

NOWHERE FAST

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Where do we (investors and the markets) go from here?

The stock and bond market reached low values on March 9 and have rallied in handsome fashion for six consecutive months. It has not been straight up; there have been ups and downs; but the general direction has been upward. Since March 9, the S&P has rebounded almost 53% (through August 31). That is still 32% below the peak value achieved in October 2007, meaning it needs additional advance by over 60% to reach its former peak.

So, where do we go from here? How about... nowhere fast. The financial market recovery to this point started from very depressed levels; investors over-reacted too pessimistically to the financial events of 2008. If one were to say current values are a rebound reaction bringing us to more appropriate levels (a depression did not occur), then going forward is dependent on continued economic recovery AND company earnings. Economic recovery is underway. Recent corporate earnings have been surprisingly good, but without sales revenue; profit improvements were the result of heavy cost cutting and layoffs. Going forward, companies need to experience increased sales to demonstrate recovery is happening; without, the financial markets will struggle.

We expect consumers will continue to be value focused. Reducing debt (credit cards, home equity loans, and etc.) while increasing savings will take years to complete. Add higher taxes and greater government regulation, and that suggests to us that the economy will grow much slower than past economic cycles. We call it growth at a slower "speed limit".

The second half of this year will witness strong economic rebound in the reported numbers. These big increases are related to pulling future growth forward into the final half of this year ("Cash for Clunkers" program, inventory restocking, and etc). We expect 2010 will experience the slower "speed limit". "Bare necessity" spending will not support a normal growth recovery. These slower economic growth experiences, less credit, higher taxes and the bigger hand of government regulation provide us an initial indication of what will be a "new normal" lifestyle for the future.

August stock market performance continued to encourage all investors; after all it provided the sixth month to the Spring Rally. Maybe, hopefully, this is the beginnings of a new bull market. The S&P 500 advanced +3.6% during the month and all equity asset classes followed suit.

Style	August	3 Mos	YTD	Client Objectives			
				(Stocks/Bonds)	August	3 Mos	YTD
Mid Value	+5.0%	+15.0%	+23.9%	20/80	+1.4%	+4.4%	+9.7%
Large Value	+4.4%	+12.0%	+13.7%	35/65	+1.8%	+5.4%	+11.2%
Small Value	+4.2%	+15.7%	+20.3%	50/50	+1.9%	+6.0%	+12.0%
S&P 500	+3.6%	+11.7%	+14.9%	65/35	+2.2%	+7.0%	+13.3%
Foreign	+2.6%	+11.3%	+28.6%	80/20	+2.2%	+8.0%	+15.9%
Mid Growth	+2.5%	+10.9%	+25.3%	95/5	+2.6%	+9.5%	+18.6%
Large Growth	+1.9%	+9.5%	+21.1%	S&P 500	+3.6%	+11.7%	+14.9%
Small Growth	+1.6%	+12.0%	+21.4%				

We believe the slower growth economy for the US and other developed foreign economies suggest associated stock markets advance in slower fashion as well. Slower economic growth and slower market advances probably means less market volatility. We expect that a world flush with money to invest will seek faster growth opportunities. We expect that money will be invested in developing (emerging) market economies for expected higher returns.

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NOWHERE FAST -CONTINUED-

Client portfolios are being invested with a greater global perspective; not just a US, domestic focus of "yesterday". Remember, it's a "new normal" investment environment as well. As a general idea, we are trying to build foreign stock exposure to roughly one-third of the equity exposure (eg: in a stock/bond objective of 50/50, then approximately 15% would be devoted to foreign). A developing markets fund is being utilized in client portfolios that are more growth oriented than conservative.

Lastly, any near-term weakness in equities we anticipate to be short and shallow. For the next month or two, the markets may go "nowhere fast" (at least not as fast as the last 6 months). We do believe it is still generally more dangerous to be short (out) of the market than long (invested). The market's technicals (trend, moving averages, formation, breath, and leadership profile) remain supportive of being a "time in the market" investor.

We always enjoy talking with clients; discussing their investment concerns and ideas. Please share our monthly commentary with your friends and let us know if someone needs our help.



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