



QUARTERLY INVESTMENT REPORT September 30, 2011

Dear Investor:

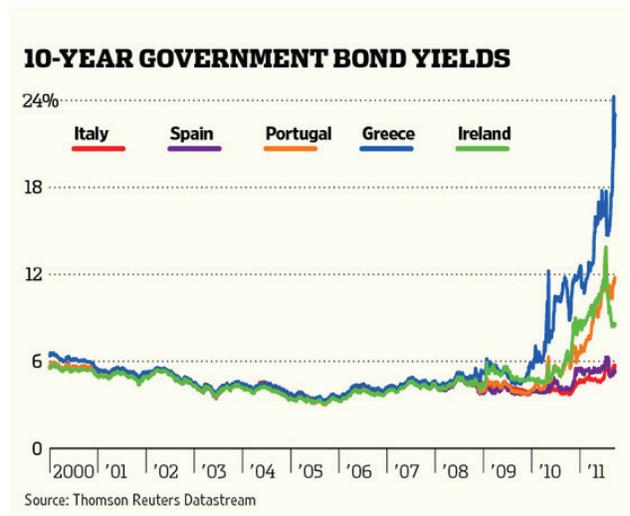
Aristotle, commenting on Greek tragic theater, said "the tragic hero need not die at the end, but must undergo a change in fortune."

As of this writing it appears as though Greece need not die. A change in fortune? Absolutely. As Greece's insolvency has dragged on, it looks like the European Union is making progress, via its new European Financial Stability Facility (EFSF), with a restructuring plan. Bondholders will realize losses and banks will be recapitalized, and the world may breathe a little easier as the threat of bankruptcy contagion diminishes for the time-being. The only problem is that the EFSF, which was just recently created in the summer of 2010, needs to get the bailout money from somewhere. They will be issuing bonds in the marketplace guaranteed by the European Community member states. That means that there is the potential for some countries to have their debt rating lowered and further weaken their own situation, though Germany accounts for almost 50% of the EFSF commitment.

Though our United States exposure to Greek debt is minimal, our major banks and other corporations have lent several hundred billion dollars to French, Spanish, and Italian banks.

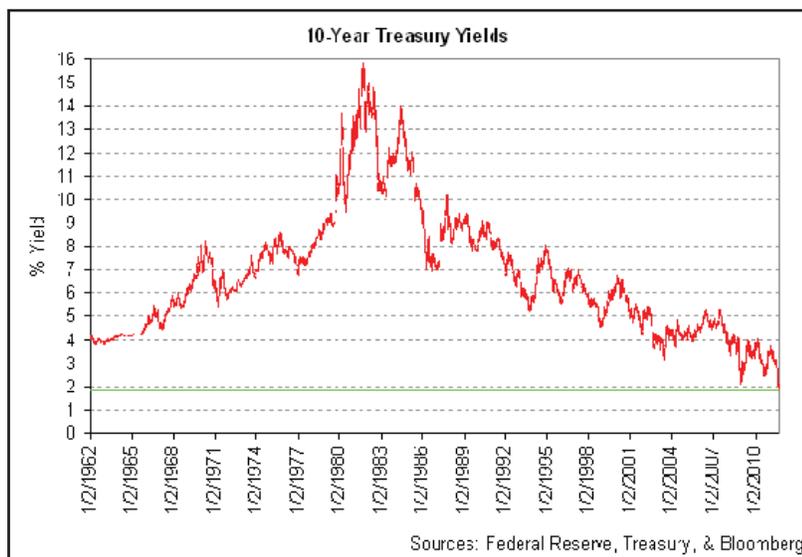
France remains relatively strong, but their exposure to weaker European sovereign debt is high. France and Germany hold 55% of Europe's total current exposure to Greece.

The graph to the right shows how impaired the weakest European countries have become. Remember the investment rule, the more risk you take the more return you require. Greece has to pay investors 24% to lend to them! On the other hand, our ten year Treasury bond is yielding a paltry 2%.



The reasons investment returns on our Treasury debt are so low is because our risk of default, despite our down-graded credit rating, is much lower than the rest of the world (thus far!) and because the Federal Reserve continues to buy Treasury bonds. The latest maneuver, Operation Twist, targets the ten year Treasury bond with the hope that by buying it and lowering its interest rate, the housing market will recover faster since mortgage rates are based on the ten year Treasury bond rate.

Treasury Bonds - Historical Lows



Time will tell but no matter how low interest rates go, it doesn't mean much until banks are more willing to lend and people who want to buy or refinance homes have stable jobs to do so.

