ASCENTIAL
WEALTH ADVISORS

Year-End 2012

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- ✓Reduce high-yield bonds
- ✓Add to MLPs
- ✓Add to emerging market bonds & equities
- ✓Increase alternative investments

"We recommend a strategy that over-weights "non-dollar" denominated securities, increases exposure to alternative investments, and is void of bonds with long maturities."

Markets Continue Advance

Index	2012	2011	2010	2009	2008
S&P 500	+16.0%	+2.1%	+15.1%	+26.5%	-37.0%
DJIA	+10.2%	+8.4%	+14.1%	+22.7%	-32.0%
EAFE (Int'l)	+17.3%	-12.1%	+7.8%	+31.8%	-43.4%
BC Total Bond	+4.4%	+7.7%	+6.5%	+5.9%	+5.2%

Equity market returns were impressive in 2012 given uncertainties relating to global government debt, anemic economic growth, and a contentious US presidential election. Despite these headwinds, US equities continued their 4 year advance since the global credit crisis of 2008, ending 114% above their March 2009 low. However they remain 10% below the all-time high attained in October of 2007.

Most developed international equity markets reversed their 2011 weakness and achieved solid results. While European economies remain weak, their equity markets have bounced on the premise that stronger European Union members will continue to aid their weaker partners.

Fixed income investments also fared well as interest rates continued to fall with the support of the Federal Reserve's unprecedented program to hold interest rates at generational lows. Generally, lower credit quality bonds outpaced Treasuries as investors searched for higher yields and were more willing to take additional credit risk.

Focus

Traditionally we have managed portfolio risk by using fixed income to mitigate the fluctuations of equity prices. Prior to 2008, high quality bonds typically offered yields that covered the expectation of inflation plus a modest premium. As a result of strong investor demand and the US Federal Reserve implementing several quantitative easing programs, yields for investment grade bonds have fallen to levels where they are likely to trail inflation. The cost of managing risk in an investment portfolio using high quality fixed income appears uncomfortably high. As a result, we feel compelled to manage portfolio risk with less help from traditional fixed income and recommend a strategy that over-weights "non-dollar" denominated securities, increases exposure to alternative investments, and is void of bonds with long maturities.

Driven by the search for yield, investors have bid up the prices of US high yield bonds to the point where we are wary of their valuations and suggest reducing our position. Alternatively, we prefer increased weightings in emerging market bonds and Master Limited Partnership (MLP) equities where valuations appear more favorable. In addition, stronger growth prospects in emerging market economies support a shift from US growth holdings to emerging market equities.

Fixed Income

Current Yields on US Bonds				
	2 Yr	5 Yr	10 Yr	20 Yr
US Treasuries	.2%	.6%	1.6%	2.3%
Certificates of Deposit	.5%	1.2%	N/A	N/A
A Corporate Bonds	.7%	1.5%	2.8%	4.0%
AAA Municipal Bonds	.3%	.7%	1.7%	3.0%

Source: Bloomberg as of December 11, 2012.

"We recommend taking advantage of the higher prices by selling ½ of high yield bond positions and a portion of investment grade corporates."

As previously mentioned, bond prices continued to rise in 2012 pushing current yields lower. Yields for high quality US bonds (see chart) have fallen to generational and in some cases all-time lows.

Over the past year, lower quality bonds, most notably high yield and emerging market issues, widely outperformed higher quality fixed income. As interest rates have fallen and the economic outlook has improved, fixed income investors are accepting greater credit risks, bidding up prices of lower quality bonds.

We recommend taking advantage of the higher prices by selling ½ of high yield bond positions and a portion of investment grade corporates.

Although emerging market prices have also risen, we favor modest additions to these bonds as we believe they are still attractively priced and prefer to increase "non dollar" denominated assets.

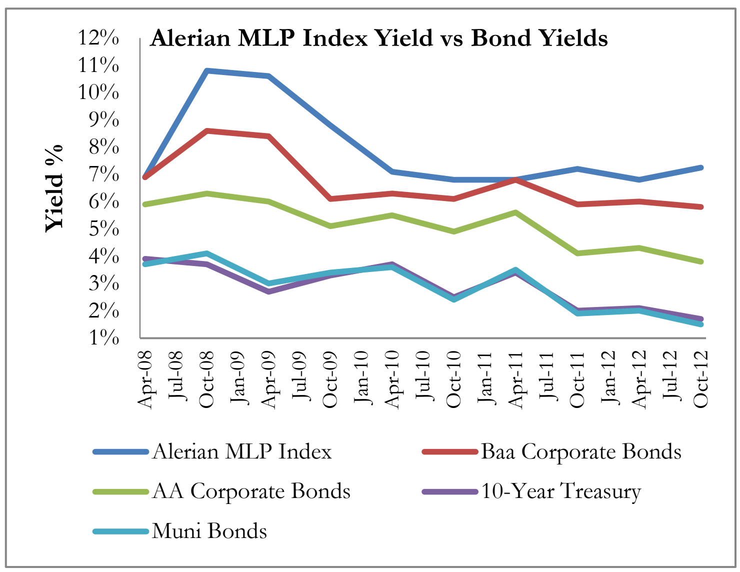
Emerging market economies are not facing the same level of sovereign debt and banking issues as developed countries, and their bonds provide currency and geographic diversification from Europe and the US.

