

Market Commentary

October 31, 2006



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Turning Point - Indeed!

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

Our recent quarterly newsletter (appended following this document) to clients discussed 2006 as a "Turning Point" year. After the election results of November 7th are tabulated the "Turning Point" theme is still playing. It is interesting to look at history: during prior military actions (WWI, WWII, Korea, and Vietnam) when military action lasted several years, the electorate changed dramatically to voice strong public concern. The political party in control became the party in the minority following a sweeping change. History also indicates that when such a shift occurs in the House of Representatives and/or Senate, which is a different party than occupies the White House, that the impact on the financial markets is minimal. Divided party government is seldom able to enact major legislation that impacts business. We should however, expect to see market impact at the company or industry level, but not at the overall market level.

Returns for most all asset classes were strong in October, the best monthly gains since November 2005. Investors feel more confident that both inflation and interest rates are under control. They feel the twin-engine effect of higher interest rates and oil prices are slowing the economy. Further, the Federal Reserve's three meeting pause signifies a turning point in their action and for the economy and inflation. When the Fed pauses (between raising and lowering interest rates) stocks and bonds historically perform well.

The Dow Jones Industrial Average has established several record highs. The S&P500 is approaching a high, while the NASDAQ has quite a distance to go before reaching March 2000 heights.

Diversified domestic equity funds surged almost 3.5% in October. Foreign stock funds were up almost 4% for the month, and continue to lead most all domestic stock styles for the year-to-date.

Equity Fund Performances

	<u>October</u>	<u>YTD</u>
Small growth	5.0%	7.0%
Small value	4.5%	12.2%
Foreign	3.9%	16.8%
Mid value	3.9%	11.3%
Mid growth	3.5%	5.3%
S&P 500	3.2%	11.6%
Large value	3.0%	13.5%
Large growth	2.9%	3.1%

Bonds scored a 1% gain for October. They have been performing better since the Fed paused. Bond investors action suggests they are less concerned about economic downside risk to growth as well as the upside risk to inflation. We've reached a turning point, where US interest rates are expected to start going down in the next year.

History shows that the bond and stock market can do well in the pause between rising interest rates and lowering rates. At this turning point, larger company stocks perform better. Large company stocks often pay dividends, have access to foreign and domestic markets, and usually have broader product lines than small companies. We have increased large-cap stock exposure in client portfolios over the summer and see evidence of that tactical adjustment starting to boost performance. We anticipate this theme will last a couple or 3 more years. We also continue to invest client portfolios in a diversified mix of stock and bond mutual funds to minimize portfolio risk while seeking attractive returns.

Please contact us for information about our investment process and performance. 

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nVEST nSIGHTS

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Turning Point

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

Cruise control and auto pilot features on cars, boats or airplanes provide ease of travel for the person responsible for reaching a destination. It seems many aspects of life are now becoming automated. It would be nice, maybe even lazy, if we could put many of our life tasks on cruise control. We have learned when using these devices that within a short distance adjustments may be needed to steer us back on course. Otherwise a slower driver, changing wind or water currents drift our path off course. It seems all of life is about turning points where we are required to adjust to changing events.

We believe 2006 represents one of those economic and investment turning points. Portfolios designed two years ago, when left unattended, have changed a lot. What worked for the last few years seems to be drifting. As a result, tactical adjustments to investment portfolios are needed to place them back on track (relative to the market at large).

During the 3rd Quarter, the Federal Reserve paused in its two year stair-step process of raising interest rates (raising short rates from 1.0% to 5.25%). This tightening move was designed to slow a rapid growing economy and prevent inflationary overheating. Higher interest rates and rising commodity prices are slowing worldwide growth. We are finding less money available for clothing and food after incurring higher interest payments and oil prices.

Bonds rallied in a big way during the 3rd Quarter, earning between 2% to 3% (depending on the length of maturity). The rise in bond prices (decline in 10 year bond yields from 5.4% to 4.6%) was a spark that propelled the S&P 500 upward by 5.7%. The index proved to be a tough boggy, as the typical domestic stock mutual fund advanced at a slower 1.9% pace. Large cap stocks gained 5% while smaller stocks were just better than breakeven. Active managers have now lagged the index for the quarter, nine months, and latest 12 months through September.

