ASCENTIAL WEALTH ADVISORS

Year End 2011

A Year of Uncertainty and Volatility

Overall, 2011 was filled with anxiety however broader US equities managed to post modest gains. Overseas results were gloomier as European debt and banking fears drove equity markets to double digit losses. US Treasury interest rates continued to push lower, at times to record levels, moving bond prices higher.

Index	2011	2010	2009	2008	2007
S&P 500	+2.1%	+15.1%	+26.5%	-37.0%	+5.5%
DJII	+8.4%	+14.1%	+22.7%	-32.0%	+9.7%
BC Ttl Bond	+7.7%	+6.5%	+5.9%	+5.2%	+7.0%
EAFE (Int'l)	-12.1%	+7.8%	+31.8%	-43.4%	+11.8%
Nat Assoc. REIT	+9.3%	+10.5%	+27.8%	-37.8%	+17.8%

While the annual performance in the US equity markets suggests an uneventful year, in fact there was a tremendous amount of volatility as prices routinely posted 2-3% daily moves and monthly fluctuations of 5% or more were not uncommon.

The whipsawing of non-US equities was even greater as investors questioned both the survival of the Euro as a currency and European banks' ability to collect on the members' sovereign debt.

Emerging market and European equities performed the poorest while US fixed income continued to shine as investors sought safe haven from Europe's woes and a weak US economic recovery.

Focus

We continue to weigh our individual investment choices using two primary criteria. The first is overall valuation. Is the asset class cheap or expensive compared to its history and alternative investment choices? The second is overall risk management. When all asset classes are assembled into a portfolio, is there enough protection against downside risk to meet our objectives and withstand fluctuations in our account values when equities retreat?

In the past, we have relied on investment grade US fixed income (Treasuries, Municipals, and Corporate Bonds) to help smooth portfolio fluctuations when global stock markets hiccup. Today, these choices look expensive compared to their histories and relative to our other investment choices. In 2012, our challenge is to assemble portfolios that provide reasonable yields while maintaining our risk management objectives.

To address this challenge, we are recommending an overweight position in both variable rate and high yield US corporate bonds as well as dividend paying US stocks. We believe the higher yields provided by these choices fairly compensate us for the additional risks they carry compared to the more traditional fixed income choices.

As we observe Europe's sovereign debt and banking crisis, it appears that they are headed for at least a recession and at worst a broad currency crisis. To that point, we are suggesting a reduction in our European equity holdings. In an effort to maintain our weightings in non-dollar denominated investments, we recommend adding to our emerging market bonds.

Finally, we are suggesting that we reduce our holdings in natural resources to a neutral position as industrial commodity prices could be pressured if a recession takes hold in Europe.

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Focus:

- ✓ Add to US high yield and emerging market bonds
- ✓ Add to high dividend paying US equities
- ✓ Reduce European equities
- ✓ Reduce natural resources

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Fixed Income

"Emerging market bonds provide currency and geographic diversification away from Europe and act as a hedge against downside risk more so than equities."

As yields for traditional fixed income have fallen over the past 4 years, we have shifted an increasing portion of these investments to variable rate loans, alternative investments, and intermediate maturing bonds.

Last year we added convertible bonds to our investment mix. We have been disappointed with the performance of this asset class and are recommending their sale in favor of high yield corporate bonds as we believe the higher coupon fairly compensates for their lower credit quality.

As previously discussed, most international investments underperformed in 2011. In the past, we have employed international bonds as a diversification tool to buffer the effects of weak equity markets and a softer US dollar. Generally, our results from non-US investments are inversely affected by the strength or weakness of the US dollar.

Given the lingering risks surrounding the European debt crisis and our desire to maintain exposure to non-dollar denominated investments, we recommend shifting a portion of our developed international equities to emerging market bonds.

Emerging market economies are not facing the same sovereign debt and bank issues as Europe. Their bonds provide currency and geographic diversification away from Europe and the US and act as a hedge against downside risk more so than equities.

US Equities

"Our US equity preference is a "bar bell" strategy emphasizing growth stocks while simultaneously overweighting more conservative, dividend paying equities."

Despite the increased volatility and unimpressive broad market performance in 2011, we are maintaining an overweight position in US Equities. Specifically we favor large cap growth and lower volatility, high dividend paying stocks. In a sense, this represents a "bar bell" strategy emphasizing growth stocks while simultaneously overweighting more conservative, dividend paying equities. Both mid and small caps remain "underweight".

In general, US equities remain attractive with price/earnings ratios for S&P 500 companies below historical averages, currently at around 11 times earnings versus their history of around 15.