US Equities

"We believe lower MLP prices coupled with prospects for growth in the US energy industry create an opportunity to further build these positions.

We continue to believe US stocks present the best opportunity for risk adjusted returns. From a valuation standpoint, US equities are trading near 13 times earnings versus their historical average around 15. These discounted valuations are a sharp contrast to lofty bond prices and continue to reflect some of the economic uncertainty of the last 4 years.

In 2012, many MLP investments lagged the overall equity market as investors sold them, feeling uncertain about both a potential change in preferential tax treatment and higher capital gains rates. In the end, the US Congress did not change the preferential tax treatment of MLPs.



Source: Alerian Fact Set 11/30/2012.

We believe lower MLP prices coupled with prospects for growth in the US energy industry create an opportunity to further build these positions. The chart above depicts a comparison of the Alerian MLP index versus various bond index yields. While MLPs are equities and carry different risks than bonds, we believe the additional yield and prospect of rising dividends over time fairly compensates investors for these risks.

International Equities

International markets showed surprising strength in 2012, rebounding after a weak 2011 and outperforming US markets. In hindsight, it appears fear over Eurozone stability and recession was overdone and investors took advantage of cheap equity prices. Emerging markets also performed well as forecasts suggest economic growth is improving.

We feel the situation in Europe is still precarious as debt levels remain high, necessary austerity provisions have not been fully adopted, and relations between member nations are fragile. The outcome of these circumstances is difficult to predict and potential downside risk remains significant.

Given the uncertainty, we are not yet comfortable rebuilding developed international holdings. While we see reasonable valuations for European equities, greater clarity must prevail before this potential is unlocked.

We do, however, recommend additional emerging market exposure. Economic growth in emerging markets is expected to accelerate from 4.5% to 5.1% in 2013. *(Source: UBS WMR, Nov 30, 2012)* This compares favorably to the US where economic growth is anticipated to inch from 2.2% to 2.3%. Emerging market valuations appear reasonable trading at 10 times earnings compared to a historical average of 11. *(MSCI Emerging Markets Index - Source: UBS WMR, Nov 30, 2012)* We believe the historical figure does not give emerging markets credit for their solid and improving economic growth prospects, making them a greater bargain at current levels.

Additions to emerging markets work to increase allocation to non-US dollar investments.

"We believe investors are not adequately valuing emerging market equities for the solid and improving economic growth prospects, making them a greater bargain at current levels."

Other

This category contains hard assets (real estate and commodities) and alternative investments. Historically, hard assets help mitigate the risk of inflation. However, we believe their current valuations are stretched and suggest waiting for a more attractive entry point.

Over the past 3 years, we have recommended increased weightings in alternative investments and are suggesting another increase. We believe traditional bonds are vulnerable to interest rates rising and their current yields no longer exceed inflation. As interest rates have fallen, we have become increasingly concerned about a rate rebound and less convinced that traditional fixed income will provide stability to portfolios.

The alternative strategies we have selected focus on reducing portfolio volatility and risk while attempting to preserve capital and deliver positive returns under most market conditions. They utilize a variety of financial instruments that when combined help reduce the risks of owning the individual investments on their own. We expect them to have low correlation to equity markets and low sensitivity to interest rates.

As with any investment, there are specific risks. Alternatives rely on the market savvy of managers to achieve results. We have conducted due diligence to identify managers that we expect to fulfill these objectives, and are comfortable taking the talent risk associated with alternative investments compared to the interest rate risk of owning traditional fixed income.

"We have conducted due diligence to identify managers that we expect to fulfill these objectives, and are comfortable taking the talent risk associated with alternative investments compared to the interest rate risk of owning traditional fixed income"

Heads Up:

- 2012 Tax Reporting: Please be patient in filing your return as 1099s are often revised into February and K-1s are not available until the first week of March. Gayle and Lori are available if you need assistance.

- Our web-site has been redesigned. Please visit at www.ascentialwealth.com. Your feedback is welcome.

- There now "apps" available for viewing your account information on both the I-Phone and Android mobile devices. See your applicable "App" store.

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Looking Ahead

Although the US Congress passed a last minute bill at the end of 2012 to avoid the "fiscal cliff", the political drama and media coverage caused anxiety and volatility for investments. Earlier in the year, US equity markets experienced two episodes where prices retreated more than 10%, yet overall 2012 was a success for many disciplined equity investors. Further resolving debt issues in the US will be no easy task and will likely cause additional temporary bouts of market anxiety as political posturing again overtakes media headlines. As these events unfold, we need to keep our emotions in check and remember that each time the market reacted to the rhetoric in 2012 it reverted back to the fundamentals when the "crisis" was averted.

It is helpful to remind ourselves that our strategy is constructed with a long term outlook considering both good and bad markets. If it became clear that a dramatic shift was warranted please know that we are prepared to make recommendations to adjust your strategy. In the meantime, we continue to be mindful of investment risks and maintain an unemotional, long term perspective.

Disclosures

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