

nvest nSIGHTS

DECEMBER 31, 2009 **THE BULL MARKET NO ONE LOVES**

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WEALTH STRATEGIES

Delivering financial
peace of mind.

The 60% rally by stocks from the March lows can be characterized as the bull market no one loves. There is no shortage of worries, most especially an exceptionally large and growing budget deficit, that would (and should) cause any investor to lose sleep. It is important to keep in mind though, that markets are most at risk when investors are bullish and enthusiastic rather than when they are bullish and skeptical. The masons are currently working hard on the market's wall of worry.

It appears investors, retail and professional alike, are more skeptical (bordering on bearish) as stocks have pushed higher. Even with the S&P 500 jumping 26.5% for the year, the Dow Jones and NASDAQ gaining 22.7% and 46.7%, respectively during 2009, investors don't expect the 10-month rally to continue. They seem mesmerized by the fact that the first decade of the 2000's (that included two recessions, two major wars, terrorist attacks in the US and abroad, the credit crisis, housing bust and near collapse of the financial markets) created the worst 10-year stock performance in nearly a century. The S&P 500 lost an average of 1% per year during the decade. On the other hand, the Barclays Aggregate Bond index returned over 6% per year on average during the 2000's. Could this be why stocks are unloved?

During 2009, investors pulled huge amounts of money from "no-yield" money market funds, pumping over \$350 billion into bond funds. By comparison, only \$6 billion (net of withdrawals) flowed into stock funds. It appears investors today are investing with a rearview mirror, emotional perspective. They don't want risk, and money market funds pay next to nil. Bonds offer yield and perceived safety (low risk) relative to stocks (we should know that bonds are not risk-free). And, all investors are 10 years older while feeling less financially secure than when they worried about Y2K at the dawn of 2000. Neither stocks nor real estate boosted financial net worth during the decade. They say, "Surely the risk of stocks is inappropriate now that retirement is near; 'low risk CD's (bonds)' are the place to be, for me."

There are a number of reasons this rally, maybe better defined a new bull market, could last longer than few think possible. Liquidity (reason #1) is still abundant; a lot of cash still sits in low-yielding money market investments (\$3.8 trillion by retail investors). The Federal Reserve is expected to keep monetary policy accommodative for "an extended period". It's reasonable to expect some of the cash to feel the gravitational pull toward stocks in 2010.

Second, besides market sentiment being skeptical, technical aspects of the market support more upside. Last year's crash was remarkable in its speed and magnitude. The S&P 500 fell from 1,200 to 900 in a mere 27 trading days (the 50% decline in stocks off the March 2000 high took 2.5 years to complete). This created a situation where there is currently very little technical resistance between 1,100 and 1,225, and little other resistance until 1,310. Our recent December commentary, "Directionless Volatility", shares it is typical for the market to pause in its initial rally following a rebound of 50% off the lows. Almost every market enters a transition period around this stage of the rebound. It often stumbles, consolidates, and looks questionable. It's the point where liquidity incentives wear off, and the market is forced to stand on economic potential going forward. This point of pause acts like a ceiling resistance level. Often, after several months, the market busts through the ceiling (currently the 1,100 level for the S&P500), which then becomes the floor for the next leg of the rally.

Third, there is no sign "the bill has come due". There is a future day where the government stimulus and the growing deficit must be dealt with, be repaid. The US and others cannot "kick the can down the road" indefinitely. 2010 does not appear to be the year when the "bill will come due". It's an election year for many Congressmen, whose popularity is very low. Unemployment and economic stimulus are still important solutions; it is not timely to pay the bill via higher interest rates and/or taxes.

Lastly, the huge stimulus spending enacted in 2009 is partially spent. Over 65% of the money is scheduled for spending in 2010. Economic growth should be very strong in 2010; albeit unemployment remains stubbornly high; the stock market (leading indicator) rise of 60% suggests a strong recovery. Economies have functioned well in the past when government is spending money.

We remain bullish for further stock advances during 2010, most likely at a slower pace than experienced in 2009. It also seems likely to be more front-end loaded in the first-half of the year as the second half will likely start to focus on when the "bill comes due".

P.S. You should be reminded of history. Following decades of poor stock market performance (and superior bond performance) the experience often flip-flops quite dramatically. Be careful of rearview mirror, emotional-based investing. It often points to wrong decisions about asset types.

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“We expect a more average stock performance in 2010 despite a much improved economic situation.”

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“We are bullish until the ‘Bill comes due’.”

