

FINAL EXAMS

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

As the college and school year concludes, we anticipate the excitement of summer – warm temperatures, vacations, cookouts and fun. School's out for summer! Anticipation of fun is often put on hold for one end of year ritual – Final Exams. No fun. We can recall this event was exhausting, while also crucial to the course grade riding on one test. Don't mess it up. Study a lot to be prepared. Maybe even pull the all night "cram for the exam" routine. Then grades are posted – offering joy or disappointment. For some, the cram resulted in a just barely passing grade.

We expect Congress is cramming to take its final "debt ceiling" exam by August 2, and will pass an increase by a narrow margin. For Congress, this exam is only the first of two. It still needs to pass a budget for fiscal year 2012 and must reduce government spending closer to 20% of GDP from almost 25% now. Congress does have a spending problem, not a revenue issue. Spending cuts are not easy, particularly entitlement cuts. Together, these tests will examine the political process at its "best" – or shall we say, worst. It will not be pretty; in fact, it will probably appear downright sick and embarrassing. Politics has no virtue. As Milton Friedman stated in 1979, "political self-interest is nobler somehow than economic self-interest...tell me where in the world you will find these angels who are going to organize society for us?" Put simply, there appears no end in sight to government's involvement in the economy and the accompanying uncertainty that goes with it. Thus, at the moment investor optimism is waning due to politics and economic growth prospects (more in a moment).

May provided our first investor exam of the year that leaves many scratching their heads; and early June suggests the test material is ever challenging and long. Stock investments stumbled in the US and overseas as economic growth statistics appear slowing. Too many issues: weather (floods, tornados, Japan catastrophes), Euro debt issues, and North African political strife weighed on the markets. Even oil and commodities took a big tumble over fears of an economic slide. June also includes the end of the Fed's QE2 program (with investors expecting interest rates to rise), the debt ceiling politics, and poor employment stats. Only bonds provided positive returns in May as investors avoided risk assets.

nvest
WEALTH STRATEGIES

Delivering financial
peace of mind.

Style	May	YTD
Mid Value	-0.8%	+8.5%
S&P 500	-1.2%	+7.8%
Large Growth	-1.2%	+6.8%
Large Value	-1.4%	+7.2%
Mid Growth	-1.5%	+10.0%
Small Growth	-1.7%	+11.7%
Small Value	-2.1%	+6.3%
Foreign	-2.6%	+6.1%

Client Objectives (Stocks/Bonds)	May	YTD
20/80	+0.1%	+3.3%
35/65	-0.4%	+3.7%
50/50	-0.6%	+4.8%
65/35	-1.0%	+5.2%
80/20	-1.3%	+4.9%
95/5	-1.9%	+5.2%
S&P 500	-1.2%	+7.8%

Client portfolios are well diversified with the stock portion of the portfolios being sluggish for the month and year-to-date. That's attributable to foreign exposure (1/3 of equities) being a slow contributor this year (Euro – Greece, and China/developing markets), and slow performance from a couple of other fund names (large cap and small growth). During May, we swapped into two new highly rated no-load stock funds – Sit Dividend Growth (focus on companies with growing dividends, not just dividend yield), and Wells Fargo Advantage Growth (large growth). We are exploring an additional swap or two (small cap and international) in coming weeks. Municipal bonds generated attractive performance in May, and bonds in general provided a performance cushion to portfolios. Bonds remain a tricky place to invest as QE2 concludes and debt issues need solutions. Bonds are an expensive asset and rising interest rates will cause prices to fall. For the US and other sovereigns with heavy debt burdens, debt service is not negotiable.

CONTACT US:

2310 Home Road
Delaware, Ohio 43015
740.917.9234

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

FINAL EXAMS -CONTINUED-

At the moment, it appears the global economy is hitting a soft patch. And, more weak economic news is likely forthcoming due to delayed negative impacts from Japan disasters, higher gasoline prices, and adverse weather. This is often our experience during economic transition from recovery to expansion. Recent economic data appears weak, and to some it appears we face a double dip. Question is whether this is just a temporary soft patch or does it represent a persistent issue? In light of our heavy deficits/debts, lack of further fiscal spending ability to boost the economy, and/or limited other monetary accommodations (QE3 is highly unlikely unless recession) it appears the near-term prospects are challenging. Our self-sustaining expansion looks temporarily suspect. [We need 2 of 3 factors for self-sustained expansion: 1) Employment gains – currently stalled; 2) credit expansion – seems bank loans are on the rise; 3) stable house prices – not in place.]

We expect the 3rd quarter will experience a bounce back to its sluggish growth of 2.5% to 3% GDP. Other developed foreign countries should see GDP improvement depending on their level of sovereign debt. And, developing countries could resume faster growth as they conclude tight monetary policies later this year (now in the 8th inning) to curb commodity inflation. A 3Q bounce is very likely as 1) US motor vehicle production is scheduled to surge; 2) Japan's production is rebounding rapidly and easing global supply disruptions; 3) tech (semiconductor) production is rising; 4) job openings and online help wanted jumped over the last 4 months; and 5) gasoline prices dropped some. These upticks resulting from 2Q setbacks should provide a rebound and a better sentiment in financial markets. Longer-term, fiscal drag (dealing with our deficit spending problem) will remain an economic headwind into 2013. And thus, we/investors should expect continuing uncomfortable feelings about our long term investing prospects.

We continue to monitor the economic and political landscape via discussions with fund managers and from our research sources/services. Our commentaries, like these, often distill key facts and ideas into our work and portfolio strategy. While future economic cycles may be shorter in duration than the 1990's or 2000's, we continue to endorse a key successful investment principle – time in the market. It is the principle often hardest to follow. It is a core to investor success on the final exam. As always, we encourage your comments and thoughts, and appreciate when you share your worries about the investment environment with us. We also appreciate the referrals many provide to friends about our investment and planning services. Hope you enjoy the start of a fun summer.

Nvest Wealth Strategies, Inc. |

Delivering financial peace of mind.

www.nvestwealth.com

Ph: 740.917.9234

2310 Home Road

Fax: 740.917.9234

Delaware, Ohio 43015

Email: info@nvestwealth.com