

NO CRYSTAL BALL

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

Down 8.6% on the month; the worst January stock performance for the S&P 500 ever. Most are thinking, "How much lower can stocks fall? Maybe I should call it quits with this long-term investor idea." Careful now – the drop in January is NOT a new low. The current Bear market low was established November 20, two months ago. Given continual bad news reports in the press, one might think the market just hit another new low. In fact, since the November 20 low, the S&P 500 is still up 10.4% as January wraps up.

It is critical to understand at Bear market lows, the stock market will experience a number of "head fakes" off the bottom. While history will not likely repeat itself, it does provide perspective of what to expect. In our year-end client newsletter the second article, "Happy New Year", indicated we would test the bottom (November 20 low). Typically "head fakes" last two months and rally about 20% (history shows rallies can range from up 15% to as much as up 35%). The current "holiday rally" (as I named it) lasted a little less than two months (to January 6) and rallied 24%. Since January 6 (just days before companies started announcing 4Q year-end earnings) the stock market has slid pretty hard. As companies throw out all the "junk" from under the kitchen sink (everyone knows the economy and environment is bad, so throw out the garbage while people expect bad news), the market has reacted negatively. The bad news (losses, more bad loans, layoffs) dropped the S&P 500 11.5% since January 6. That created the loss for the month. BUT, the closing level is still 10.4% above the November 20 low.

We do not use a crystal ball to forecast the market. We do anticipate the recent slide may test the November 20 lows. After that, we will likely rally again creating another "head fake". It is likely that we may experience several "head fakes" before the next bull market unfolds. A continuing saga of weak economic and company news will keep high volatility a market characteristic during the first half. Some economic stats are showing slight improvement; more will be seen as we move toward mid-year and beyond. Foreign economies are plunging. Inflation is gone, at least for now.

Our greatest challenge is when to invest cash. In fact, holding cash may be our greatest risk – the risk of missing the start of the next Bull market may be bigger than the risk of further large price declines. One of these "head fakes" will appear like "here we go again", but it will be the one that keeps on going. The market has a way of washing out the fringe players; it desensitizes us into thinking all is still bad. News will still be bad, just not as bad. We must remind ourselves, we sit at the beginning of a generational opportunity to invest – corporate and municipal bonds are CHEAP (Treasury bonds are extremely expensive; low yields), and stocks are approaching 30 year low valuations.

Below is January stock mutual fund style performances, and client objective performances for the month and since November 20 (market low). Client portfolios are holding up better than the markets.

Style	January	Client Objectives (Stock/Bond)	January	Since 11/20/08
Large Growth	-2.7%	20/80	-0.5%	+4.1%
Mid Growth	-4.5%	35/65	-1.1%	+5.9%
Small Growth	-8.1%	50/50	-2.5%	+6.3%
S&P 500	-8.6%	65/35	-3.5%	+6.6%
Foreign	-9.8%	80/20	-4.3%	+6.8%
Large Value	-11.1%	95/5	-4.8%	+10.1%
Mid Value	-12.2%	S&P 500	-8.6%	+10.4%
Small Value	-13.7%			

CONTACT US:

2310 Home Road
Delaware, Ohio 43015
740.917.9234

WWW.NVESTWEALTH.COM
Email: info@nvestwealth.com

-Continued on Page 2 -

NO CRYSTAL BALL (CONTINUED)

We will not use a crystal ball to forecast the economy or markets. In fact, we believe that those who utilize a crystal ball to time the markets will soon be dining on crushed glass. Our take from a variety of research and discussions with mutual fund managers lead us to anticipate the markets will have additional “head fakes”. At some point, one “head fake” will start a new long-term rally (bull market) before all bad news on the economy turns better. The stock market can rally before we have good news; it will be less-bad news that sends the market higher.

High Dive into a Toxic Pool

One Last forecast thought. The bond and stock market will most likely not do better until we see the government create a “bad bank”. It appears we already have many bad banks. But a government “bad bank” or similar, must be created to make all of the policy response over the past year effective. The government “bad bank” will acquire the toxic bad loans from bank balance sheets. If banks cannot rid themselves of toxic, bad loans, all the bailout money thus far will not solve the problem. As a result, banks will continue to not lend; the credit markets will remain frozen and not functioning properly; and the economy and stocks will not recover until toxic loans are removed.

Two things must occur – toxic loans are removed from bank balance sheets AND the government provides foreclosure relief. We must slow the continuing foreclosure of loans (home and commercial, auto, student, credit cards) by making terms more favorable (lower interest rates, longer payback terms, etc). If toxic loans are purchased from banks, they also need high probability that other loans will not become toxic and hinder the recovery.

The financial markets will begin to function more normal when participants see plans for a government “bad bank” plus foreclosure relief. As the bond market begins to function more normal, stocks will rally and gradually the economy will return to growth.

Nvest Wealth Strategies, Inc. | *Delivering financial peace of mind.*

www.nvestwealth.com

2310 Home Road

Delaware, Ohio 43015

Ph: 740.917.9234

Fax: 740.917.9234

Email: info@nvestwealth.com