

## ROB PETER, OR PAY PAUL

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Fill in the blank: To be a long-term investor is always... [bewildering; difficult; challenging; (or your list, your thought)]. When current financial and political issues seem huge and complex, being a long-term investor is a difficult position to maintain. And, recent bad experiences can further challenge the goal to remain long-term. Oh, did we mention time, or stage of life?

Much of 2010 economic events have centered upon too much debt resulting from a decade (or more) of easy money/low interest rates. Developed countries including the US and much of Europe enjoyed a steady growth economic environment and access to easy money to live beyond reasonable means. Unfortunately, recent events bare witness of "the bill coming due". In the US, the "bill came due" for overextended homeowners; in Europe, from social programs that lacked ongoing economic growth to provide funding. And, we know the US is not without its huge share of social programs weighing heavy on its citizens. This bill too, will come due. Investors are keenly aware of the issues – how do we "rob Peter to pay Paul?"

We (and the US at large) are very experienced with this concept. "Robbing Peter to pay Paul" can be found in our personal lives, and national actions. The expression dates back to 1380 from England's John Wycliffe writings, referring to taking money (or other things) from one party to pay a debt to another; or to take money intended for one thing and use it for another. Our issue is how to reduce huge deficits (debt) *and* stimulate the economy? There are two options: rob Peter, or pay Paul!

Major stock markets around the globe ended November with losses amid continued uncertainty about sovereign debt problems (Ireland, maybe Portugal and Spain, even Italy). Then, there was the US election; and concern over China's increasing inflation rate; North Korea; and expiring Bush tax rates (will the government rob Peter). The Fed also started QE2 – the purchase of Treasury securities, which is the equivalent of printing more money to boost the economy (is this ignoring Peter to pay Paul?). These events elevate many worries for investors making it difficult to remain long term.

**nvest**  
WEALTH STRATEGIES

Delivering financial  
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Style	November	YTD
Small Growth	+4.2%	+19.1%
Small Value	+3.0%	+16.4%
Mid Value	+1.4%	+13.9%
Large Growth	+1.1%	+9.1%
S&P 500	+0.0%	+7.7%
Mid Growth	-0.0%	+7.3%
Large Value	-0.4%	+5.0%
Foreign	-4.0%	+2.8%

Client Objectives		
(Stocks/Bonds)	November	YTD
20/80	-0.4%	+5.9%
35/65	-0.1%	+6.7%
50/50	-0.1%	+7.6%
65/35	-0.1%	+8.8%
80/20	+0.1%	+8.1%
95/5	+0.2%	+8.3%
S&P 500	+0.0%	+7.7%

Client portfolios performed okay – bonds struggled; US stocks stumbled, and foreign stocks were bumped (Euro sovereign debt worries). Economic statistics are pointing to slow improvement; but not relief for the unemployed or for housing values.

From our perspective, continued economic rebound is dependent on stock values. As Alan Greenspan (former Federal Reserve chairman) stated, "the best stimulus package is a stock market rally." The Fed cannot lower interest rates below zero; QE2 may help; but is limited. Fiscal policy (rob Peter, or pay Paul) is super critical and appears contradictory. Can government not rob Peter (not raise tax rates), while deciding to make government smaller (not pay Paul)? Boosting the economy to reduce unemployment seems key without making government bigger (actually making it smaller).

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## BI-FLATION -CONTINUED-

It's up to stocks! A continuing rally by the stock market will raise investor and business confidence. Investor confidence will be boosted and consumers may feel better about spending; and businesses will feel better about the future outlook and hire workers and invest in equipment/plants. A rising stock market could create a positive feedback loop to improved economic conditions. [Hey, that even helps people and government pay down debt.] Rising investor and business confidence via rising stock prices will do much to assist the recovery and expansion of the economy.

Last thought: stocks offer long-term investors better return opportunity. Bond yields are historically low (meaning prices are historically high). Fearful investors don't want risk, and money market funds have zero yield. So, bonds were the appeal (for safety). But, at high prices (low yields) they are not risk free and require much care with their use in portfolios. Stocks, on the other hand, often pay dividends that gradually increase (grow) over time. More than ever, about 15% of the S&P 500 stocks have dividend yields higher than their 10-year bond yields. Wouldn't a long-term investor rather own higher yielding stocks than lower yielding bonds? [We are not saying don't own any bonds; but care is warranted.]

Despite many current worries facing long-term investors, we expect stocks should provide better returns than bonds. Because 1) the economy will continue to gradually improve, 2) interest rates will remain low (but slowly rise) while inflation is managed, 3) the Bush tax rates will be extended for 2 or 3 years, and 4) unemployment will slowly decline. That means, we don't have to rob Peter, and maybe paying Paul can occur at a slower pace. Sounds like an attractive Christmas present.

Merry Christmas and a joyous Happy New Year!!



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