



QUARTERLY INVESTMENT REPORT December 31, 2011

Dear Investor:

What a year! Despite incessant political gridlock, the year began with some promise as the job market began to stabilize and the Federal Reserve's stimulus appeared to start getting the economy moving. Unfortunately, over much of the year **the market was driven by international events**. Mideast unrest drove oil prices higher, Japan's earthquake in March disrupted global trade, and Europe's debt crises threatened the stability of Europe and the world.



"How do you stay so calm about the stock market?"

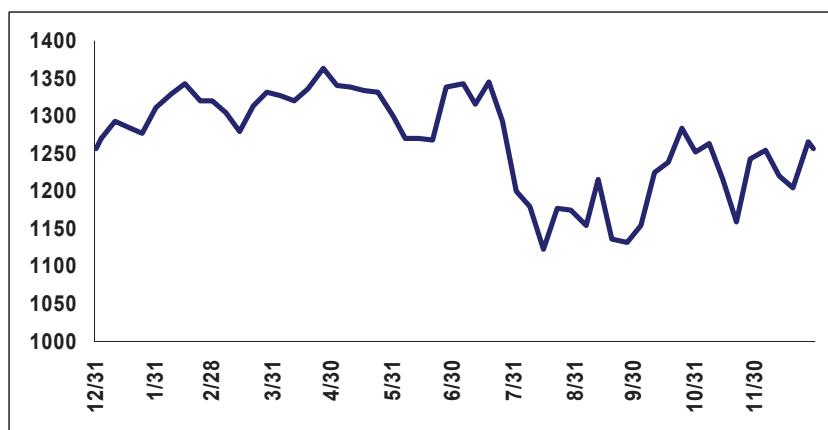
Volatility was the watchword for the year, especially in the third quarter. Historically the third quarter is consistently weak and this year was no exception. The market was down 14% in the third quarter and since August 1st the S&P 500 had eight days of declines of 5% or more and eight days of advances of 5% or more. To put that in perspective, there were periods in the 1990's where the S&P 500 went more than a year without more than one rally or decline of 5%.

While some believe part of the blame for this increase in volatility is related to the increased popularity of Exchange Traded Funds (ETFs) and faster trading capabilities, we believe international events played the major role.

S&P 500 in 2011 2.11% Total Return

Price change: -04%
Dividend: 2.15%

3rd qtr dove 14% amid wild price swings.



The stock market recovered in the fourth quarter due to improvements in jobs and the housing market, a temporary resolution to the payroll tax cut debate, and a European Central Bank (ECB) lending plan. Though financial volatility and the European Union captured the headlines, the jobs outlook remains the most important economic statistic for the U.S. markets. At year-end, new unemployment claims trended down to below 400,000, a level that, if it holds, indicates we are closer to a pre-crisis job environment.

US Initial Unemployment Claims

This is the lowest new jobless claims level since 2008. If it can stay at this level, that would be consistent with a 3.5% real Gross Domestic Product (GDP) growth rate.



The housing market is still weak, but construction of new single-unit homes has seemingly found a floor and construction of multi-family homes is actually increasing. There are still too many homes under water and the healing process in the existing home market will likely take at least a couple more years.

Europe remains a serious problem. A tiny Santa Claus rally towards year end is one thing, but it will take more than a ho ho ho and teams of flying reindeer to set Europe straight. Crushed wages, consumer confidence, and spending are making recession in Europe almost a fait accompli. While with hindsight the Eurozone project seems like folly given the lack in a unified government and economic discrepancies between member countries' productivity and social structures, it may be too late to break it up.

It is important to remember that European leaders want to hold the currency union together since any country defaulting or leaving would create a large uncertainty for the future of the currency union and hinder economic activity between all countries. A break-up would weaken Europe as a whole, and the interests of all countries, strong and weak alike, is in maintaining the currency union for the time being.

