

# Market Commentary

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## A Spring to Remember (2007)

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April was a strong month for stocks, with the average US diversified stock fund rising almost +3.5%. That lifts the year-to-date gain to just over +5.5%. Recall the February 27 global sell-off? The markets have since rebounded and then some. The Dow and NYSE composites have moved to all-time highs. The S&P 500 and NASDAQ have reached their highest levels in years – highest since the bull market peak seven years ago.

Is there meaning we should glean from the Dow reaching its new heights of 13,000 when the economy and company earnings are slowing? The current market resembles the mid-1990's. Then too, there was a slow-down following interest rate increases. It's like a pause that refreshed rather than a pause before the storm. We expect stocks to do well despite a slowing in the economy.

Further, this environment has other fuel boosters. Take valuations; they are low enough that stocks should not sink if earnings slow. Growth and value continue to be within fair-value range of one another; growth is at the cheaper end of that range. "Higher-quality" or "higher-growth" names are where the best values are. Foreign stocks appear fair-valued as well. Foreign stock data is less extensive and not as historical, but relative to recent data suggests a fair-value.

Money growth may represent the BIGGEST reason for optimism. Around the world money supply is exploding. Even in the US, money growth is approaching 10%. Sources of large money holdings include petrodollars, private equity/LBO funds, corporate cash balances, derivative instruments, and foreign exchange reserves. Fast growth in money supply has historically pushed stocks higher before boosting the economy.

As earnings growth slows, it seems investors will focus on growth stocks – those companies that are expected to grow at a pace faster than the economy. Add the money fuel to the equation, and both large and mid-cap stocks should do well. Acquisitions are on the increase and size does not seem to be an issue. We do expect more mid than large-cap companies will be taken.

Below are the style performance highlights for April and year-to-date:

	April	YTD
Foreign	5.6%	10.1%
S&P 500	4.4%	4.9%
Large value	4.2%	5.1%
Large growth	3.9%	4.9%
Mid value	3.8%	8.4%
Mid growth	3.6%	8.1%
Small growth	2.8%	6.1%
Small value	2.2%	4.9%

Bond funds also gained in April, with intermediate term investment grade bonds advancing +0.5%. They have provided +1.9% for the year-to-date. Returns followed risk; the longer the maturity and more risky the bond, the higher were the performance results. It will be interesting to monitor lower quality bond performance as the economy continues to shift slower. We suspect investors will develop concern for lower quality bonds as the effects of private equity/LBO's influence credit spreads (yield difference between quality and "junk").

A reflection back at the Dow "mile markers" is helpful, given the recent string of new highs for this and other indexes.

- Each 1000-point Dow increase becomes less formidable. The index had to double to move from 1000 to 2000, but the jump from 12000 to 13000 required an 8.3% increase.
- Of the 12 original components of the Dow Jones Industrial Average, only one, General Electric, remains as part of the average.
- It took 127 days for the DJIA to move from 12000 to 13000. In 1999 it took 24 days to move from 10000 to 11000. But it took 7.5 years to move from 11000 to 12000.
- The Great Depression (1929 to 1932) caused the DJIA to lose 90% of its value. The high it reached on September 3, 1929, was not surpassed until 1954.

It continues to be a great time to be a long term investor, a time IN the market investor. Our client portfolios are always invested in the market. Utilizing a very disciplined diversified approach to investing portfolios in no-load mutual funds, our client portfolio returns have provided long-term consistent growth of value. Being long-term disciplined investors is the key to long-term success. We hope you are enjoying this, a spring to remember (2007).

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