nVEST nSIGHTS

DECEMBER 31, 2011

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nvest WEALTH STRATEGIES

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CASTING YOUR INVESTMENT BALLOT (2012)

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

At the start of 2011, investors were cautioned to avoid the low yields of bond world. That was because low yielding Treasuries were viewed as high priced, being in a bond market bubble. Yet, Treasury bonds were the single best investment during 2011. How? Why? When political fear progressed throughout the year, US Treasuries were viewed as "the best house in a bad neighborhood", or "the cleanest shirt in the dirty laundry pile", and the price of bonds rose (yields fell). Bonds ended 2011 even more expensive.

Meanwhile, US stocks stayed flat; Europe and Japan declined by double digits, and emerging markets caught Europe's cold and suffered similar losses. In general, stocks were losers to bonds in 2011. It often seems challenging to make accurate short-term predictions of asset returns.

From our vantage point, 2011 portfolio performance was difficult and disappointing. We suspect most professional investors are sharing the same experience or perspective. Almost 80% of active stock investors (only 11% of growth-style managers and 22% of value-style managers beat their style benchmarks) and hedge fund managers failed to beat the S&P 500 during the year. For us, exposure to foreign submarined performance all year; we could never get on top of an all domestic S&P 500 index. Our outlook (which we believe is still very appropriate) utilizes a global focus, believing countries with heavy debt - such as US, Europe and Japan - will experience slower than average growth compared to the world as a whole. Unwinding the debt-to-GDP ratio of more than 100% in many developed countries will take time and act as a drag on economic growth. Meanwhile, countries with low debt ratios (emerging economies) should grow faster.

Remember key warnings: don't invest with a rearview mirror orientation. I can attest from years of market experience those investors pursuing a rearview mirror approach ultimately were found wrong. Investment success accrues by looking forward. And, it seems looking forward with a long-term perspective is easier than using only a short-term view.

Let's start our long-term forecast with the bond market. If an investor buys a 2-year Treasury at 0.25% yield, or a 10-year Treasury at 2%, they will earn the respective return at maturity in 2 or 10 years. And, if inflation remains at 2% over the holding time to maturity, the 10-year Treasury would generate to the owner a <u>real</u> (after effects of inflation) rate of return of zero. For the 2-year Treasury, the real return would be -1.75%. Should inflation rise because of heavy debt loads created by government printing presses, Treasuries are a sure loser. Higher quality corporate bonds and many municipal bonds offer positive yield advantage to Treasuries (as investors currently avoid risk). <continued on page 2>

FIGHT THE GRIND

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

Investors enter 2012 hunkered down, frustrated, and skeptical. This mindset is the result of subpar performance in the financial markets. It's a result of "directionless volatility" stemming from most of a global world catching Euroland's cold. Most underestimated just how volatile and unpredictable the world's major economies would be as they deal with a mountain of debt. They remain frustrated by a lack of leadership among politicians in the US and elsewhere, uncomfortable that economies and markets remain dependent on extra-ordinary policy by central banks to pump cash into the financial system.

Unfortunately, gloomy perspectives cloud too much short-term vision and action. We often fail to look longer-term, and focus on short term risk-averse tactics. The portfolios question for investors in the current environment should not be stocks <u>or</u> cash. Instead, it should be stocks <u>and</u> cash with a variety of other asset class categories blended together. This is called asset flexibility, which allows portfolios the ability to grind through an uncertain outlook. Asset flexibility provides opportunity for one asset class to sustain the portfolio while another struggles; it provides flexibility to access cash for personal needs without selling other assets struggling to grind it out. Most important, asset flexibility provides opportunity to rebound quickly when the markets begin to focus on fundamentals (instead of emotion) and long term opportunities. If one used cash only (during heightened uncertainty and emotion), they assuredly will miss big short-term returns and earn diminished long-term performance.