In late December the ECB orchestrated an aggressive lending program that we think increases the odds that the Eurozone will stay intact. This program offers ample liquidity for three years to European banks and reduces the probability of sudden bank failures.

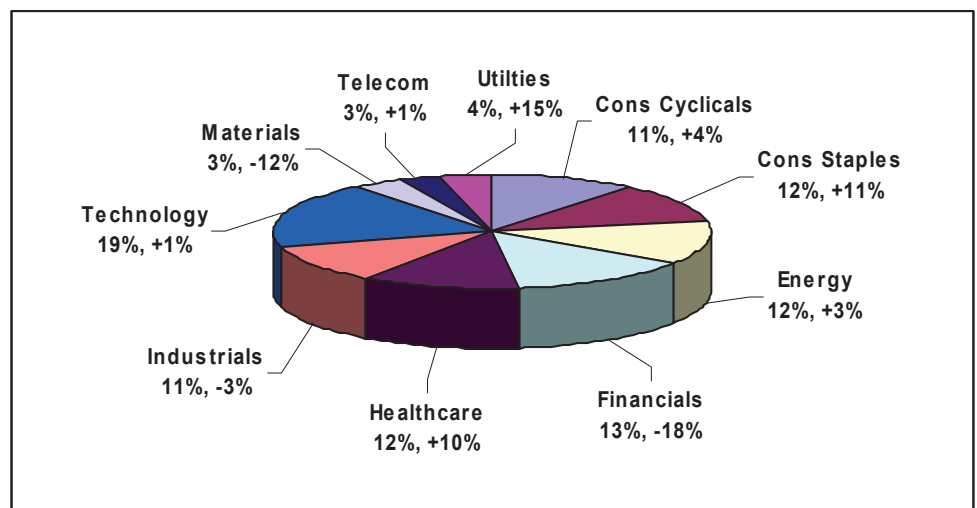
Despite our country debt woes and the coming disruptive political season, we think the dollar will continue to strengthen against the Euro. Compared to Europe, the U.S. has a proactive central bank, stable financial and political systems, and a highly productive work force. Nonetheless, **proceed with caution is our mantra going into 2012 as we maintain a mix of high quality US stocks, emerging market stocks, short-term treasury and high credit US corporate bonds.** We have been pulling back on our exposure to Europe in favor of emerging markets and will continue until conditions improve. Though we expect the U.S. economy to be hampered by Europe’s problems, we do not anticipate a domestic recession.

Our conviction on US stocks remains strong. We see opportunities in most economic sectors, specifically in Healthcare, Energy, and Technology. We look for Healthcare companies that have adjusted to patent run-off and have lean operations with smart partnerships for R&D and/or marketing, Energy companies that have sourced lucrative new reserve opportunities and investments in legitimate alternative technologies, and Technology companies that have a global manufacturing footprint and continually introduce new products and innovative technologies.

We also screen for excellent management execution, growth rates, and strong balance sheets, and companies that pay a good dividend. Currently, stocks overall are not expensive as price to earnings multiples (PEs) are at 13 times earnings. The historical average is 16 times. By the time those anxious investors shake off their fear of stocks, we will already be positioned for the next market rise.

2011 S&P 500 Sector Capitalization & Performance

The 1st number under each sector name is capitalization and the 2nd number is price change.



In the floundering economy, the typically defensive sectors of Consumer Staples (+11%), Utilities (+15%), and Healthcare (+10%) performed best. Financials (-18%) were weakest as they grappled with profit losses, greater regulations, and litigation.

Note that the Dow Jones Industrial Average (DJIA) closed out the year with more than a 5% gain. One of the primary drivers for this year's DJIA outperformance of the S&P 500, is the fact that the Financials sector has a much lower weighting in the DJIA relative to its weighting in the S&P 500. In the S&P 500, Financials account for about 13% of the index, while within the DJIA Financials only account for 7% of the index, so in a year where the Financials sector was down about 18%, the DJIA was a lot less affected.

