NVEST WEALTH STRATEGIES

nVEST nSIGHTS

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Delivering financial peace of mind.

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Surprise, Surprise, Surprise!!!

By Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

These are the famous words of Jim Nabors used in the hit 1960's TV series "Gomer Pyle, USMC" and "The Andy Griffith Show". As you review your year-end investment reports, I suspect many will exclaim with delight, "Surprise, Surprise, Surprise!" Maybe even "Golly" or "Shazam"! Most investors I talk with think 2006 was a good year for the stock market indexes (i.e.: Dow Jones or S&P 500), but not necessarily for their own portfolio. They think the indexes marched higher but their own portfolios did not.

Surprise, Surprise, Surprise!

Third quarter and nine-month reports to clients looked dull. Even the market indexes were flat at levels similar to the start of the year. At October 31, investment returns looked puny, but with some improvement. Oh how they changed for those who finished 2006.

Shazam! 2006 was a good year, marking the 4th in a row of equity gains. The year-end spurt was the result of several turning point events during the year. Ben Bernanke took over the Fed; housing went from boom to bust; oil prices dropped; in August the Fed paused in its 2-year trek of raising interest rates designed to slow the economy and inflation; and the electorate in November changed the makeup of Congress. Past experience shows that stocks and bonds do well when the Fed gets out of the way (they paused).

Client portfolios jumped ahead in the 4th quarter, rising approximately 2.7% (for 20% stock / 80% bond portfolio mixes) to almost 8.5% (for 95% stock / 5% bond portfolios). Full year returns ranged from 6.7% to almost 14%, respectively for conservative to aggressive portfolios.

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No Fashion Shift, Yet

2006 marked the fourth year in a row of equity gains. The Dow Jones set several records during the year, while the S&P 500 and NASDAQ are still 8% and 53% below their March 2000 peaks, respectively. That's nearly 7 years ago the market indexes reached their peaks. During the past 6 years, small and value stocks have performed best. Large and growth stocks have advanced, but to lesser degrees.

Investor attitudes' toward risk is changing. The Fed raised interest rates to curb economic growth and inflation. As a result, investors are shifting focus to companies that will grow faster than a slowing economy, and/or that pay dividends. Large stocks tend to have access to foreign markets, have more diverse product offerings, and pay dividends (small company stocks usually lack in these traits). Large usually is less risky than small, AND price valuations are better. The market will shift its style focus at some point and our client portfolios have been tactically repositioned to benefit from a large stock resurgence.

We expect 2007 will prove to be another rewarding year for stock and bond investors. The Fed is pausing (neither raising nor lowering interest rates). The next major move by the Fed will be to lower interest rates. During the pause the bond and stock markets historically do well. We do not anticipate a recession which would short circuit that outlook.

Hold on though. During the next month or two, we suspect the stock and bond market may pause from its recent advance. The market has climbed for 21 weeks (since July 21), and needs a breather. Fundamentally, recent economic statistics show some pick-up in the economy. Such a pickup during a slow down is called a "growth scare". Neither bonds nor stocks want to see too much acceleration of economic growth. Too much growth leads investors to fear the Fed will again ratchet-up interest

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Surprise, Surprise, Surprise (Continued from page 1)…

Growth oriented client portfolios (owning more stocks than bonds) slightly trailed the traditional indexes for 2006 (not so for 4Q). A couple of key mutual funds got off to slow starts and were unable to fully rebound to catch the indexes. Tactical strategy adjustments were made to portfolios in July/August to position for the turning points taking place. We generally reduced some risk from the equity portion of the portfolio – decreasing mid and small-cap stock fund exposures, capturing some profits in international and real estate, and boosting exposure to large cap stocks. We believe portfolios are well positioned for 2007. The new year should be another attractive one.

Thank you for another year to invest your portfolio. We work hard to grow your investments by taking a long-term view. Our disciplined approach attempts to minimize emotional noise. Our long-term clients can attest that competitive annual returns build attractive cumulative performance; you can almost hear them using Gomer's words, "Golly!"

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No Fashion Shift, Yet (Continued from page 1)…

rates to fight inflation. Investors want the Fed to be done (pause). Good economic news is not welcomed information at this time. A growth scare could temporarily stall the stock market advance as interest rates temporarily rise. We expect this growth scare to be temporary.

On balance, we are in a slowing economic environment. Two years of increasing interest rates and oil prices will slow the economy. Slower economic news will again encourage interest rates to fall and stocks to resume their advance.

As such, we expect 2007 to be rewarding. Stocks are not over-valued. Remember, we do not yet have stock indexes back to 2000 levels, and there is not "irrational exuberance" that existed 7 years ago. "Time in the market" investing is critical to investor success.

