

Market Update

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Long Term is a Green Banana - Part II

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*"Twas the fright before Christmas,
And all through the shelves,
Not a consumer was buying...
Not even the Elves."*

Could the Grinch himself put the current economic situation in more difficult terms? (Frank Gannon Commentary dated 12/01/2007 – Assistant Portfolio Manager of the Pennsylvania Mutual Fund).

Investors are gathering all the news about declining home prices, problem home loans, mortgage defaults and bank write-offs and changing their long-term investment plans into short-term visions of gloom. November investment statements could create a "Grinch-like" perspective leading many to wonder what should gift giving cheer look like this year. If consumers retrench, how will the economy fare? Thus, long-term has shortened into the time it takes a green banana to ripen.

On November 27th, we wrote Part I, "Long Term is a Green Banana" to discuss how violent market sell-offs shorten investor time horizons. To be sure, the economic forecasts and recent financial news is not good (but what do you expect from the news?). Many stocks of many industries have sold off hard.

During much of November, stocks were particularly hard hit while high quality bonds performed very well (flight to quality). November returns show some of the difficulty:

	<u>November</u>	<u>YTD</u>
Large Growth	-4.34%	13.50%
S&P 500	-4.40%	4.43%
Foreign	-4.49%	14.46%
Large Value	-4.60%	2.62%
Mid Value	-5.01%	1.81%
Mid Growth	-5.26%	14.56%
Small Value	-7.06%	-5.27%
Small Growth	-7.15%	7.65%

Easy to see is that large company stocks with exposure to foreign trade held up best during November, while mid and small size (having less foreign trade exposure) had more difficult experiences. Value stock styles (generally offering higher dividend yields) held up better than growth, during November. HOWEVER, growth continues to dominate the performance of value for the year-to-date; a first after 6 years of value besting growth.

Client portfolios show November's negative effects, but the year is still a positive experience. Also in Part I last week, we stressed the importance of being a long-term investor. That can be difficult advice when emotions are urging the opposite. But long-term investors monitor current market sell-offs as temporary rainy days, as opportunities to find bargains that didn't exist earlier. We encourage this long-term perspective. Our clients choose investment objectives for the long-term, consisting of a diversified mix of bonds and stocks. Bonds are rallying now while stocks have declined. That suggests long-term investors are "buying" today to continue holding quality investments for another "day". They don't sell when prices are low; they "buy" for another day, for the long-term.

What do long-term investors do? Stay invested. They also buy when markets sell off. Look at successful long-term investors like Warren Buffett. Is he selling? No; he believes if the market is open one day a year, that's too many. What did Abu Dhabi (foreign sovereign wealth fund) do last week? It purchased \$8 billion of stock in Citigroup. Other foreign sovereign funds have recently done the same buying stock of other domestic and foreign companies. Why? They are long-term investors who believe they have found an attractive value. Real investing is not speculation; it retains a long-term perspective utilizing a diversified mix of stocks and bonds. Diversification of asset type reduces risk and provides investment flexibility. We are not worried the Grinch will steal Christmas. Neither is our time horizon short-term like a green banana.

Stay invested and Happy Holidays!!!

Check our website nvestwealth.com regularly for weekly updates on the markets. As always, don't hesitate to let us know if you have any questions, or would like to schedule a time to meet!



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