Although the S&P 500 was almost flat for the year, 2011 earnings were impressive. The S&P 500 is on pace for EPS growth of 16% this year. With a multiple of 13 times current earnings, the S&P 500 is certainly cheap relative to history.



We would like to thank our clients who took the time to take our first company survey and provided feedback to us to better serve you. The survey included 12 questions with five rankings from very satisfied to very unsatisfied. Approximately 60% of you took the time to complete the survey during this busy time of the year and we appreciate your effort. We are gratified to learn that in terms of your overall relationship satisfaction, contact frequency, and the ability of Ascend Investment Management to meet your financial needs that 90% of you rated us in

the top two categories of very satisfied or satisfied. And no one expressed being dissatisfied. Please know that it is our goal to continue to provide you with the service and accessibility that you have come to expect.

As might be expected based on the volatility of the investment market, with regard to client portfolio performance satisfaction 19% of you were neutral with regard to portfolio performance while 60% of Ascend Investment Management clients expressed being either very satisfied or satisfied and 11% of you chose to not answer the question. We truly believe that the market is beginning to turn the corner. Most importantly, please know that we always maintain high quality investments that meet strict criteria and that we are always available to answer your questions and address your concerns.

According to the survey 63% of you read the quarterly newsletter always or frequently and 85% of you are very satisfied or satisfied with the content. We will work to incorporate many of the great suggestions to improve our newsletters in 2012.

We wish everyone a Happy New Year and look forward to speaking with you in 2012!

Sincerely,

A handwritten signature in black ink that reads "Ellen P. Le".

Ellen P. Le, CFA
President

FAREWELL 2011! A Year Where...

Three heads of state stepped down amid political turmoil: Egypt's Hosni Mubarak in February; Greece's George Papandreou and Italy's Silvio Berlusconi in November.

Two leaders were assassinated: Al-Qaeda's Osama Bin Laden was killed by U.S. troops in May and Libya's Muammar Gaddafi was killed by Libyan rebels in October.

Japan's earthquake in March was the most powerful to ever hit Japan, with a magnitude of 8.9. The earthquake triggered tsunami waves that reached heights of 133 feet. It is ranked as the 5th most powerful in world history.

The debt ceiling was raised in August by \$2.1 trillion from \$14.3 trillion to \$16.4 trillion. The ceiling was originally put in place in 1917 at \$11.5 billion. Through the 1940's and 1950's it was raised several times and lowered a couple of times. Since 1962 it has been raised 74 times (ten of those times since 2001).

The most merger activity out of all the economic sectors was **in the Energy sector**. The largest deal was in August with **BHP Billiton's** (largest mining company in the world) \$15 billion purchase of **Petrohawk Energy** (U.S. shale gas company).

Steven Jobs died in October. He co-founded Apple Computer and transformed computers, smartphones, music, and movies.

U.S. debt was downgraded in August by Standard and Poor's (S&P) from AAA to AA+. The other main rating agencies, Fitch and Moody's, maintain a AAA rating on U.S. debt. S&P gives 18 countries a AAA rating: Australia, Austria, Canada, Denmark, Finland, France, Germany, Guernsey, Hong Kong, Isle of Man, Liechtenstein, Luxembourg, Netherlands, Norway, Singapore, Sweden, Switzerland, and United Kingdom.



The **Occupy Wall Street** protest movement began in September in Zuccotti Park, NY. They are protesting economic and social inequality and their slogan is "We are the 99%".

At year end about **24% of homes with mortgages are still underwater** (12 million out of 50 million homes).

The **largest IPO in the U.S.** was in March when **HCA Holdings** raised \$3.8 billion to go public. HCA operates hospitals and surgical centers in the U.S. and England. Through the years it has had several mergers and restructurings and has publicly traded twice before.

The **largest IPO in the world** was in May when **Glencore International** raised \$10.3 billion to go public. It is a commodities conglomerate headquartered in Switzerland.