

Market Update

August 3, 2007



Delivering financial peace of mind.

After Christmas Sale (In July)

By Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

Shoppers know the feeling. In late November the rush is on to buy loads of gifts for Christmas. Paying full price is much the norm, although some sales are available. Following Christmas, everything goes on sale, a big sale. We always think, "If I could just buy after Christmas, I could get the same for much less."

After 12 months of a strong stock rally (since July 21, 2006 just before the Fed paused after raising interest rates for 2 years), its appropriate to witness some profit taking. Over the last year, the S&P 500 advanced almost 25%. Is it bad to adjust by 5%? Would you settle for gaining 20% every year (get +25% and give up 5%)? That would be a great gift every year!!!

Unfortunately, July was unsettling to investors who looked at record high portfolio values in mid-month. For a third time in 2007, a good return was erased by investor worries. Portfolios suffered losses for the month. Adding to softness in June, two months in a row of negative returns are impacting full year returns. Frustrating!

The S&P 500 ended the month down 3.2% after experiencing its worst one week slide (declining 4.9% in week 4 of July) since the current bull market began in October 2002. During July, domestic stock funds fell 3.4% (biggest monthly decline since April 2005), and followed a 1.2% decrease in June. Year-to-date, domestic stock funds are up 4.8%. Foreign stock funds fell 0.4% in July, far less than US domestic stock funds. Foreign funds are up over 11% for the year. In general, growth of all sizes beat value.

	<u>July</u>	<u>Year-to-Date</u>
Foreign	-0.4%	+11.3%
Large Growth	-1.4%	+6.1%
Mid Growth	-2.0%	+10.6%
S&P 500	-3.1%	+3.3%
Small Growth	-3.9%	+6.6%
Large Value	-4.1%	+2.8%
Mid Value	-5.3%	+5.0%
Small Value	-7.0%	+0.3%

High yield and lower quality bonds struggled in July while investors shifted to higher quality bonds. The credit market is signifying the end of easy credit. Sub-prime (low-quality) home mortgage loans are knocking the props from under housing. Easy credit offered to almost anyone who wanted to buy real estate is now facing a day of reckoning as adjustable rate mortgages are re-priced at higher rates.

Financial engineering has permeated the financial markets in recent years. Examples include hedge funds focusing huge investments in a concentrated or few asset structure portfolio pursuing outsized gains; mortgage lenders writing sup-prime loans; and now private equity funds borrowing lots of money to buyout stocks of undervalued companies; all lost sight of investing for prospects of quick gains.

CONTACT US:

2310 Home Road
 Delaware, Ohio 43015
 740.917.9234

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

Market Update

August 3, 2007



Delivering financial
peace of mind.

After Christmas Sale (Continued from page 1)

Investing is a long-term proposition, not short term speculation. Greed has pushed too many from Wall Street into strategies that black-eye an investment industry that aided American business and families.

Investors are becoming emotional again. Our media (newspapers, TV, internet) sensationalize the headlines to capture audiences, stirring up emotion to shoot first and think later. We shoot by knocking down all stocks and bonds, and real estate. Just like technology was irrationally exuberant in 2000, oil in 1981, or autos in 1929, real estate was also in 2005. But when worry arrives, rational investing slows and attractive investments also get hurt.

What has changed? Assets, particularly stocks are on sale like products are after Christmas. The economy continues to be resilient. Second quarter earnings by 313 of the S&P 500 companies reporting have grown almost 10%, or about double what was anticipated. Stocks are not expensively priced and interest rates are not restrictively high (like March 2000). If we can separate the emotion from fact, this market is providing a buying opportunity. Good buys occur when masses are selling.

Investors – hang in there. Stay invested. If you have extra money in money market funds not needed for near-term plans, now is an attractive time to pick-up “after-Christmas” bargains for the next year. Long term investors create future success by recognizing bargains when fundamentals have not changed.



CONTACT US:

2310 Home Road
Delaware, Ohio 43015
740.917.9234

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

Nvest Wealth Strategies

Thinking About Tomorrow

August 13, 2007

I. Market Conditions - Is the Bull Market Over?

- ◆ Investors worry....
 - If recent market decline is the beginning of something bigger
 - Or will market correction soon pass, leading to a new market advance?
 - It is essential that investment decision making relate back to investment philosophy and factor in historical perspectives
- ◆ Key investment philosophies
 - Make investment decisions with a 3 to 5 year time horizon
 - Trying to time the market (predict and acting on shorter-term market shifts) is a loser's game; avoid short-term noise
 - Investors should avoid stocks IF their time horizon is shorter than 5 years and unable to withstand temporary stock declines
 - Over 5 years, valuation is an important driver of returns
 - Our investment approach is to manage client risk in portfolios via diversification designed to mitigate foreseen risk; no guarantees about success. Historically, we have been successful keeping losses within client risk tolerances.
- ◆ A recession does not seem probable in near term
 - Chances have increased; eventually (someday) we will have one
 - Labor market is strong, though softening
 - Company balance sheets are strong and producing earnings
 - World economy continues healthy growth
 - Slowing growth will slow inflation and lead to lower interest rates
 - In the event of a recession, Fed would lower interest rates to stabilize economy & bring money/liquidity to the market
- ◆ Stock valuations
 - Market (particularly large-cap S&P500) looks undervalued
 - Recent returns not so robust to create overvaluation, or "irrational exuberance"
 - Current P/E multiples normal at 15x; Yield at 1.8% (compared to March 2000 P/E=26x; yield = 1.2%)
 - Bond yields lower than March 2000 (4.8% vs. 6.2%); inflation rates low as well (2.0% vs. 4.1%)
 - Financial Crisis often good opportunity for stocks and bonds
 - Current market decline is creating a buying opportunity; if further correction developed, a "fat pitch" opportunity would be created

II. Portfolios Diversified

- ◆ Many asset styles utilized in bond & stock allocations
 - Diversification helps reduce magnitude of market risk (both up and down)
- ◆ Big market decline would create drawdown, but expected to be less than markets
- ◆ No guarantee of future performance; however, conservative models should decline much less than stocks alone
 - Portfolio of mutual funds will experience less volatility than investing in individual stocks

Nvest Wealth Strategies

Thinking About Tomorrow

III. [Bottom Line](#)

- ◆ **Bull market of 10/9/2002 is still underway**
 - We don't believe this is the start of a bear market or major market correction
 - Long term investors don't make short-term bets on stock prices
 - If wrong, there will be short-term pain, but the opportunity will exist to buy stocks at more attractive prices – that leads to big positive impact on long-term returns
 - Caution is warranted as some sectors (financial) have significant structural issues to modify
- ◆ **Thinking about “tomorrow” (what happens next?)**
 - Slowdown cycle develops – economy and inflation
 - Fed eases interest rates in recognition of slowdown
 - Economy stabilizes but at a sub-par rate with contained inflation
 - Stock market rallies (current bull market continues)