Continued on Page 2

Got Growth?

Growth stocks may be poised for outperformance. Since no investor owns a fully functioning crystal ball, some tactical portfolio adjustments may add incremental return. Here are 3 ideas we have considered in making tactical portfolio adjustments.

- **Growth stocks are cheapest in a decade.** Recently, they traded around 20 times earnings compared to 28 times ten years ago. The market is providing an opportunity to buy stocks of growth companies at bargain prices.
- **Pendulum may swing back to growth.** Value-style stocks have outperformed growth counterparts since November 2000 – the longest stretch of outperformance by value in the past 25 years and almost twice as long as the historical average.
- **Markets may favor Larger-cap stocks over small.** Research reveals that large company stocks perform better than small company stocks during periods of slowing earnings and economic growth. Further, large looks better relative value than smaller.

Value's recent six year dominance may have left portfolios dramatically underweighted in growth and large-cap stocks (much the same as the late 1990s left value and small dramatically underweighted). Making sure both growth and value, and large and small are represented in your portfolio can help manage the overall portfolio risk and insure smoother gains regardless of which investment style is the flavor du jour.

Get Growth!!! 



Turning Point (Continued from page 1)...

Client portfolios have lagged the major indexes and “Benchmarking” portfolios (reported on page 4) for the quarter, 9 and 12 months. It is not because of poor manager choices; they are the same funds that propelled portfolio performances over the past 4 years well above the index averages. Two of our larger fund allocations have slipped in 2006: **TCW Galileo Select Equities** and **Muhlenkamp**. Both have 9 month returns that trail the market indexes by large amounts. Both also have higher risk profiles than the market as a whole.

We are at a turning point in the markets, and it is the result of a slowing economy due to increased interest rates, oil prices and commodity prices. Client portfolios need adjustment to be in front of a changing market. Over the past 6 years, small stocks have outperformed large, and value style has outperformed growth. These trends are changing.

Turning point adjustments have been implemented in client portfolios. In general, we reduced some stock market portfolio risk and boosted exposure to large-cap stocks. We reduced mid-cap stock exposure (last year we reduced exposure to small-caps). We sold our entire position in **TCW Galileo Select Equities** and trimmed **Muhlenkamp** to lighten exposure to more aggressive funds. We expect investors have a reduced appetite toward risk taking. We have added new large stock exposures via **Marsico 21st Century**, **Janus Advisor Risk Managed Growth**, and **Diamond Hill Long/Short**. We believe the market is turning its focus to large-cap stocks with attractive dividends and/or stocks that can grow faster than a slowing economy. Thus, we have made tactical adjustments in client portfolio to be in front of where we see the market going. We expect these tactical adjustments will revive our portfolio performance pace to allow us to beat the passive indexes.

We invest client portfolios for the long term. Cruise control or auto pilot devices generally do not work in managing investment portfolios. They are ineffective for turning points. Our diversified mix of actively managed no-load mutual funds has generated attractive long term returns for our clients. 📈

Investment Info & Security

Did you know you can monitor your portfolio holdings via www.SchwabAlliance.com?

This website for clients of Schwab allows you to logon to ALL your portfolios held at Schwab at one time. Do not use Schwab.com as it requires you to logon to one account at a time. SchwabAlliance utilizes one logon and password to access all portfolios. Plus, you may also put verbal password protection on your accounts to secure against identity fraud. If anyone tried to access your account, they would need the verbal password to get access to your money. Call **SchwabAlliance at 800-515-2157**. You may also want to request they establish “e confirms” and “e statements” (if we have not already done that for you with the setup of your accounts) to qualify for discount trade costs when incurred. Or, call us and we can get the e confirms established with an email address.

Nvest Wealth Strategies is delivering your quarter-end portfolio reports via email. You may want to print out a copy for review; or view them right on your computer monitor. You may want to save the pdf-report file on your computer for future reference (less paper). Each pdf is named with your last name and quarter-end date (ie: “Smith9.30.2006”). We hope this is a fast and easy way to receive and save your investment reports. 📈

Points to Ponder:

📈 “Time is the most powerful weapon in an investor’s arsenal. Nothing comes close to it.” - *Kiplinger’s, February 2006*

📈 “In 1896, Charles Dow created the first Dow Jones Index that included nine railroad stocks, a steamship line and a communications company..... In fact, of the initial companies included, only General Electric remains as part of the modern-day average.” - *Carl Delfeld, Forbes.com, January 13, 2006*



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BENCHMARKING AS OF SEPTEMBER 29, 2006

Summary of index portfolio returns compiled by Nvest Wealth Strategies, Inc.



