ASCENTIAL WEALTH ADVISORS

Mid-Year 2012

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Markets Rise in the Face of European Fears

Index	Jun 2012	2011	2010	2009	2008
S&P 500	+9.5%	+2.1%	+15.1%	+26.5%	-37.0%
DJII	+6.8%	+8.4%	+14.1%	+22.7%	-32.0%
BC Total Bond	+2.8%	+7.7%	+6.5%	+5.9%	+5.2%
EAFE (Int'l)	+3.0%	-12.1%	+7.8%	+31.8%	-43.4%

For the third straight year, US equity markets struggled to maintain early gains. In April and May the European debt crisis nearly overshadowed optimism of modest economic improvements in the US. June was brighter as the European Union (EU) appeared to move closer to a coordinated effort to address debt concerns.

International equities fared worse as the EU's drama unfolded, and countries negotiated who would ultimately backstop the weaker members' declining credit worthiness.

US bonds continue to be the safe haven investment for weary and fearful investors. This was accelerated when European investors joined the crowd as they felt compelled to hedge their portfolios against a declining Euro. As a result, US bonds were driven to record levels. At one point, the Ten Year Treasury yield fell to a new low of 1.4%. With current US inflation running at 2.3%, some bond investors are experiencing negative real returns.

Focus

Focus:

- ✓ Add to emerging market bonds
- ✓ Build "technology focused" US equities
- ✓ Reduce European equities
- ✓ Modify alternative investments

"We believe investors who look past the short term volatility and remain resolute to owning high quality stocks will ultimately be rewarded with higher returns."

Despite equity market volatility, over the past two years global stocks and bonds have experienced similar performance. During this same period, US corporate earnings have remained resilient and interest rates have continued to fall.

At this point, we feel the fundamental questions are:

Will courageous investors be rewarded for their belief in equities?

Yes, we believe investors who look past the short term volatility and remain resolute to owning high quality stocks will ultimately be rewarded with higher returns.

Should portfolios be adjusted in response to heightened global and political economic uncertainty?

We recommend portfolios be adjusted for greater uncertainty in Europe. However, this does not mean we should be running to safety. While a defensive posture can prevent investment loss, it is equally important to play offense and take advantage of attractive investment opportunities. Over the long term, tactically playing offense and defense can result in higher returns while maintaining reasonable risk management.

With this in mind, we are recommending an increase to our weighting in US growth equities. More specifically, we favor stocks that rely on technology as a means to grow earnings. To balance the increased risk we suggest selling some European equities and adding to emerging market bonds.

Finally, for alternative investments, we are suggesting a slight pullback and a move to a hard currency strategy.

Fixed Income

As previously mentioned, high quality bond prices have continued to rise moving current yields lower. Yields for high quality US bonds have fallen to generational and in some cases to all-time lows.

At the beginning of 2012, we recommended an increased weighting in emerging market bonds while lowering European equity holdings. The rationale was to reduce our equity risk and maintain our "non-dollar" denominated investments while minimizing our exposure to low yielding high quality US bonds.

"While the risks of owning emerging market bonds are greater than owning US Treasuries, we believe the current yields (around 5% on the JP Morgan emerging market bond index) fairly compensate investors for assuming this risk."

Current Yields on US Bonds

	2 Yr	5 Yr	10 Yr	20 Yr
US Treasuries	.3%	.7%	1.6%	2.3%
Certificates of Deposit	.9%	1.5%	N/A	N/A
A Corporate Bonds	1.0%	1.9%	3.1%	4.2%
AAA Municipal Bonds	.4%	.9%	2.0%	3.4%

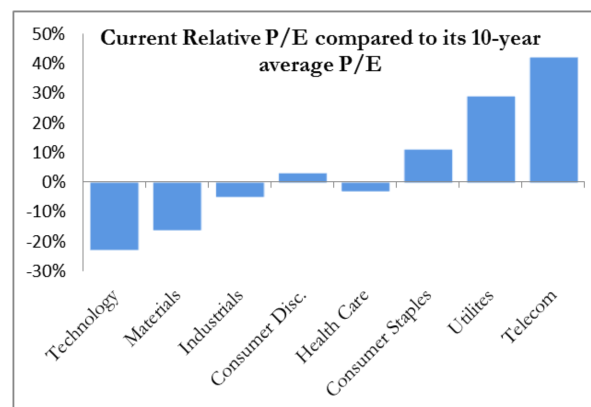
Source: Bloomberg as of June 26, 2012.

So far this year, when global stock prices went down, emerging market bonds largely held their value. We are again recommending additions to emerging market bonds for the aformentioned reasons and as an offset to more aggressive positions within US growth equities. While the risks of owning emerging market bonds are greater than owning US Treasuries, we believe the current yields (around 5% on the JP Morgan emerging market bond index) fairly compensate investors for assuming this risk. In general, emerging market economies are not facing the same level of sovereign debt and banking issues as developed countries, and their bonds provide currency and geographic diversification from Europe and the US.

US Equities

We believe US stocks present the best opportunity for risk adjusted returns. From a valuation standpoint, US equities are trading near 12 times earnings versus their historical average around 15. These discounted valuations are a sharp contrast to lofty bond prices. Though there have been mixed economic messages, US GDP continues a slow growth trajectory at around 2%. In general US companies continue to show strength. In the first quarter, S&P 500 companies posted average earnings growth of 6.9% and 70% beat analysts' estimates. These factors coupled with the high degree of uncertainty in the Eurozone cause us to maintain a preference for US equities.

