

DIRECTIONLESS VOLATILITY

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

The stock and bond market rebounded in November following a soft October. The S&P 500 advanced just shy of 6% for the month. Thus, from the March lows, the S&P 500 has rebounded almost 65% (it is still 27% below its peak in October 2007 and still needs to rise more than 50% to reach that former peak).

Mutual funds rallied in November but at differing paces. Many we own beat the S&P 500 and their style peers. Others advanced but at slower rates relative to the market. Our continued use of corporate bonds (avoidance of Treasury bonds) added value to overall bond returns in client portfolios. Below are equity style and client investment objective performances for November and year-to-date (it keeps looking up):

Style	November	YTD
S&P 500	+5.9%	+23.9%
Large Growth	+5.8%	+30.9%
Large Value	+5.2%	+21.0%
Mid Growth	+4.5%	+32.6%
Mid Value	+4.4%	+30.8%
International	+4.1%	+39.3%
Small Growth	+3.6%	+26.2%
Small Value	+2.9%	+23.9%

Client Objectives (Stocks/Bonds)	November	YTD
20/80	+1.5%	+13.6%
35/65	+2.1%	+16.0%
50/50	+2.7%	+17.6%
65/35	+2.9%	+19.6%
80/20	+3.6%	+23.1%
95/5	+4.1%	+26.6%
S&P 500	+6.0%	+23.9%

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Following a big advance from the March 9 lows, many are wondering "What's next?" Is the market ahead of the fundamentals? Could the market fall back since the economy appears soft and huge government deficits exist? Is caution warranted? After all, it seems volatility is returning to the daily market experience. It's almost like most investors lack confidence that a new bull market may be underway.

Looking to the past, it is fairly common that the market enters a phase of "directionless volatility" following a dramatic run-up from low levels. Investors naturally second-guess the future prospects for a continued rally. Memories and reminders of difficult market struggles and portfolio losses remain in our forethought. And, there still exist many difficult issues and soft economic prospects that support a fear attitude. Thus, a tug-of-war experience is common; a directionless volatility of back and forth action resurrects the emotion of worry about new loss.

For example, the S&P 500 (currently at 1,100) is roughly mid-way between its October '07 peak of 1,576 and its March '09 low of 666. In both 2002 and 1990, the market initially struggled to break out after a 50% retracement rise. However, once the market managed to surpass this threshold, the catalyst for further gains was set in place. At current levels, the market seems to be bumping up against resistance (like a ceiling); but, once the market breaks through the ceiling, current levels will likely transition and become new support (like a floor). We expect the current "directionless volatility" around the ceiling will transition into the floor for the next phase of the bull market. Again, it's typical to see 50% jumps over 7 months off deep lows; then sideways activity; followed by another 20% gain over 7 months or so. No guarantees; we believe that bulls retain the upper-hand until the "bill comes due" (paying for deficits in the form of higher taxes and/or interest rates). Slow economic growth prospects with stubborn high unemployment delay when the "bill comes due"; in the meantime, we keep "kicking the can down the street."

CONTACT US:

2310 Home Road
Delaware, Ohio 43015
740.917.9234

WWW.NVESTWEALTH.COM
Email: info@nvestwealth.com

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Client portfolios are tactically mixed; they are positioned ahead of the market. When the market rebounds off its low, everything jumps (all assets rally). Now, the transition to the next rise will slowly reveal new market leaders. We expect the market leaders going forward to be global focused. Thus, all portfolios own about one-third of their stock exposure devoted to foreign. If you look inside most stock mutual funds, we can already see increasing exposure to foreign and developing country stocks. Also, large company stocks have foreign sales unlike small company stocks. Client portfolios' two largest stock exposures are to foreign and large companies. Further, we are keenly focused on fund managers who emphasize quality (low quality rebounded more in the first jump-up phase) as we expect continued slow world growth and deleveraging to reward quality (strong financial positions) bonds and stocks. In essence, we are ahead of the market with our safe, boring vanilla, broadly diversified portfolio structure.

And, as stated before, we expect "directionless volatility" to transition into the next up-leg of the bull market. Thus, our 2010 outlook is for a rewarding performance experience for portfolios.

Thank you for abiding with Nvest Wealth Strategies through a wild 2009; we traveled some difficult days in the first quarter. We wish you a Merry Christmas and a very Happy Holidays to your family and friends. PS: If you have the chance, share our name with a friend. See you soon – tomorrow ushers in a new year and new decade.

ANNOUNCEMENTS

IRA DISTRIBUTIONS: Required minimum distributions (RMD) are NOT required to be taken during 2009. Congress passed a waiver that 2009 RMD's are optional following the drop in portfolio values during late 2007 and 2008. Thus, we will not be initiating paperwork for distributions; but if you need a distribution, please contact us to start the paperwork.

YEAR-END TAX FORMS: Schwab will be sending out 2009 tax forms (Form 1099) for accounts on two different dates this year. Most accounts will receive their forms in mid-February; however accounts containing only equity positions (no mutual funds, bonds, etc.), then you will receive your forms at the end of January. As always, Nvest Wealth Strategies will be providing you with capital gains information for your taxable accounts.



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www.nvestwealth.com

Ph: 740.917.9234

2310 Home Road

Fax: 740.917.9234

Delaware, Ohio 43015

Email: info@nvestwealth.com