

WHO'S STEALING CHRISTMAS?

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The Grinch hated Christmas! The whole Christmas season! Now, please don't ask why. No one quite knows the reason. It could be that his head wasn't screwed on quite right. It could be perhaps, that his shoes were too tight. But I think that the most likely reason of all may be that his heart was two-sizes too small. But, whatever the reason, his heart or his shoes, he stood there on Christmas Eve, hating the Whos...

If you are unfamiliar with these words, then you are not likely the owner of one of the millions of copies of Dr. Seuss' How the Grinch Stole Christmas in print around the world.

As investors put a wrap on 2008, it feels like Mr. Grinch stole more than Christmas. This year will make history next to 1930 – 31 as THE second most horrible market performance experienced. It is safe to say, none of us have ever experienced such a severe negative market. The unprecedented financial crisis is starting to show improvement, but it has transitioned its effects into a severe global recession.

During November, the S&P 500 lost another 7%, with the last 3 months drop being 30%. It's hard to imagine sellers still exist in a market where extremes of this magnitude have not been seen in generations.

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	November	3 Months	YTD
S&P 500	-7.2%	-29.7%	-37.9%
Large Value	-7.5%	-29.6%	-38.6%
Large Growth	-9.0%	-33.1%	-41.8%
Mid Value	-9.1%	-36.0%	-41.1%
Mid Growth	-10.4%	-38.9%	-45.9%
Small Growth	-11.4%	-38.1%	-44.8%
Small Value	-11.4%	-34.7%	-36.7%
Foreign	-6.6%	-37.6%	-49.2%

November was not as bad as October, wherein the average domestic stock fund lost over 18%. Even bonds lost in November, except for Treasury bond funds as investors sought safety. The year-long credit crisis and market dislocation has led to some of the most inefficient pricing for stocks and corporate bonds ever witnessed. The selling storm has everything to do with deleveraging and very little with fundamentals for most stocks. Extreme selling typically leads to historical opportunities for savvy, long-term investors.

Policy response has been enormous, but its effect is with a lag. Often policy response shows its effect in about 12 months. Our banking system is not yet fulfilling its role – to lend. That is now creating worry for the economy in total (domestic and world). How severe and long will be the recession, is the prevailing issue weighing on the financial markets.

The stock and bond markets could be near their lows (we all hope). Lows were reached on October 10 and a slightly lower low on November 20. Testing lows is normal. We will experience bear market bounces of +20% to +35% off the lows, just to see it taken away to retest the low. In 2002-2003, we had 7 such rallies, with 6 tests of the low. Investors will become de-sensitized by the rally and retreat action, such that the last will look like the prior up/down action. But of course, the final rally will keep on going and be the next new bull market. No one knows the timing of the start of the next new bull market; but it is closer today than last week. Enormous difficulty and market dislocation creates enormous opportunity.

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WHO'S STEALING CHRISTMAS? (CONTINUED)

Client portfolios have been banged up; but not as bad as the financial market indexes in general. The damage is fully a function of the objective for the portfolio and amount of cash being held. Most every client account owns cash of 20% or more. That means we own less stock exposure than client objectives call for. Holding cash and less stock exposure has helped a lot in the worst months of October and November. Performance results are much less bad than the markets; but still extremely frustrating. Our future challenge is when to reinvest cash. We are not there yet. Further, taxable personal accounts will not have any material taxes to pay this year. In fact, harvesting losses should prevent tax liabilities this year and into the future.

Now is an attractive time to ready yourself for the future. We all must be thinking opportunistically about the future. Investors today are discouraged by fear, they are not yet motivated by greed. There exists a feeling of fatigue over the waterfall price drop. It's a mentality of saying "I know its bad, but I'm not going to look (so I won't know how bad it really is)". If you are struggling about what to do in other accounts (at brokerage firms, or a former employer 401K that needs to be rolled into an IRA), seriously consider acting NOW. Getting new cash into your account is preparing before the next bull market starts. Then you will be ready to capitalize on the next bull market when it starts. No one knows its starting time, but you must be ready by preparing now.

It feels like a lot more than Christmas has been stolen this year. And to think it was brought on by greed. Wall Street greed with lack of regulatory oversight allowed Grinch to sneak into US-ville and wreak havoc with prudent investor lives and plans.

In the original story, of course, the Grinch doesn't win. Recall that Grinch snuck into Whoville stealing all the presents from Who-houses, plus their stockings hung by the fireplaces, their Christmas trees, and the food for their Christmas feasts. Thinking himself the victor, he was shocked the next morning to hear the sounds of joyful singing coming from Whoville. The shock prompted a revelation in his three-times-the-size heart:

"Maybe Christmas," he thought, "doesn't come from a store.

"Maybe Christmas... perhaps... means a little bit more!"

Nvest Wealth Strategies wishes you and your family a Merry Christmas and a joyous New Year. And, remember a bright light makes no noise; it simply shines.

Thursday, December 11 (5pm - 9pm) visit Nvest Wealth Strategies at the Columbus Zoo Wildlights. They are new and around the lake, and choreographed to music. We have warm treats of hospitality in the Conservation Education Building.
Call Steve (740-917-9234) for free tickets.

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