NVEST WEALTH STRATEGIES

Market Update

September 5, 2008

Playing Hurt

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

The month of August provided some relief from two consecutive months of decline in June and July. Recall June was THE worst month of 2008. Thus far in 2008, 3 months have been positive (April, May and August) while 5 have been negative. The average domestic stock fund edged up 1.2% in August but remains off 10.1% for the year-to-date. Let's recap the recent events (not that we need that painful recollection).

The financial markets have been in a constant state of confusion since the credit crises began in mid-2007 (more than a year ago). The surge in oil prices to over $145/barrel pushed inflation pressures higher, exacerbating the strain on stock and bond markets. During trying times like these, investors often react emotionally to new information. From a behavioral standpoint, these are the moments when investors are more likely to act on irrational subjective conclusions. At this juncture, it is understandable for investors to act first and analyze later. Thus, the markets can display wild volatility that is un-nerving for any investor.

The US government and Federal Reserve have responded with massive fiscal and monetary stimulus – a pain-killer of sorts. It appears the US economy is continuing to "play hurt" in a sense. It seems more time will be required for the underlying injury, a hobbled financial system, to heal. We're still seeing a financial crisis evolve in slow motion. Further tests may occur in 2009 with a new President regardless of which party wins. The new President will face a difficult (deteriorating) fiscal situation. In 2008, we received "aid" (stimulus) to help dull the pain. But what will be the action that can be taken in 2009, additional stimulus or wait it out?

As we begin September, foreign economies (developed and developing) are sliding as well. As weak as the US economic outlook appears, the foreign outlook appears weaker. The quick drop in oil to under $110/barrel recently is being interpreted as an indicator that world economic demand and growth are sliding quickly. Equally interesting is the rebound of the US dollar compared to foreign currencies. It started to turn when Russia invaded Georgia. The US looks safer and its economy appears stronger; the prospects for the US dollar look the best in many years. And, maybe inflation has peaked and is headed lower. In essence, actions are happening which will slowly bring about better days. It will require additional time and patience.

August was a moment of relief for the financial markets, rising on low volume due to many investors being on vacation. As we write (in early September), vacations are over, trading volume has picked up, and the correction in values appears to have resumed.

	August	YTD
Small Value	3.6%	-3.3%
Mid Value	2.7%	-8.2%
Small Growth	1.9%	-10.7%
S&P 500	1.4%	-11.7%
Large Value	1.2%	-13.0%
Large Growth	0.4%	-11.9%
Mid Growth	0.4%	-11.5%
Foreign	-4.4%	-18.9%

What should investors expect going forward? What do we expect? There are many worries unwinding in what appears to be, slow motion. Banks and financial institutions are "mending their fences" trying to rebuild their financial balance sheets (still writing off bad loans and trying to attract new investment capital). Individuals are losing jobs, seeing income evaporate as high fuel and food costs rise; and they worry about declining home and investment values. Now foreign economies are slipping. And, in a couple of months a new President will be elected. The markets can, and often do climb a wall of worry. But can it climb with this many large worries?

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Playing Hurt (continued)

It is apparent the world and US are de-leveraging. Thus, cash will be king for a while. It is indicative of a banking/financial system short of capital. Thus, our emphasis (and we expect the markets' emphasis) is on quality in all asset classes: high quality corporate bonds (treasury bonds are very expensive) and high quality stock investments. Be careful with foreign exposure to those companies in countries demonstrating a responsive plan for economic stimulus. The US dollar should strengthen versus our major trading partners. Thus, the US may be the best house on a difficult financial street.

4 Keys to Long-Term Financial Success

1. Set realistic goals (do not change with "bad weather")
2. Invest conservatively (do not chase latest fads and investments du'jour)
3. Spend within your means (don't try to keep up with the neighbors)
4. SAVE

In other words, do the things within your power to control; do not sweat the stuff you cannot control (short-term market storms).

If you worry unduly about current financial market woes, we need to hear from you. If you have friends who express worries about what to do, maybe we can help. We are monitoring the storm closely. We utilize in client portfolios many different (diversified) funds managed by experienced investors. We are getting bumped around by the storm, but are doing relatively better. Worried? We would like to visit with you to discuss your concerns and validate your long-term goals.

Nvest Announcements

Steve Henderly married Suzanne on August 2. Steve also learned during the month that he passed Level III of the Chartered Financial Analysts (CFA) designation; he will now be a CFA like his dad. Congratulations Steve, and Sue!

Bill Henderly received appointment to the creation of an Investment Advisory Committee for Wendy's "Dave Thomas Foundation for Adoption" in August. This foundation received the "Shining Star" award at both the Democratic and Republican National Convention.

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

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