

Market Update

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Best House in a Tough Neighborhood

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This is not a monthly commentary on the state of real estate or housing which continues to capture news headlines. Rather, in the current economic environment, stocks offer the best investment choice for long term investors. Even with the economic neighborhood looking bad (soft), suggesting that company earnings are also uncertain (earnings largely influence the movement of stock prices), stock values are still more attractive than owning expensive (low yielding) Treasuries. Stocks are cheap even when one considers the worst case earnings scenarios.

Bonds appeal to investors' psychology as the safe place to invest, particularly short Treasuries or CD's. Note the table at the bottom of this article (for difficult past market environments; these periods were times when investors were risk adverse), wherein CD yields generated poor after-inflation / after-tax returns. CD rates of approximately 3% today would provide a -1.5% return after the effects of taxes (35% tax rate) and inflation (of 3.4%). Alternatively, the stock market earnings yield (inverse of P/E ratio) is over 6%. Stocks offer long-term investors the best "house" in a tough investment neighborhood.

There's an old saying, that "you make all your money in bear markets; you just don't know it until later."

April stock market action provided much needed encouragement for weary investors. For 5 straight months (since October) stock and portfolio values have eroded. Returns for April were good. If you look back to St. Patrick's Day (March 17) the rally is even more encouraging; year-to-date returns are still negative, however:

	April	YTD
Mid Growth	7.3%	-6.6%
Large Growth	5.9%	-6.5%
Mid Value	5.7%	-4.1%
Small Growth	5.5%	-10.2%
Foreign	5.4%	-4.9%
S&P 500	4.8%	-5.2%
Large Value	4.8%	-5.2%
Small Value	3.4%	-3.9%

High quality Treasury bonds, a safe haven over the past several months, recorded negative returns during April. That's because some investors are selling safety (Treasuries) to re-acquire risk (stocks). Bonds will sell-off as savvy investors reinvest in more attractive valued stocks.

No one knows for sure when this difficult phase of the market down cycle will end. We believe, like most investors, that the current downturn feels more severe than the market's actual performance indicates. This is in part related to concern of a possible recession, a severe credit crisis, and persistent questions about the viability of our financial system. But history does reveal that stocks (a leading indicator) will begin to perform better well before other signs of economic recovery.

What's next and what direction should investors pursue in their portfolios? We suspect the economy and markets will "muddle" along. Investors, with a long list of concerns (rising commodity prices, low dollar, slow economic growth, etc.) are reluctant to re-acquire risk. Thus, during the "April" rally, volume has been low (signifying lack of confidence) and investments tend to "hug the indexes" (not willing to take on risk). Investor sentiment is improved, but not displaying bull market characteristics. De-leveraging will take some time as "banks" are very cautious in making loans.

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Best House in a Tough Neighborhood (continued)

Stocks offer the best long term investment opportunity. We continue to invest client portfolios in a diversified mix of different style stock and bond mutual funds. We recognize corrections are especially difficult; but they are finite. It's important to remember that *change* is the only constant in investing. Inevitably, market conditions will improve for all asset classes. In the meantime, we continue to monitor each fund relative to its peers, and thereby own a variety of historically strong fund managers investing components of your portfolio. We know from experience that being invested is critical to capturing "April" type market rallies. Client performance (both current and historical) indicates this process adds benefit.



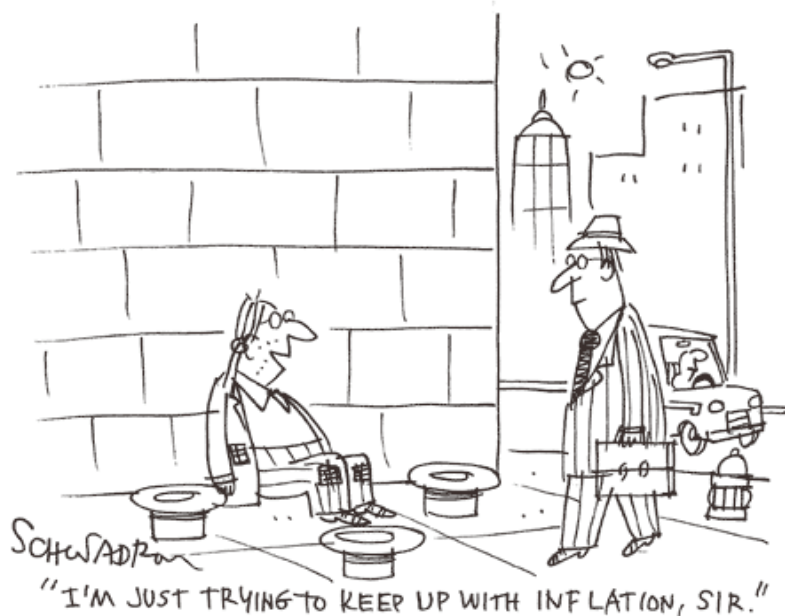
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Are Short Bonds (CD's) Attractive?

	CD Yield	Tax Rate	Inflation	Real Return (After Inflation)	After-Tax After-Inflation Return
2008	3.0%	35.0%	3.4%	-0.4%	-1.5%
2003	1.2%	35.0%	2.3%	-1.1%	-1.5%
2000	6.6%	39.6%	3.4%	3.2%	0.6%
1981	15.8%	69.1%	10.4%	5.4%	-5.5%
1974	10.0%	70.0%	11.0%	-1.0%	-8.0%
AVERAGES (longer history than displayed)				2.1%	-1.3%

Maybe the "CD" helps us "feel good" – we invest \$1 and get back \$1 plus some interest (but, we forget about the effects of taxes and inflation).

Check our website nvestwealth.com regularly for weekly updates on the markets.



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