

THE VISIBLE HAND

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One year ago, on March 9 (2009), a “new bull market” began. Most investors still do not view the 67% jump in value from the lows as enough proof that a new bull market is underway. Investor sentiment is very skeptical as monies continue to flow in greater proportion to bonds than stocks. Then again, maybe investors are still shell shocked with fear from stock market losses experienced from two bear markets during the past decade.

February, the 12th month of the “new bull market” provided investors with a rebound in stock prices following a negative January and start to a new year and new decade. The S&P 500 advanced 3.1% in February. Domestic investing trumped foreign as investors worried about Greece’s financial deterioration and Euro assistance. As we discussed in the January commentary, “New Decade, New Book; Chapter 1”, investors’ universe of investing is more than ever, global. It is no longer appropriate to limit investment choices to US/domestic only. All the best companies do not reside in the US. At the moment however, foreign news provides enough worry for investors to lose long-term focus. And, it adds complexity to managing an investment portfolio of US only, or one with a global composition.

Below are equity style and client portfolio objective returns for February:

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Style	February	YTD
Mid Growth	+5.1%	+0.2%
Mid Value	+4.5%	+1.6%
Small Value	+4.5%	+1.8%
Small Growth	+4.3%	-0.6%
Large Growth	+3.5%	-1.7%
S&P 500	+3.1%	-0.6%
Large Value	+2.9%	-0.1%
International	+0.1%	-4.7%

Client Objectives (Stocks/Bonds)	February	YTD
20/80	+0.8%	+0.9%
35/65	+1.1%	+0.7%
50/50	+1.4%	+0.2%
65/35	+1.8%	-0.4%
80/20	+2.2%	-0.6%
95/5	+2.5%	-0.7%
S&P 500	+3.1%	-0.6%

As referenced above, the January commentary focused on investors needing a global perspective. It also spoke about China as being a key determinant of future world economic direction. If you have traveled or listened to those that have visited China, one can be quick to marvel at the growth and construction and traffic; and seem to conclude, “Wow, this is capitalism on the march.” Not true; not so!

China is building a very different economy. It is a mixed, market economy in which the state still dominates and is widely involved. It will continue to dominate with its own idea of capitalism where Beijing deems it appropriate. The extent and detail of the government’s involvement is a stark contrast, not similarity, to the American economy and markets.

Beijing’s State Council, chaired by Premier Wen Jiabao, is deeply involved in the policy, plans and progress of 10 key industries (autos, steel, info tech, logistics, textiles, non-ferrous metals, equipment, petrochemicals, shipbuilding, and light industry – i.e. most of the economy). The state determines how to expand domestic and foreign product demand, use of technology and innovation, pricing, and on and on. This is the state at its finest. No issues of price collusion here; no lawyers getting in the way. Decisions are made by government officials where the industry’s direction is set (and reset from time to time). Beijing controls these business areas, state-owned assets as they are vital to the national economy and essential to national security.

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Lastly, it is intriguing to monitor China's progress. They are quickly transforming the world economic and market structure. Beijing is leaving a visible hand print on foreign competition and trade; their message is simple, "don't call us; we'll call you if we need you." China is a difficult market to invest in alone. Investors can locate attractive opportunities in a variety of foreign countries that will provide China-like growth. Nvest utilizes diversified foreign funds; they have varying amounts of China and other developing market exposure.

Lest you think China is our recent focus, it is not; but it is important to understand the dynamics of a changing global environment. Investors learned much about the anguish over difficulties of the previous 10 yesteryears. We should have learned about increased volatility and risk, excessive use of borrowed money (leverage) which led to irrational exuberance and ultimately irrational exasperation. Our "new normal" means slower economic growth as debt continues to unwind, new government regulations are instituted, and higher taxes and interest rates will result. Important, is what worked "yesterday" may not be the best for tomorrow. We do expect the financial markets to provide positive return experiences in 2010; but greater care and effort is required.

Our focus at Nvest is to invest client portfolios to beat objective-based benchmarks with less risk. During the 2000's (many investors call it a lost decade for stocks), we learned (or proved again) that combining different asset classes together can reduce risk and provide attractive returns. We continue to combine asset classes in ways that we believe have potential to achieve return goals without assuming undue risk. It is the skills and tools of active managers of no-load mutual funds that are most likely to work in upcoming years. Our tactical plan is to think globally, and seek opportunities worldwide.



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