DATES TO REMEMBER:

- Mid-January - Quarterly Reports
- **Early-February - 1Q 2010 Fees Collected; Nvest Tax Reports Sent**
- **Mid-February - Form 1099 mailed by Schwab**
- March 31 - End of 1st Quarter
- **Early April - Mail IRA Contributions for 2009 Tax Year.**
- April 15 - Deadline to file taxes: [IRA Checks must be received by Schwab](#)
- **REMINDER: You may request a current copy of our regulatory filing ADV Part II at any time.**

CLIENT PORTFOLIOS | PERFORMANCE UPDATE

Nvest client portfolios invested throughout all or most of 2009 experienced strong, attractive performance. Total returns for the year ranged from 14% for very conservative objectives (20% stocks / 80% bonds) to over 30% for aggressive growth objectives (95% stocks / 5% bonds). And, portfolios with as little as 65% stocks met or slightly exceeded 2009 returns for the S&P 500.

Tax information will be sent in early February; if needed earlier, please contact us.

THE OUGHTS: A STUDY IN CONTRAST

A recent commentary from Strategas Research Partners seems appropriate and timely. “A scant 10 years ago, investment bankers were busy raising capital for everything short of ham sandwiches. Two recessions and two bear markets later and there are few illusions about the ease in which riches can be attained from investing, and perhaps even speculating in common stocks. This decade will likely stand as a prime investment example of a study in contrasts. Its first recession was a hangover from a tech bubble funded by equity. The second hangover was derived from a real estate bubble funded by debt, with far more dangerous investment consequences. Few called it; and few did or could have imagined the widespread pain the unwinding debt bubble could have on our financial system, the economy, and our politics... [It is mind numbing considering the world policy (fiscal and monetary) response taken to prevent a catastrophic financial collapse.] It’s statistically equivalent to cashing a winning Powerball ticket while simultaneously being struck by lightning. The end result and final costs will be unknown for, at least, a decade or more.”

In 2010, the economic and financial market experience will likewise be a study of contrast to 2009. Last year, the economy had the flu; it was down and almost out. Yet stocks flourished jumping over 60% from the March 9 lows. The stock market predicts an economic rebound with some recovery in employment. Huge worldwide government stimulus and monetary policy accommodation (low rates) ignite the anticipated recovery. Company sales and profits will show marked improvement from losses in 2009.

Stock and corporate bond prices already price in the recovery. The expansion of price multiples is likely behind us, requiring future stock appreciation to be from rising earnings. We expect a more average stock performance in 2010 (for many reasons, see “The Bull Market No One Loves”) despite a much improved economic situation. Further, we expect active managed strategies to perform better than passive index approaches, as stock picking will prove important. Quality (conservative financial reporting and strong financial balance sheets with internally generated cash flow) will allow growth strategies and divided yield approaches to perform well.

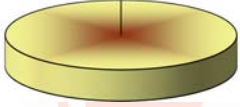
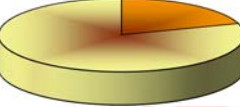
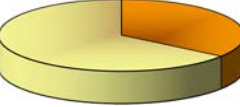
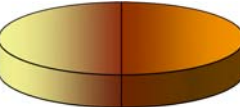


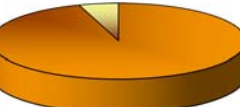
We expect foreign to generally provide higher returns than US/domestic. The global recovery will be de-synchronized where emerging economies rebound at a different pace/rate than developed countries, including the US. Emerging economies entered the recession/crisis with different initial conditions, chief being the state of their private and public sector balance sheets. Emerging economies carried relatively low debt levels of consumer and sovereign debt. The US and other developed economies were, and still are, in the opposite condition. As the recovery develops and financial markets rebound, it will likely be a bi-polar outcome. This business cycle will be short compared to that of the 1990’s. A successful investor needs to be more global focused.

Thus, the US and world economies will experience attractive expansion, with the financial markets advancing albeit at slower, more average rates of increase than experienced in 2009. We are bullish until the “bill comes due” (interest rate increases slow bond issuance; tax increases to close structural deficits; a rise in commodity prices prompt China to slow economic growth; and/or signs of protectionism creep into global policy).

Client investment portfolios experienced strong performance in 2009. Total returns ranged from 14% for conservative objectives (20% stocks/80% bonds) to over 30% for aggressive growth objectives (95% stocks/5% bonds). The S&P 500 generated 26% returns for the year. Portfolios are fairly fully-invested owning a diversified mix of stock and bond mutual funds. We believe our tactical mix of no-load mutual funds, emphasizing a global perspective, is ahead of the market. Thus, we expect this safe, quality-focused orientation will provide attractive second-year bull market returns during 2010.

