SYNERGIST
WEALTH ADVISORS LLC

Market Summary

As of December 31, 2013

Market Review

The fourth quarter of 2013 saw a continuation of trends that developed over the first nine months of the year. Overall asset class results were mixed: equity markets outperformed both fixed income and cash and US stocks outpaced international counterparts, particularly with respect to negative returns in emerging markets. The US stock market S&P 500 Index returned 10.51%[1] for the quarter, with investors seemingly encouraged by political progress and an end to October's government shutdown. Large caps led small caps, although stock gains were broad-based with the Russell 2000 Index up 8.72% during the quarter. Notably, S&P 500 index stocks advanced 32.39% in 2013—their best year since 1997.

The MSCI EAFE Index of international developed equity markets returned 5.75% for the quarter and 23.29% for the 2013 year. The European region led on signs of economic improvement and continued support from the European Central Bank. Japan lagged in US dollar terms over the quarter, despite aggressive central bank policy, which helped lift the Nikkei Stock Average to historic gains. For the full year, international emerging markets significantly trailed US stocks with a modest 1.86% gain for the quarter and a -2.27% return for the year. Despite a slowdown in economic growth, China appeared to avoid a hard landing in 2013, and capital flows and inflation concerns weighed heavily in so-called "fragile" countries such as Brazil and India.

The Barclays US Aggregate Bond Index also saw negative returns in 2013 with a -0.14% for the quarter and -2.02% for the year—its worst annual showing since 1994. The rise in bond yields weighed most heavily on government-related sectors. The Barclays US Treasury Long Index was negative for the quarter and returned -13.88% for the year. Conversely, the more credit-sensitive bond sectors, particularly high yield, benefited from an improving economic environment. The Barclays Global Treasury ex US Bond index returned -1.39% for the quarter with weakness in international currencies, while emerging market bonds saw outflows potentially on concerns related to the impact of a reduction in Fed stimulus.

Real estate and commodities were among the weakest performing asset classes, with the Fed's announced pullback of bond purchases and tame inflation readings in the US. The NAREIT Equity REIT Index returned -0.71% for the quarter and 2.47% for 2013. The Dow UBS Commodity Index returned -1.05% for the quarter, impacted by higher supplies and lower demand. Gold was a significant drag to commodities, plummeting nearly 30% over the year—its first decline since 2000 and worst year since 1981.[2]

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

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Economic Highlights

The US economy continued to gain momentum, growing at a 4.1% annual rate during the third quarter of 2013, based on the government's most recent estimate.[3] This marks the second highest growth figure of the current economic expansion and well above the 3.3% historical average growth rate. At the same time, unemployment declined to 7.0% in November, down from its 10.0% peak in October 2009.[4] Inflation remained benign and below the Federal Reserve's longer-term target of 2%, with the Consumer Price Index 1.2% higher over the 12 months ending November 2013. The Federal Reserve expects ongoing improvement in the economy and projects 2014 GDP growth of 2.8% to 3.2%. Unemployment is projected to range between 6.3% and 6.6% by the end of 2014, with inflation projections in the range of 1.4% to 1.6%.[5] In view of economic progress, in December the Fed officially announced that it would scale back its $85 billion in monthly government-related bond purchases beginning in January 2014. With this anticipated change in policy, the yield on the 10-year Treasury bond increased from 1.78% at the start of the year to 3.04% by the end of December. This impacted the broad universe of income-oriented assets, particularly during May and June with early hints of a potential Fed "taper." Importantly, the Fed maintained its commitment to keep short-term rates low for an extended period and the stock market responded favorably to the news.