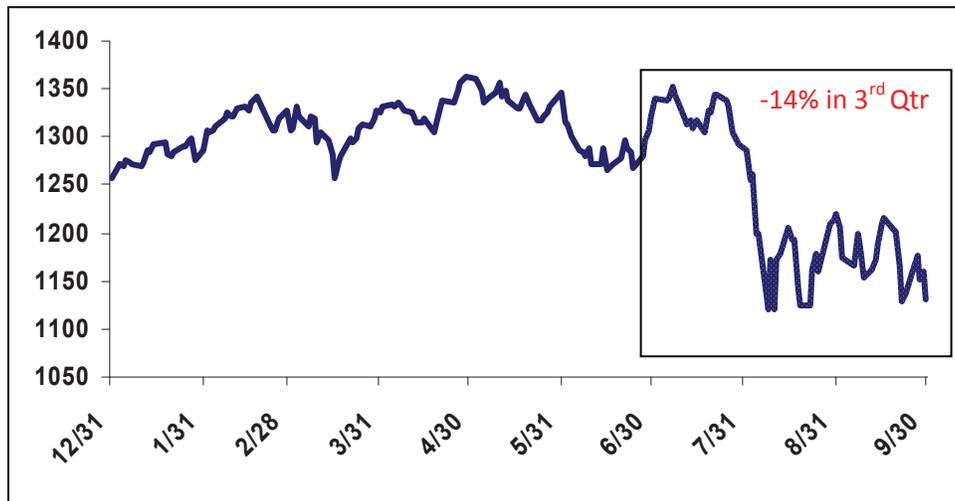
Economic growth is the only way out and the debate around how growth can be stimulated goes on and on. Would lower business taxes spark confidence in expansion plans and hiring? Or should taxes on the wealthy be increased to ease government deficits? Each side has its argument. In fact, there is no evidence that the 2003 tax cuts did anything to stimulate corporate investment. And, the economy actually grew after the 1982 and 1993 tax increases.

The inability of Congress and the Administration to take steps for economic improvement is troubling. The vacuum has been filled by the Federal Reserve and the promise of low interest rates. Our economy grew at only 1.3% in the first half of the year and the direction it takes through the end of the year could have tremendous impact on stock prices.

There are those who believe that conditions will not improve and even possibly deteriorate. For those worried bears, cash and treasury bonds are their preferred alternatives. If you believe, like we and the majority of economists do, that our economy will not enter another recession, then despite near term volatility, select stocks are undervalued and appealing for those with investment time horizons greater than five years. We think stocks will outperform the current five year treasury return which is less than 1.0%.

So far this year the market is down 8.7%. The third quarter took a real beating, falling 13.9%. We understand how investors can be fed up with stocks. Stocks, measured by the S&P 500 index, have rewarded investors with 2.8% on average each year over the last ten years, though the cumulative total return for the market is about 30% over the last ten years.

S&P 500 2011 Prices 3rd Quarter Free Fall



We think there are eight good reasons for stocks to move higher from current prices and finally break out of their current trading ranges.

1. US Households are making progress getting their finances in order.
2. Commodity prices are off their highs and lower gasoline prices in particular could be an effective economic stimulus.
3. A majority of investors are bearish on the market, meaning there is a lot of money on the sidelines.
4. Low interest rates are here to stay for at least two more years.
5. Current trailing Price to Earnings (PE) multiples are at only 12X earnings, which is less than long-term historical averages.
6. Dividend yields and payout ratios are at the highest level over the last ten years.
7. Company stock buybacks are increasing as executives realize that their stock is relatively cheap.
8. Corporate cash and corporate profit margins are at record high levels.

It is important to remember, that no matter how fragile and dire world economies seem to be, money needs to go somewhere. And that "somewhere" is a relative game. Keep in mind that the U.S. economy has the most sophisticated investment structure; has one of the most innovative business environments; has the highest level of trading liquidity; and one of the most stable currencies.

Unfortunately, economic and stock market turbulence is unlikely to end any time soon, because in the coming months Congress and the Administration must tackle deficit reduction and job creation. The final decisions are guaranteed to inflame passions on both sides of the aisle.

With years of experience managing portfolios, at Ascend Investment Management we recognize that many factors contribute to the safety of an investment portfolio. It's not just the hard and fast numbers of a company that make it tick. Every day industries change, innovative products disrupt the status quo, and executive management teams prove their talent or irrelevance. We choose companies that we expect to win today and in the foreseeable future. When the facts change, we are nimble and able to take restorative action.

As we enter the fourth quarter we wish you and your family a joyous holiday season.

Sincerely,



Ellen P. Le, CFA
President