

SUPER SAVER

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It seems apropos that a horse named Super Saver should win the Kentucky Derby, particularly in light of recent economic events and their impact on Americans. We seem to have a newfound interest in thriftiness.

Recent economic statistics reflect some resurgence by consumers toward spending - maybe that is a result of two years of limited spending and reflects "pent-up demand". We still expect the process of deleveraging (paying down debt) will continue 5 years or more, maybe even for much of this decade. Debt repayment represents high proportions of income, and for governments it poses tremendous risk to current and future economic growth. Reducing debt is no easy task, requiring continued spending restraint over many years. For Americans, the USA, and many other sovereign countries, this financial saga continues.

April continued the sequence of rewarding investors with positive returns in both stocks and bonds. Domestic (stocks and bonds) outperformed foreign as uncertainty continues around Greek sovereign debt and the possibility of it spreading to Portugal or Spain. Many investment strategists expected foreign to best domestic as developing markets are growing faster than the US. However, at this YTD point in time, the United States is viewed as the safer haven and is outperforming foreign. We wonder if investor psychology may also be rotating from low quality to high (safer) quality investments. Higher quality stocks and bonds offer better valuations than the lower quality alternatives which have rebounded sharply since the bear market bottom (3/9/2009). In essence, risk (small and lower quality) is more expensive. Here are the performance stats at April 30:

Style	April	YTD
Small Value	+6.0%	+16.1%
Small Growth	+4.2%	+11.8%
Mid Value	+3.8%	+12.4%
Mid Growth	+3.5%	+10.8%
S&P 500	+1.6%	+7.0%
Large Value	+1.3%	+7.2%
Large Growth	+0.9%	+5.1%
Foreign	-1.5%	+0.1%

Client Objectives (Stocks/Bonds)	April	YTD
20/80	+1.0%	+3.4%
35/65	+1.3%	+4.2%
50/50	+1.6%	+4.9%
65/35	+1.9%	+5.6%
80/20	+2.2%	+6.5%
95/5	+2.4%	+6.6%
S&P 500	+1.6%	+7.0%

Investors are continuing to move money from nearly zero-percent interest rate money market funds into riskier assets. It is interesting that the amount of money still in low yielding funds remains higher than it was in 2002 in anticipation of the market lows (during the popping of the tech bubble). And, the money flows are still headed to bond funds, not stocks (at a 17 to 1 rate). Investors are taking on risk – buying historically low-yield bonds despite consensus expectation for interest rates to rise sometime in the next year. Recall, when interest rates rise, bond prices fall. Will bonds reward investors seeking safety? After all, stocks just generated negative returns for the last decade, while bonds were the better performer (all of that being in hindsight). We are witnessing a "top" in the bond market (with prices high and yields low); while just the opposite "feelings" exist toward stock investing.

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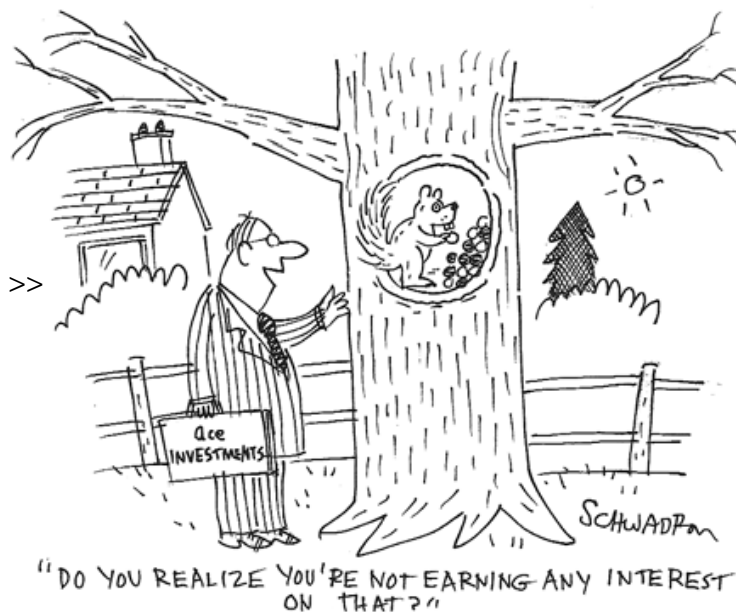
SUPER SAVER -CONTINUED-

Who's right - bond or stock investors? Who is the "super saver"? Our guess is opposite of money flows (popular opinion); we expect stocks to provide much better returns than bonds in 2010, and likely for this new decade. History shows that when 10-year rolling returns are negative, subsequent year performance is quite attractive. And,...

The US and world economy, in general, are now transitioning to expansion at different rates of growth. Momentum is sufficient that we now have "escape velocity" here in the US to keep the "positive feedback loop" going. [Recall, 2 years ago we were stuck in a huge negative feedback loop.] Government stimulus generated inventory rebuilding, which is leading to some improvement in consumer spending (better sentiment), which will lead to further sustainable economic growth (and some relief, albeit slow, for employment). Further, we are witnessing 80% of the companies reporting earnings surprises that are beating analysts' expectations by a lot. It appears government stimulus actions have installed "guardrails" for (expansion path) growth. History shows the average US expansion lasts 5 years. But, we have many structural challenges or impediments that suggest a slower than historically normal expansion. The current expansion seems unlikely to endure that long due to almost certain prospects for higher taxes, interest rates, and new government regulations (recall earlier writings about the "new normal"). We may also be seeing early signs of "green shoots" of inflation.

Lastly, we continue to be quality and global focused with our diversified investment in no-load mutual funds. We expect as the global economic and financial saga continues, there will be increasing differentiation in economic fundamentals across countries. These divergences in growth and inflation outcomes present value opportunities for active investors. It places greater challenge on novice investors to navigate through the shifting differences and manage risk. Nvest Wealth Strategies employs a disciplined, active management approach to investing client monies.

The new Super Saver??? >>



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