Outlook

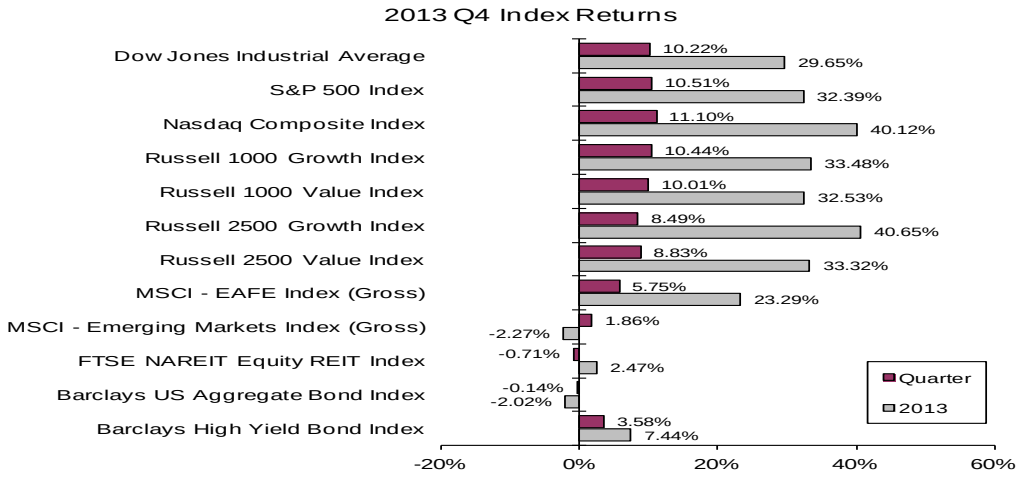
Stock market volatility was uncharacteristically low during 2013, seeing only one correction of at least 5% based on daily S&P 500 returns.[6] This provided a strong environment for traditional equity allocations, but fewer opportunities for other asset classes and more flexible asset allocation approaches. Conversely, broader and more active fixed income strategies helped diversify traditional fixed income allocations, as bond yields rose and prices declined. Looking ahead, it may seem tempting to remove exposure to certain market segments, including bonds and inflation-oriented assets such as real estate and commodities given their recent weak performance. Regardless, in a broadly diversified portfolio, it is expected that some assets will underperform others at any given time. Interestingly, valuations for US stocks have reached elevated levels, with the S&P 500 Shiller Cyclically Adjusted P/E ratio at 25.4, considerably higher than its long-term average of 19.1, while bond yields rose off of historic lows.[7] At the same time, given moderated inflation expectations, a sudden surge in prices could contribute to gains in inflation-sensitive holdings. For example, Ned Davis Research recently highlighted an upward trend in income levels, with wages up 2.2% and nonfarm unit labor costs 2.5% higher over 2013.[8] Given the historically high correlation between wages and price inflation, we could see increased 2014 volatility as the Janet Yellen led Fed transitions policy and leadership. In particular, asset inflation in stocks and housing could draw heightened attention. Entering 2014, it is important to acknowledge future potential market risks highlight the benefits of maintaining appropriate diversification strategies overall including exposures across a wide range of assets and multiple approaches to asset allocation. We look forward to conversations regarding your investment

[3] Source: Bureau of Economic Analysis
[4] Source: Bureau of Labor Statistics (unemployment and CPI)
[5] Source: Federal Reserve
[6] Source: Ned Davis Research
[7] Source: Standard & Poor's, Factset, Robert Shiller Data
[8] Source: Ned Davis Research

objectives and again ask you please advise should there be any changes to your overall financial situation or desired risk levels in your portfolios.

Market Statistics

At the end of the fourth quarter of 2013, the Dow Jones Industrial Average advanced 10.22% for the quarter and 29.65% for the year.[9] The S&P 500 Index finished with gains of 10.51% for the quarter and 32.39% for the year.[10] Within US equity markets, large cap stocks generally fared better that small cap stocks for the quarter. In the international arena, the MSCI EAFE Index (a proxy for developed international markets) recorded a gain of 5.75% for the quarter and 23.29% for the year.[11] The MSCI Emerging Markets Index gained 1.86% during the quarter, but was down 2.27% for the year. The FTSE NAREIT decreased 0.71% for the quarter, but posted a 2.47% gain for the year. In the bond markets, the Barclays US Aggregate Bond Index dropped 0.14% for the quarter and was down 2.02% for the year.The US economy grew 4.1% during the third quarter of 2013, improving relative to the 2.5% expansion experienced during the second 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 November was 1.2% on a year-over-year basis.[12] Unemployment was 7.0% in November, as measured by the jobless rate released by the Bureau of Labor Statistics. Oil futures closed at $98.42 per barrel in December, a price decrease of 3.82% from their close in September.[13] The US dollar weakened 1.92% against the euro, but appreciated 7.36% versus the Japanese yen for the quarter.[14]



[9] Morningstar
[10] Ibid
[11] Ibid
[12] Bureau of Labor Statistics
[13] Bloomberg
[14] 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 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, Dow Jones, MSCI Barra, Russell, Zephyr Associates.

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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.

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.

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