INDEX PORTFOLIO	STOCK/BOND ALLOCATION		TOTAL RETURN THROUGH 9/29/06					
			3RD QTR	YTD	12 MTHS	3 YEARS	5 YEARS	
	Capital Preservation	0% / 100%	<i>Cumulative</i> <i>Annualized</i>	2.0% N/A	2.9% N/A	3.4% 3.4%	6.5% 2.1%	15.6% 2.9%
	Income	20% / 80%	<i>Cumulative</i> <i>Annualized</i>	2.1% N/A	3.2% N/A	4.1% 4.1%	13.0% 4.2%	22.4% 4.1%
	Balanced Conservative	35% / 65%	<i>Cumulative</i> <i>Annualized</i>	2.1% N/A	3.6% N/A	4.7% 4.7%	18.9% 5.9%	29.8% 5.4%
	Balanced	50% / 50%	<i>Cumulative</i> <i>Annualized</i>	1.9% N/A	4.5% N/A	6.3% 6.3%	27.9% 8.6%	42.3% 7.3%
	Balanced Growth	65% / 35%	<i>Cumulative</i> <i>Annualized</i>	1.8% N/A	5.0% N/A	7.4% 7.4%	35.2% 10.6%	51.8% 8.7%
	Growth	80% / 20%	<i>Cumulative</i> <i>Annualized</i>	1.7% N/A	5.7% N/A	8.6% 8.6%	44.1% 13.0%	64.6% 10.5%
	Aggressive Growth	95% / 5%	<i>Cumulative</i> <i>Annualized</i>	1.7% N/A	6.2% N/A	9.2% 9.2%	49.6% 14.4%	72.4% 11.5%

The index returns reflect returns of various mutual fund averages compiled by Morningstar and allocated as follows: Capital Preservation: 90% Bond Average, 10% Treasury Bill Index; Income: 80% Bond, 10% Large Cap Growth, 10% Mid Cap Value; Balanced Conservative: 65% Bond, 15% Large Cap Growth, 15% Mid Cap Value, 5% Small Cap Value; Balanced: 35% Bond, 20% Large Cap Growth, 15% Mid Cap Value, 8% Small Cap Growth, 7% Small Cap Value, 15% International; Growth: 20% Large Cap Growth, 20% Mid Cap Value, 10% Small Cap Growth, 10% Small Cap Value, 20% International; Aggressive Growth: 10% Bond, 20% Large Cap Growth, 30% Mid Cap Value, 10% Small Cap Growth, 10% Small Cap Value, 20% International. You cannot invest in these indexes or averages. The level of diversification represented by these benchmark averages is materially different than actual client accounts; therefore, clients may experienced different levels of performance volatility. Past performance is no guarantee of future results.

SELECTED MUTUAL FUNDS—TOTAL RETURN PERFORMANCE SUMMARY

As of September 29, 2006



BOND FUNDS - TAXABLE

	STYLE	3RD QTR	YTD	12 MTHS	3 YEARS	5 YEARS
<i>Taxable Intermediate Bond Average</i>						
Wells Fargo Ultra Short	AS	1.2%	3.3%	4.2%	3.0%	2.5%
Vanguard Short Federal	HS	2.3%	3.3%	4.0%	2.2%	3.3%
PIMCO Low Duration	HS	2.3%	2.9%	3.5%	2.3%	3.5%
Vanguard Short-Term Investment Grade	HS	2.3%	3.6%	4.4%	2.8%	3.5%
American Century GNMA Income	HI	3.6%	2.6%	3.6%	3.1%	3.8%
Wells Fargo Government Securities	HI	3.4%	2.5%	3.0%	2.6%	4.2%
PIMCO Real Return	HI	5.7%	-0.2%	0.5%	7.4%	N/A
PIMCO Total Return	HI	3.9%	3.0%	3.5%	3.9%	5.4%
PIMCO Diversified Income	AI	4.5%	4.4%	5.6%	8.1%	N/A
Neuberger & Berman High Income	LI	3.5%	4.0%	4.7%	5.7%	7.2%
Victory Convertible Securities	LI	1.4%	4.6%	5.6%	7.3%	5.8%