Corporate profits set an all-time record in 2011. They are expected to remain elevated but grow at a slower rate in 2012. Historically, growth stocks have outperformed their value counterparts when the profit cycle slows. In addition, growth stocks are cheaper given their historical valuations trading at a 26% premium to value, well below their historical average of 40%.

While US stock valuations compel us to maintain our overweight position, the US economic recovery remains uncertain and Europe continues to wrestle with their sovereign debt and banking crisis. The possibility of either issue further jarring equity markets moves us to increase our "low beta" (or lower volatility) stocks that offer above average dividend payouts.

Traditionally, we have invested in Master Limited Partnerships to fulfill this need, and recommend that we add to and diversify these holdings. With valuations at attractive levels and healthy dividends, these equities will enhance cash flow in our portfolios and contribute to the overall risk management strategy.

In closing, US equity markets will certainly be affected if a major crisis occurs in Europe. Generally speaking, the US equity market provides us with reasonable value in an environment with less uncertainty than other developed nations.

International Equities

Investment results from international equities diverged from those achieved in US markets in 2011. When global equity markets tumbled as Europe struggled to address their sovereign debt and banking crisis, US equities ultimately held their value.

This was in sharp contrast to the equity meltdown in 2008 when virtually all equity indexes performed similarly (see page 1). Aside from the reduction is equity prices, the strength of the US dollar further reduced our overseas results as our investments there are denominated in local currencies.

Emerging market equities delivered the largest losses in 2011. While this may appear incongruent since emerging markets face lower deficits and fewer banking problems, they tend to "magnify" the current sentiment outperforming when confidence is high and under performing in times of uncertainty. Despite the losses, we remain convicted to our overweight allocation to emerging market equities.

Our belief is that the fallout from Europe's crisis will likely follow the same path overseas that the US has been experiencing since 2008. That is, a recession followed by weak economic growth as governments and consumers restrict their spending and corporations struggle to regain confidence. To that end, we are recommending that we reduce our holdings in developed international equities (largely Europe).

In its place we are suggesting an increased weighting in emerging market bonds. Our primary rationale is that we intend to maintain our weightings in non-dollar denominated investments, reduce our geographic weighting to Europe, and enhance our portfolios' downside protection should Europe's recession comes to fruition.

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Other

The "other" category includes real estate, natural resources, and alternative investments. Commercial real estate remains underweight as most REITS trade above the net asset value of their underlying property and their dividends may be reduced if interest rates rise.

Last July, we reduced our overweight position in Natural Resources because industrial commodities and precious metals appeared to be stretched. While precious metal prices have come down (most notably gold), we are recommending the sale of our remaining natural resource funds which would return us to a neutral stance. Our belief is that industrial commodity prices could weaken if Europe's economies go into recession. Plus, precious metal prices remain elevated from their 10 year bull market.

Finally, the objective of our alternative investments is to provide us with "bond like" returns over time without taking the interest rate risk associated with tradition fixed income. We are suggesting a modest reduction in alternative investments to provide proceeds for the other additions previously mentioned.

"We recommend reverting to a neutral position in natural resources as industrial commodity prices could weaken if Europe's economies go into recession and precious metal prices remain elevated from their 10 year bull market."

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Heads Up:

- Please wait to receive tax documents from both UBS and Raymond James prior to completing your taxes.
- If you have "taxable accounts" that contain MLPs wait to file your taxes until all of your K-1's have been received. They are usually mailed by the first week of March. Gayle and Lori are available if you need assistance.
- If you have not set your accounts to view online and would like to, please contact us for assistance.

Closing

As a result of the uncertainty and volatility that global markets exhibited in 2011, a sense of fatigue or even frustration could be expected as we watched our account values fluctuated widely from month to month only to end the year with very little or no progress. There was a constant drumbeat of gloom and doom offset by the glimmer of better days ahead. To escape the anxiety meant selling equities into markets that are trading more cheaply than their historical averages and buying fixed income at historically high prices offering little or no yield. As we move forward, we believe that our conviction to our overall strategy will be rewarded. We will continue to monitor the investment options available and help you maintain a diversified portfolio, which participates in positive markets without taking the risk of being all wrong when markets deteriorate.

We would be remiss if we didn't thank you for the support, trust, and confidence you afforded us in 2011. This was an important year for Ascential Wealth Advisors as we transitioned from UBS to Raymond James Financial Services. After 3 1/2 months, we can see that our transition has been a success and Raymond James is the partner we fully expected. We recognize this change meant some inconvenience for you and we would like to thank you for joining us. We will continue to offer you our best to meet your expectations and keep our commitments.

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.