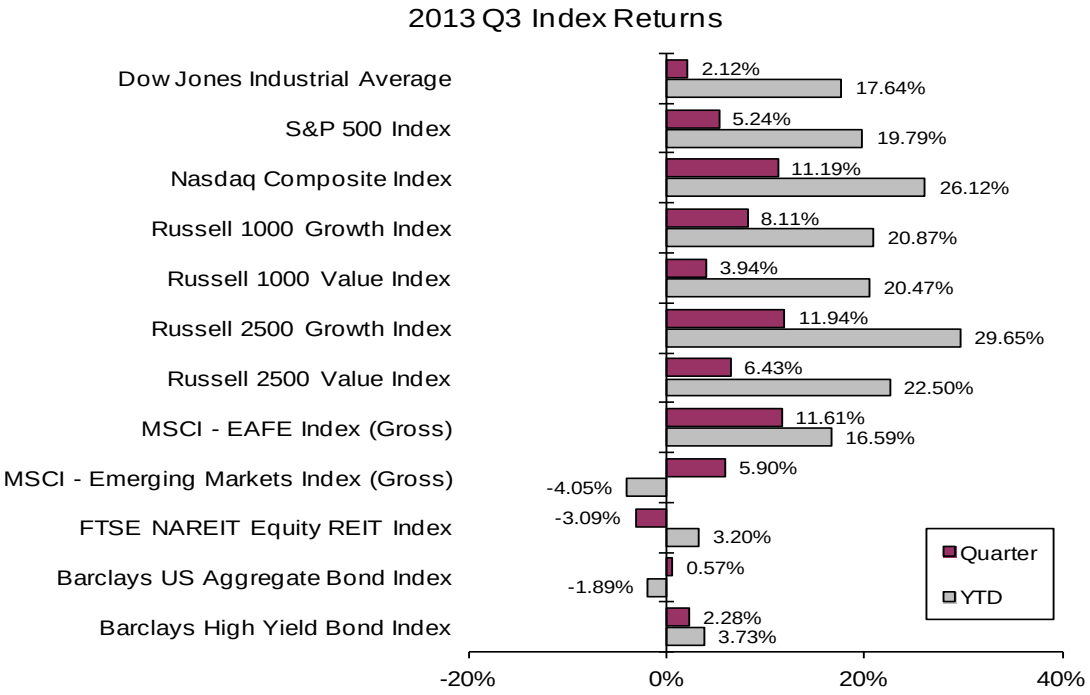

An index is a portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indices are unmanaged, with no associated expenses, and investors cannot invest directly in an index. Past performance is no guarantee of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

Outlook

Looking ahead, the outlook for equities continues to reflect a mixed picture. The S&P 500 Shiller-Cyclically-Adjusted P/E ratio at 24.3 remains considerably higher than its longer-term average of 19.0, suggesting that stocks are overvalued on a historical basis. While this measure is based on past earnings, the forward P/E at 14.5 (which uses next year's earnings forecast) is more in line with its longer-term average. Meanwhile, valuations in many international equity markets, particularly emerging markets, remain more attractive than their US counterparts.[11] Volatility remains a concern across commodity, equity and fixed income markets. Equity markets reacted to the looming government shutdown with several down days at the end of September. Even with the pick-up in volatility, the overall level remained below historic norms, suggesting some complacency and perhaps an expectation for quick resolution to the budget and debt ceiling issues. The fixed income market continues to reflect an environment of policy uncertainty, particularly with agreements

[11] Source: Standard & Poor's, Factset, Robert Shiller Data, J.P. Morgan Asset Management

increasingly difficult to reach in Washington. It is important to remember, nonetheless, a longer-term trend of higher rates suggests opportunities for more flexible approaches to income across different asset classes and strategies.

Benchmark Definitions

Barclays US Aggregate Bond Index: an index covering the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS sectors. US Agency Hybrid Adjustable Rate Mortgage (ARM) securities were added to the US Aggregate Index on April 1, 2007.

Barclays High Yield Bond Index: an index measuring the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt.

Dow Jones Industrial Average: an unmanaged price-weighted index of large and well-known US companies, consisting of thirty companies that produce non-transportation and non-utility goods and services.

S&P 500® Index: an unmanaged index that is generally considered representative of the US equity market, consisting of 500 leading companies in leading industries of the US economy (typically large-cap companies) representing approximately 75% of the investable US equity market.

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.

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

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 countries considered to represent developed markets, excluding the US and Canada.

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

FTSE NAREIT Equity REIT Index: a broad measure of the performance of publicly traded real estate securities, such as real estate investment trusts (REITs) and real estate operating companies.