BOND FUNDS - TAX EXEMPT

	STYLE	3RD QTR	YTD	12 MTHS	3 YEARS	5 YEARS
<i>Tax-Free Intermediate Bond Average</i>						
Vanguard Muni Limited Term	HS	1.8%	2.5%	2.9%	1.8%	2.8%
T. Rowe Price Tax Free S/I	HS	2.2%	2.6%	2.9%	1.8%	2.9%
Vanguard Muni Intermediate Term	HI	3.2%	3.3%	4.0%	3.3%	4.1%
Vanguard Ohio Long-Term	HL	3.6%	3.7%	4.4%	3.9%	5.1%

STOCK FUNDS - DOMESTIC

	STYLE	3RD QTR	YTD	12 MTHS	3 YEARS	5 YEARS
<i>S&P 500 Index</i>						
<i>Equity Fund Average</i>						
Janus Advisor Risk Managed Growth	LG	2.4%	1.5%	5.1%	10.2%	N/A
Marsico 21st Century	LG	-1.0%	7.3%	15.1%	16.7%	17.3%
Vanguard Index 500	LB	5.6%	8.4%	10.6%	12.2%	6.9%
TCW Galileo Dividend Focus	LV	6.2%	11.0%	11.4%	15.7%	10.7%
Diamond Hill Long/Short	LV	-0.1%	7.4%	10.9%	19.0%	15.0%
Munder Mid-Cap Growth	MG	-1.0%	5.0%	5.6%	17.6%	14.1%
Muhlenkamp	MV	-0.7%	-4.4%	-4.0%	14.3%	13.6%
Weitz Value	MV	4.8%	10.3%	13.4%	11.4%	7.2%
Bjurman, Barry Microcap Growth (Closed)	SG	-4.9%	-3.3%	2.3%	9.0%	13.1%
Century Small-Cap Select (Closed)	SG	0.7%	3.5%	3.0%	11.0%	13.5%
William Blair Small-Cap Growth (Closed)	SG	0.9%	6.9%	5.2%	16.8%	19.4%
Neuberger & Berman Genesis (Closed)	SB	-1.1%	0.9%	0.3%	16.4%	15.5%
Diamond Hill Small-Cap (Closed)	SV	-4.7%	-1.5%	0.7%	18.4%	20.2%
James Small-Cap	SV	-2.0%	8.4%	7.0%	20.1%	20.5%
Wells Fargo Small-Cap Value (Closed)	SV	-1.5%	5.8%	5.9%	20.8%	18.9%

STOCK FUNDS - INTERNATIONAL

	STYLE	3RD QTR	YTD	12 MTHS	3 YEARS	5 YEARS
<i>Morgan Stanley EAFE Index (Foreign)</i>						
American Century International Discovery (Closed)	MG	1.2%	14.0%	25.3%	26.0%	20.7%
Harbor International	LV	3.9%	16.6%	23.2%	25.0%	19.3%
Oakmark International (Closed)	LV	5.1%	19.1%	22.1%	23.3%	19.1%
Tweedy Brown Global Value (Closed)	LV	5.7%	11.1%	14.1%	19.3%	12.5%
William Blair International Growth	LG	4.3%	10.5%	18.1%	22.2%	16.6%

STOCK FUNDS - SPECIALTY

	STYLE	3RD QTR	YTD	12 MTHS	3 YEARS	5 YEARS
PIMCO Commodity Real Return	LB	-4.8%	-5.4%	-9.2%	14.3%	N/A
Vanguard Special Health Care	LG	7.4%	9.9%	13.3%	15.8%	9.8%
JP Morgan US Real Estate	MV	7.5%	24.8%	31.2%	29.1%	22.5%

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WHO DO YOU CALL WITH QUESTIONS???

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This list of mutual funds is not a recommendation of these funds. Past performance is no guarantee of future results.