Taxable Distributions

Mutual funds are required to pay out taxable distributions from income dividends and realized capital gains annually. While paying taxes is not likely on anyone's top 10 list of most enjoyable things to do, some important points should be remembered.

- The last few years have been unusually favorable from a tax standpoint. Stock prices rose, but because of the preceding bear market, many funds had loss carryforwards that they were able to use to offset their gains. These carryforwards are now largely used up, and as a result many funds in our portfolios made substantial distributions in 2006.
- While paying taxes on large fund distributions may seem like a burden, the truth is that taxes will eventually have to be paid if your investment increases in value. Because of the time value of money, its obviously better to pay later than to pay now, but by paying taxes now, you are reducing the amount you will owe later - a partially offsetting fact that is important to remember.

Be on the lookout for your realized gain/loss, income and expenses reports that will be included with the quarterly reports you receive from us in the coming weeks. You will receive official 1099 forms from Schwab in the near future as well.

Welcome, Steve!

Steve Henderly (yes, Bill's oldest son) has joined Nvest Wealth Strategies and will serve as an integral part of the investment research, strategy and operations of Nvest. Steve comes to Nvest after working for 2+ years as a research analyst with a private financial consulting and reporting firm with a specific focus on the food, retail and drug industries. Steve graduated with a degree in Finance from The Ohio State University in 2004; he has successfully passed Level I of the Chartered Financial Analyst (CFA) program and is in the process of preparing for Level II. Welcome, Steve!

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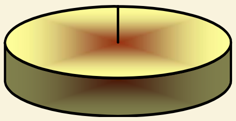
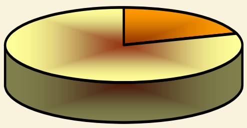
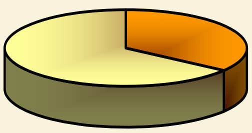
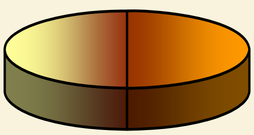
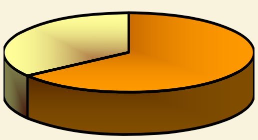
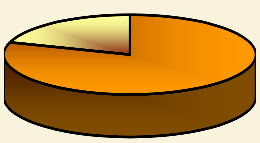
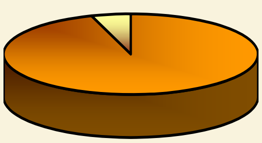
Benchmarking As of December 29, 2006

Summary of index portfolio returns compiled by Nvest Wealth Strategies, Inc.

	Index Portfolio	Stock/Bond Allocation		Total Return Through 12/29/06				
				4th Qtr	YTD	12 Mths	3 Years	5 Years
	Capital Preservation	0% / 100%	*Cumulative*	1.0%	4.0%	4.0%	7.2%	16.6%
			Annualized	N/A	N/A	4.0%	2.3%	3.1%
	Income	20% / 80%	*Cumulative*	2.2%	5.5%	5.5%	12.4%	21.4%
			Annualized	N/A	N/A	5.5%	4.0%	4.0%
	Balanced Conservative	35% / 65%	*Cumulative*	3.1%	6.8%	6.8%	17.0%	27.0%
			Annualized	N/A	N/A	6.8%	5.4%	4.9%
	Balanced	50% / 50%	*Cumulative*	4.7%	9.5%	9.5%	25.1%	38.3%
			Annualized	N/A	N/A	9.5%	7.8%	6.7%
	Balanced Growth	65% / 35%	*Cumulative*	5.9%	11.3%	11.3%	31.3%	46.2%
			Annualized	N/A	N/A	11.3%	9.5%	7.9%
	Growth	80% / 20%	*Cumulative*	7.7%	13.5%	13.5%	38.8%	57.0%
			Annualized	N/A	N/A	13.5%	11.6%	9.4%
	Aggressive Growth	95% / 5%	*Cumulative*	7.9%	14.7%	14.7%	43.2%	63.2%
			Annualized	N/A	N/A	14.7%	12.7%	10.3%

The index returns reflect returns of various mutual fund averages compiled by Morningstar and allocated as follows: Capital Preservation: 90% Bond Average, 10% Treasury Bill Index; Income: 80% Bond, 10% Large Cap Growth, 10% Mid Cap Value; Balanced Conservative: 65% Bond, 15% Large Cap Growth, 15% Mid Cap Value, 5% Small Cap Value; Balanced: 35% Bond, 20% Large Cap Growth, 15% Mid Cap Value, 8% Small Cap Growth, 7% Small Cap Value, 15% International; Growth: 20% Large Cap Growth, 20% Mid Cap Value, 10% Small Cap Growth, 10% Small Cap Value, 20% International; Aggressive Growth: 10% Bond, 20% Large Cap Growth, 30% Mid Cap Value, 10% Small Cap Growth, 10% Small Cap Value, 20% International. You cannot invest in these indexes or averages. The level of diversification represented by these benchmark averages is materially different than actual client accounts; therefore, clients may experienced different levels of performance volatility. Past performance is no guarantee of future results.

