SYNERGIST
WEALTH ADVISORS LLC

Fourth Quarter 2012 Market Summary

2012 Markets

2012 markets closed with the best final trading day of the year since 1974, which finalized the 2012 full year return of 16.0%[1] for US equities (S&P 500 Index return). Still, 2012 was a year that saw much crisis-related sentiment driving market moves. Headlines remained prevalent throughout the year: presidential elections and changing leadership in many countries; slowdown and potential financial crisis in China; ongoing Eurozone sovereign debt crisis and potential depression in Europe; and, at year end, the fiscal cliff. Some now say all the 2012 problems ended up as "much ado about nothing." given that global equity markets provided double-digit returns for the year and rallied strongly on the first trading day of 2013.

Investors, nonetheless, sought more cautious and defensive strategies. Surprisingly, it wasn't the traditionally "crisis-proof" or defensive markets or sectors that provided the strongest returns for 2012. In fact, 2012 brought about a reversal of 2011 returns. A range of emerging markets, cyclical sectors and markets in the heart of macro uncertainty provided the strongest returns. As example, in 2012 the MSCI Emerging Markets Index returned 18.6%, lifted by a strong fourth quarter. The S&P 500 Financials Sector Index returned 28.8% and the MSCI Europe ex-UK Index returned 22.5% for the year. The phenomena also held true in the fixed income markets, with the higher risk sectors providing the strongest relative returns for the year. The Barclays US Corporate High Yield Index returned 15.8% and the BofA ML Emerging Market Sovereign and Corporate Index returned 23.5% in 2012. In contrast, the 2012 Barclays US Aggregate Bond Index was up 4.2%. .

In spite of this fourth year of positive returns for US equities, (with three out of the four years returning near double digit territory), overall, investors have shown little inclination to jump back into the US stock market. Since March 2009, stock mutual funds have seen $388.1 billion in outflows, while bond mutual funds attracted $851.8 billion in inflows[2]. There are divergent views as to whether this is due to risk-adverse demographics or simply the "herd" piling into the top performing asset class over the prior decade.

Economic Highlights

Investors remain uncertain as to whether signs of recovery and stabilization are genuine. The real estate market is a prime example of the persistent lack of confidence, even though the sector's outlook is stronger going into 2013. Positive signs for real estate include residential investment rising over 10% from 2011 to 2012 and new housing starts up 26% from 2011[3] levels. While already showing signs of recovery, construction and homes sales remain below sustainable rates for the number of households being formed, which in time should further stimulate construction activity and indicates potential pick-up in construction employment.

[1] Index returns from Morningstar Direct
[2] A New Era for Allocation – Tim Hayes, Ned Davis Research Group 12/6/2012
[3] Outlook for 2013: Private Sector Demand to Propel US Recovery – Joseph Carson, Alliance Bernstein 12/20/2012

Corporations also now stand in much stronger positions, with high levels of cash remaining on their balance sheets. While revenue margins may have disappointed in the Q4 earnings season with only 29% beating estimates, there was still substantial earnings growth with 60% of companies beating their earnings estimates[4]. Corporate management has been able to further improve productivity trends and produce returns in excess of the cost of capital. Additionally, dividends have taken on greater importance, given the needs of the baby boomers, and continue to be a major source of return, especially in times of low fixed income yields and uncertainty. Although the dividend payout ratio on stocks may stand at a 50-year low, the yield is still well above that of the 10-year Treasury and other fixed income instruments. Moreover, hopefully a changing mindset of corporate management may lead to continued dividend growth as the more than $2 trillion held in corporate cash is redirected to dividend payments[5].

Market Statistics

At the end of the fourth quarter of 2012 the Dow Jones Industrial Average closed down 1.74% for the quarter and up 10.24% for the year.[6] The S&P 500 Index finished with a loss of 0.38% for the quarter, but gained 16.00% for the year.[7] Within US equity markets, small cap stocks generally fared better than large cap stocks during the quarter. Among value/growth styles, 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 gain of 6.60% for the quarter and 17.90% for the year.[8] The MSCI Emerging Markets Index similarly advanced 5.61% for the quarter and 18.63% for the year. The FTSE NAREIT Index increased 2.58% during the quarter and 18.06% for the year. In the bond markets the Barclays US Aggregate Bond Index improved 0.22% for the quarter and 4.22% for the year.