BENCHMARKING AS OF DECEMBER 31, 2009

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

INDEX PORTFOLIO	STOCK/BOND ALLOCATION		TOTAL RETURN THROUGH 12/31/09			
			4QTR	12 MTHS	3 YEARS	5 YEARS
 Capital Preservation	0% / 100%	<i>Cumulative</i> <i>Annualized</i>	1.1%	9.0%	10.7%	17.5%
 Income	20% / 80%	<i>Cumulative</i> <i>Annualized</i>	2.0%	14.0%	5.4%	14.7%
 Balanced Conservative	35% / 65%	<i>Cumulative</i> <i>Annualized</i>	2.6%	17.7%	1.7%	13.1%
 Balanced	50% / 50%	<i>Cumulative</i> <i>Annualized</i>	3.0%	21.8%	-2.0%	12.8%
 Balanced Growth	65% / 35%	<i>Cumulative</i> <i>Annualized</i>	3.6%	25.4%	-5.7%	11.6%
 Growth	80% / 20%	<i>Cumulative</i> <i>Annualized</i>	4.0%	29.0%	-9.5%	10.4%
 Aggressive Growth	95% / 5%	<i>Cumulative</i> <i>Annualized</i>	4.4%	31.6%	-12.0%	9.3%
					-4.2%	1.8%

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 31, 2009

BOND FUNDS - TAXABLE	STYLE	4TH QTR	12 MTHS	3 YEARS	5 YEARS
<i>Taxable Intermediate Bond Average</i>					
Wells Fargo Ultra Short	AS	1.7%	8.6%	1.5%	2.5%
Vanguard Short Federal	HS	0.1%	2.8%	5.7%	4.7%
PIMCO Low Duration	HS	1.5%	13.4%	6.5%	5.0%
Vanguard Short-Term Investment Grade	HS	1.3%	14.0%	4.8%	4.3%
American Century GNMA Income	HI	0.4%	5.7%	6.4%	5.2%
Wells Fargo Government Securities	HI	-0.1%	3.6%	6.0%	4.7%
PIMCO Real Return	HI	1.8%	16.5%	6.9%	4.5%
PIMCO Total Return	HI	1.0%	13.9%	9.2%	6.9%
PIMCO Diversified Income	AI	3.6%	31.6%	5.9%	6.2%
Diamond Hill Strategic Income	AI	3.7%	32.1%	2.4%	3.9%
Artio Global High Income	LI	5.1%	54.6%	6.9%	7.2%
Calamos Convertible Securities	LI	3.0%	34.0%	2.9%	4.1%
BOND FUNDS - TAX EXEMPT					
<i>Tax-Free Intermediate Bond Average</i>					
Vanguard Muni Limited Term	HS	0.4%	5.6%	4.3%	3.4%
T. Rowe Price Tax Free S/I	HS	0.5%	7.2%	4.7%	3.6%
Vanguard Muni Intermediate Term	HI	-0.9%	10.2%	4.4%	4.0%
Vanguard Ohio Long-Term	HL	-0.8%	13.1%	4.4%	4.1%
STOCK FUNDS - DOMESTIC					
<i>S&P 500 Index</i>					
<i>Equity Fund Average</i>					
Janus Advisor Risk Managed Growth	LG	7.8%	33.6%	-5.2%	-0.8%
Marsico 21st Century	LG	5.5%	28.1%	-5.8%	1.4%
John Hancock Large Cap Equity	LB	4.1%	33.7%	4.2%	9.6%
Vanguard Index 500	LB	6.0%	26.5%	-5.7%	0.3%
TCW Dividend Focus	LV	5.3%	32.7%	-9.1%	-1.8%
Diamond Hill Long/Short	LV	6.1%	17.9%	-2.4%	5.7%
Munder Mid-Cap Growth	MG	5.5%	32.5%	-3.4%	2.6%
Columbia Mid-Cap Value	MV	5.6%	32.5%	-5.9%	2.4%
Century Small-Cap Select	SG	5.1%	29.4%	-7.1%	-1.9%
William Blair Small-Cap Growth	SG	2.4%	70.0%	-3.8%	0.6%
Neuberger & Berman Genesis	SB	6.7%	26.3%	1.1%	5.2%
Diamond Hill Small-Cap	SV	5.0%	28.9%	-2.8%	2.1%
Wells Fargo Small-Cap Value (Closed)	SV	10.9%	51.9%	1.1%	6.1%
STOCK FUNDS - INTERNATIONAL					
<i>Morgan Stanley EAFE Index (Foreign)</i>					
American Century International Discovery	MG	3.7%	34.5%	-4.2%	6.7%
Harbor International	LV	5.6%	38.6%	-1.1%	9.2%
Oakmark International	LV	4.4%	56.3%	-2.9%	6.4%
Allianz NFJ International Value	LV	6.5%	41.3%	-0.2%	N/A
Tweedy Brown Global Value	LV	7.9%	37.9%	-2.9%	4.9%
William Blair International Growth	LG	4.6%	42.3%	-7.1%	3.7%
Oppenheimer Developing Markets	LG	9.2%	81.7%	8.1%	17.5%
STOCK FUNDS - SPECIALTY					
PIMCO Commodity Real Return	LB	11.6%	39.9%	-0.6%	2.8%
Vanguard Special Health Care	LG	6.8%	21.0%	1.0%	5.7%
JP Morgan US Real Estate	MV	9.6%	24.5%	-14.8%	-0.5%
Columbia Technology Z	MG	7.9%	50.9%	-3.0%	3.0%

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WHO DO YOU CALL WITH QUESTIONS???

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