Selected Mutual Funds—Total Return Performance Summary

As of December 29, 2006

Bond Funds - Taxable	**Style**	**4th Qtr**	**12 Mths**	**3 Years**	**5 Years**
Taxable Intermediate Bond Average		*1.3%*	*4.0%*	*3.3%*	*4.5%*
Wells Fargo Ultra Short	AS	1.4%	4.9%	3.4%	2.5%
Vanguard Short Federal	HS	0.9%	4.3%	2.5%	3.4%
PIMCO Low Duration	HS	0.8%	3.8%	2.6%	3.6%
Vanguard Short-Term Investment Grade	HS	1.2%	5.0%	3.1%	3.7%
American Century GNMA Income	HI	1.3%	4.0%	3.3%	4.1%
Wells Fargo Government Securities	HI	1.1%	4.1%	3.0%	4.9%
PIMCO Real Return	HI	-1.5%	0.3%	4.0%	7.4%
PIMCO Total Return	HI	0.9%	4.0%	4.0%	5.5%
PIMCO Diversified Income	AI	3.0%	7.6%	7.6%	N/A
Neuberger & Berman High Income	LI	3.8%	8.0%	5.8%	7.1%
Victory Convertible Securities	LI	4.2%	8.9%	5.6%	5.4%
Bond Funds - Tax Exempt					
Tax-Free Intermediate Bond Average		*1.0%*	*3.4%*	*2.8%*	*3.9%*
Vanguard Muni Limited Term	HS	0.7%	3.3%	2.8%	3.0%
T. Rowe Price Tax Free S/I	HS	0.7%	3.3%	2.6%	2.9%
Vanguard Muni Intermediate Term	HI	1.0%	4.4%	3.3%	4.4%
Vanguard Ohio Long-Term	HL	1.1%	4.9%	3.9%	5.5%
Stock Funds - Domestic					
S&P 500 Index		*6.7%*	*15.8%*	*10.4%*	*6.2%*
Equity Fund Average		*7.4%*	*13.3%*	*11.6%*	*8.6%*
Janus Advisor Risk Managed Growth	LG	5.4%	6.9%	8.7%	N/A
Marsico 21st Century	LG	10.6%	18.7%	16.1%	15.8%
Vanguard Index 500	LB	6.7%	15.6%	10.3%	6.1%
TCW Galileo Dividend Focus	LV	6.5%	18.2%	12.6%	11.2%
Diamond Hill Long/Short	LV	8.9%	16.9%	18.4%	12.8%
Munder Mid-Cap Growth	MG	6.3%	11.6%	15.4%	12.2%
Muhlenkamp	MV	8.9%	4.1%	11.8%	10.6%
Weitz Value	MV	10.5%	21.9%	11.1%	7.9%
Bjurman, Barry Microcap Growth (Closed)	SG	8.1%	4.5%	6.2%	10.5%
Century Small-Cap Select (Closed)	SG	5.7%	9.6%	8.3%	13.7%
William Blair Small-Cap Growth (Closed)	SG	7.1%	14.4%	13.7%	14.8%
Neuberger & Berman Genesis (Closed)	SB	6.4%	7.5%	14.0%	13.9%
Diamond Hill Small-Cap (Closed)	SV	8.7%	7.0%	16.0%	16.6%
James Small-Cap	SV	3.8%	12.5%	15.1%	18.0%
Wells Fargo Small-Cap Value (Closed)	SV	6.8%	13.0%	16.0%	16.9%
Stock Funds - International					
Morgan Stanley EAFE Index (Foreign)		*10.0%*	*23.5%*	*26.3%*	*12.4%*
American Century International Discovery (Closed)	MG	15.4%	31.5%	19.8%	21.6%
Harbor International	LV	13.8%	32.7%	23.7%	20.1%
Oakmark International (Closed)	LV	9.6%	30.6%	21.1%	17.5%
Tweedy Brown Global Value (Closed)	LV	8.1%	20.1%	18.5%	12.8%
William Blair International Growth	LG	11.5%	23.4%	21.1%	16.7%
Stock Funds - Specialty					
PIMCO Commodity Real Return	LB	2.5%	-3.0%	10.8%	N/A
Vanguard Special Health Care	LG	0.9%	10.9%	11.9%	9.5%
JP Morgan US Real Estate	MV	9.1%	36.2%	29.2%	23.7%

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Who Do You Call With Questions???

RE: Schwab or NWS' Statements: Bill Henderly
RE: Portfolio Management & Strategy: Bill Henderly
RE: Copy of Current Disclosure Form ADV Part II: Steve Henderly