"We are increasing overweight positions in US large growth, shifting more emphasis to a technology focused strategy."



Source: Data Stream as of May 25, 2012.

We prefer a "bar bell" strategy, emphasizing both dividend paying and large growth companies. We also recommend diversifying equity investments in MLP's to other sectors that offer high yields and lower volatility.

We are increasing overweight positions in US large growth, shifting more emphasis to a technology focused strategy, which looks attractive on a relative basis with price/earnings ratios more than 20% below historical averages. Rather than buying only traditional information technology companies, we prefer broader exposure to include innovative companies across industries which leverage new technologies to improve results. This is an opportunity for us to tactically play offense in a sector we expect will move toward its long-term average valuation.

International Equities

International equity markets have experienced greater instability than the US, reacting to the Eurozone's debt crisis. European equities may appear cheap, trading at approximately 10 times earnings, but we feel they are underpriced for a valid reason and are further reducing our allocation to developed international markets.

Many Eurozone countries are in a recession, and GDP for the region as a whole is expected to contract in 2012. The EU has agreed to bail out some of its weaker members; however, there is resistance to the fiscal austerity provisions attached to these agreements. Uncertainty surrounding the health of the European banks is also a cause for concern. Though we do not believe an outright collapse of the Euro is imminent, we see the process of deleveraging and re-tooling the EU as a drag on their economy for some time.

While we are recommending lowering our European exposure now, we expect that a buying opportunity will present itself at some point in the future. When there are signs that the economic contraction is slowing and the borrowing costs for weak Eurozone members normalize, we will begin to rebuild our European equity positions.

With this additional reduction in developed international equities, we are recommending an increase in emerging market bonds to maintain non-US exposure. We are also maintaining our allocation to emerging market equities, and shifting a portion to a dividend paying strategy.

Emerging markets are reasonably priced and better positioned for a rebound when the situation in Europe has stabilized. A dividend paying emerging market strategy allows us to maintain international exposure with less overall volatility.

"European equities may appear cheap, trading at approximately 10 times earnings, but we feel they are underpriced for a valid reason and are further reducing our allocation to developed international markets."

Other

This category contains hard assets (real estate and commodities) and alternative investments. We continue to be weary of the risks and volatility associated with hard assets should economic weakness prevail and further crimp global demand.

As a result, we feel less compelled in the short term to protect portfolios from inflation as most global commodity prices have weakened the past six months. In the future when global economies begin to strengthen, we expect to return to these asset classes to protect portfolios from inflationary pressures.

We employ alternative investments as "bond equivalents". We expect these assets to provide positive results in most environments and moderate returns over the long term.

We recommend a modest reduction in our alternative investments to fund the other opportunities previously discussed.

Within the category, we recommend shifting all of our investments to a hard currency focused strategy. Our expectation is that as the European crisis continues to unfold, hard currency strategies are more likely to provide the risk managed returns we expect from our alternative investments.

"Within the category, we recommend shifting all of our investments to a hard currency focused strategy."

Heads Up:

- You can now move funds between your Raymond James accounts and your bank using on-line service. Call Gayle or Lori if you need assistance.
- If you would like to discuss how your life insurance policies fit your financial plan, please let us know.
- IRA owners over the age of 70 ½ are required to take a minimum distribution (RMD). You can find your calculation on the last page of your statement. We will contact you prior to year end to arrange the distribution, or feel free to call us anytime.

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Investor Courage

In 2012, global markets continued to fluctuate widely from month-to-month; however, the first half ended on a strong note. US large growth companies were especially strong, posting a 13% gain for the first half. We continue to encourage our clients to resist the urge to react to the "fear of the day". History supports the notion that resilient investors are more likely to be successful. Over the past few years, equity markets have been more volatile as investors have been buying and selling entire asset classes in response to the headline news. As a result of this "all in" or "all out" behavior many asset classes have experienced violent price moves in short periods of time (gold and oil are good examples). We believe that our investment results are enhanced when we measure opportunities and risks in an unemotional way and we resist the temptation to join the investor herd.

A key component in our overall success is courage. Staying invested in equities when others are running for the exits or the news media is reporting that global economic systems are on the brink requires a courageous belief in the overall strategy. One of our most important roles as financial advisors is to re-affirm our clients' investment strategy in the face of doubt, and we are prepared to have these conversations.

Disclosures

1) Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Any opinions are those of Ascential Wealth Advisors and not necessarily those of Raymond James. Expressions of opinion are as of this date and are subject to change without notice. Inclusion of indexes is for illustrative purposes only. Investors cannot invest directly in an index. Past performance may not be indicative of future results. This information is not intended as a solicitation or an offer to buy or sell any security referred to herein. Ascential Wealth Advisors is an independent firm. Securities offered through Raymond James Financial Services, Inc. Member FINRA/SIPC.

2) Investments in real estate, high yield bonds, precious metals, commodities, and international and emerging markets are subject to additional risks and should only make up a small part of a diversified portfolio. Bond prices and yields are subject to change based upon market conditions and availability. Bond prices and interest rates have an inverse relationship. Dividends are not guaranteed and must be authorized by the company's board of directors.