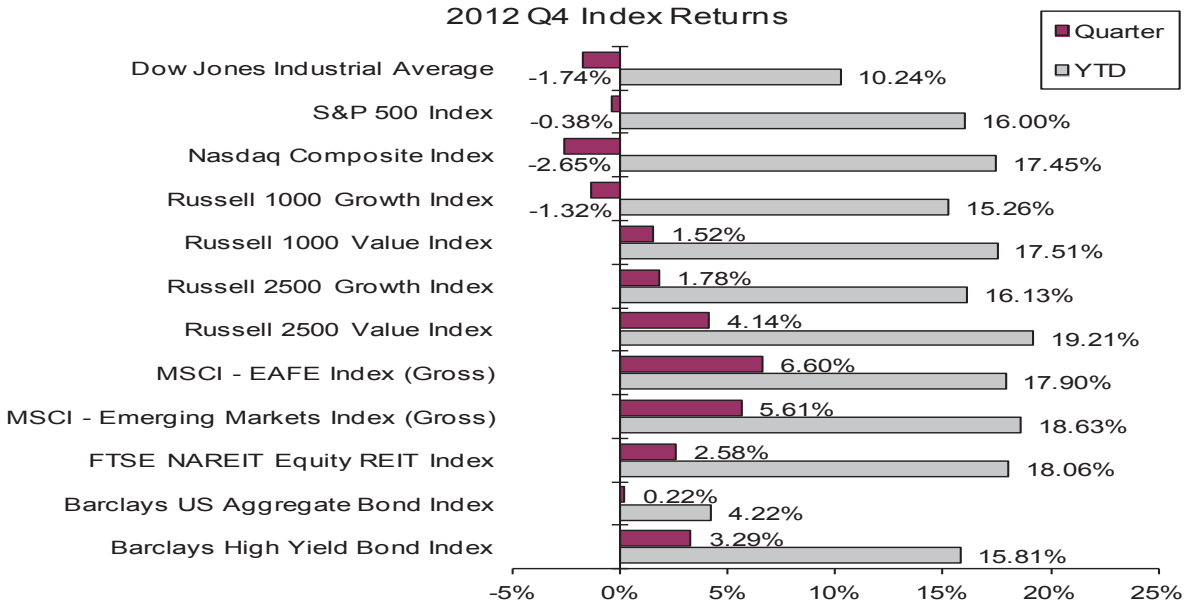
The US economy grew 3.10% during the third quarter of 2012, improving relative to the 1.30% expansion experienced during the second quarter of 2012. The Federal Reserve ("the Fed") continued to keep the Fed Funds target rate within the 0.00% - 0.25% range. Measured by the Consumer Price Index, inflation for the month of November was 1.80% on a year-over-year basis.[9] Unemployment, as measured by the jobless rate released by the Bureau of Labor Statistics in November was 7.70%. Oil futures closed at $91.82 per barrel in December, a price decrease of 0.40% from their close in September.[10] The US dollar weakened 2.04% against the euro and appreciated 10.91% versus the Japanese yen for the quarter.[11]

---

[4] Beyond the Fiscal Cliff: Earnings Growth Needed to Boost Stocks – Jurrien Timmer, Pyramis Global Advisors 11/2012
[5] 3 Reasons Not to Flee Dividend Stocks – Russ Koesterich, BlackRock 11/14/2012
[6] Bloomberg
[7] Ibid
[8] Ibid
[9] Bureau of Labor Statistics
[10] Bloomberg
[11] Ibid

SYNERGIST
WEALTH ADVISORS LLC

Fourth Quarter 2012 — Market Summary



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 returns include not only the change in price for the securities in the index, but any income generated by those securities. Sources: Bloomberg, Barclays, Dow Jones, MSCI Barra, Russell, Zephyr Associates

Outlook

Even though there are signs that equities may return to a more normal environment, where they can be expected to outperform bonds, continued bouts of volatility are likely. The fiscal cliff was avoided, but progress was not made on the debt ceiling or deficit reduction. With eerie similarity to their European counterparts earlier in 2012, our political leaders "kicked the can down the road". In doing so, although averting immediate crisis, they still need to come to resolutions on the debt ceiling, government spending and entitlement issues. It is likely that debate will continue throughout the year which may both directly and indirectly impact consumer sentiment and business confidence as consequences. Although the exact hurdles we face in 2013 may as yet be unclear, we can, nonetheless prepare for these encounters by diversifying not only across asset classes, but also in investment strategies, to best address the changing circumstances we encounter. As we gear portfolios to participate in the tailwinds of market rallies, we hope to side-step some of the downturns which may enable a smoother longer term ride, regardless of "market environment".

As always, we look forward to discussing any changes to your financial goals or circumstances and answering questions you may have about your investment strategy.

6944 I C9742 I 01/2013