NVEST WEALTH STRATEGIES

Market Commentary

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Delivering financial peace of mind.

Golly!!!

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Many investors who lived in the 1960's can recall Gomer Pyle use this word in amazement. Jim Nabors was a naïve "hick" boy in "Gomer Pyle USMC" and the gas-pumping attendant of "The Andy Griffith Show". I am sure if he was a stock investor in 2006, he would have used this exclamation to describe the difference a quarter makes when the Fed is finished raising interest rates.

G O L ….. L Y ! ! !

December stock performance slowed a touch, but the fourth quarter was spectacular. Value funds of all market caps sprinted past growth, making it six years they have performed better. Small-cap stocks too extended their streak to six years outperforming large-cap stocks. Historically, six years of better relative performance is very long (themes tend to run for 3 or 4 years). International stocks pushed their lead to three years with better performance than US domestic stocks.

Equity Fund Performances

	December	4Qtr	YTD
Foreign	3.2%	11.6%	25.6%
Large value	2.1%	7.0%	18.0%
S&P 500	1.4%	6.5%	15.6%
Small value	0.8%	8.5%	16.6%
Mid value	0.7%	8.2%	15.9%
Large growth	0.2%	5.4%	5.6%
Small growth	0.0%	8.2%	10.3%
Mid growth	-0.5%	6.7%	8.5%

Since July 21, all stock fund categories have been on a tear. The Fed last raised interest rates (after 2 years of quarter point increases) on June 29, and has paused for 4 straight meetings (the first being in August). Investors perceived the Fed is done and rallied both stocks and bonds. Unfortunately, market timers never saw the recent 21 week advance. It wasn't until late September to October that stock charts started to reveal the power of the advance.

Bonds too, performed well in the fourth quarter, advancing almost 2.3% (sounds like the annual returns from bonds a couple of years ago).

We expect 2007 will be a rewarding year for both bond and stock investors. Historically the markets do well while the Fed is on hold (a pause between raising interest rates and next lowering rates). But, we could see an economic "growth scare" along the path of a slowing economy. The "growth scare" will cause interest rates to back-up slightly and the stock market to pause as a result. Investors do not like too strong of economic statistics when the Fed is in its pause mode. A "growth scare" causes bond and stock investors to worry that the Fed could resume raising interest rates (to slow the economy and inflation), since they want the Fed to stay on hold. A "growth scare" should be short lived, and softer economic news will allow the bond and stock market to resume its advance again.

We manage client portfolios with a long-term view, investing in a diversified mix of no-load mutual funds. This process has produced very attractive annual and long-term investment performance.

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