2012 will be a pivotal year for investors. It represents the end of the "9/11 Era" (US troops are returned from Iraq and Afghanistan), and we are probably in the second or third year of a new "Asian Era" (economic & political influence from Asian countries). It is most difficult to foresee what an Asian Era might look like, or what the effect will be on global markets. It is easy however, to extrapolate current worried attitudes into a new era offering continuing big problems of uncertainty. Yet, with uncertainty there is always opportunity. And successful investing is focused on opportunity. <continued on page 2>

CASTING YOUR INVESTMENT BALLOT (2012) (continued from page 1)

Meanwhile, the dividend yield of the US stock market is over 2%. And, over the long-run, earnings and dividends grow at 5% per year. With no change in valuations, US stocks should produce returns of about 7%, or about 5 points higher than the yield on safe bonds. The same is also true for multinational companies throughout the world. In fact, dividends are more prevalent in foreign stocks than recent history for US stocks. When one adds faster economic growth prospects from developing economies (with low debt), stocks offer the best return opportunities over the next 10 years.

Various surveys of investors reveal troubling thoughts: "investors acknowledge they expect better returns from stocks; and they can earn higher dividend yields from quality stocks; and they expect lower returns from bonds; but prefer to own bonds over stocks." It's as though, "when you're already in the basement, it's hard to jump out of the basement window." Investors are afraid to invest in stocks.

And, we are seeing investment professionals making compelling statements as well. "Highest conviction investment idea: (Strategas 1/3/2012) – of all the world's asset classes, developed economy equities, possessing mountains of cash and exhibiting a greater willingness to pay dividends, may be the single greatest source of real returns for both institutional and retail investors alike for the next decade." WOW!! If this happens, we expect many investors, having a risk-off orientation will be left behind.

We at Nvest Wealth Strategies remain steadfast to a core principle of stage-of-life, buckets-of-time (asset allocation) investing. Thus, we very much endorse "time in" the market investing.

"of all the world's asset classes, ...equities may be the single greatest source of real returns for both institutional and retail investors alike for the next decade (Strategas, Jan 2012)."

"Investment success accrues by looking forward. And, it seems looking forward with a long-term perspective is easier than using only a short-term view."

FIGHT THE GRIND (continued from page 1)

2012 will be a pivotal year in global politics. Did you know that over 50% of the world GDP will be impacted by political elections this year? Seven of the G-20 countries face presidential elections, including France, Mexico, Russia, China and the United States. Germany follows in 2013. It should be interesting to watch modern politics in action – in the past they promised goodies such as tax cuts and spending increases. But now leaders are forced to de-lever their budgets; they are not familiar running for re-election and taking away these promises with tax increases and spending cuts at the same time.

So, how might the market respond in a political year? Most of us expect this US election year to be an ugly political mess. To many, that would suggest an unsettled market with more directionless volatility. Really? Any investment course teaches, at the outset, the stock market is a discounting (voting) mechanism looking out 6 to 9 months. While Americans have to wait until November 6 to vote, the stock market can "vote" when it wishes.

In 5 presidential elections (of modern times) when the incumbent party was defeated (1952, 1968, 1976, 1980, and 1992), the market "voting" took place in the spring well before the election. The market "vote" produced an attractive rally in equities in anticipation of a new president in the White House.

We're not attempting to take a political position on the presidential/congressional elections (much needs to change to reduce debt while maintaining economic growth). We desire an improving market performance, and our vote is to see it begin early in 2012. And, if history offers optimism, maybe we will know about a change in the "spring" with an attractive market rally. [Read "Cast Your Investment Ballot (2012)" for additional perspective on asset valuations/opportunities]. Remember, investors are fed-up with zero interest rates. In general, we believe that fundamentals are better than headlines; that equities will stage a nice rally in 2012. In addition, quality will be an important driver of long-term performance for domestic and global stocks.

P.S. No, this is not just another New Year rosy expectations commentary.

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WEALTH STRATEGIES

"While Americans have to wait until November 6 to vote, the stock market can 'vote' when it wishes."

PERFORMANCE OBSERVATIONS

Benchmarking (pg. 3) and Client performance reports offer related ideas about recent market experiences:

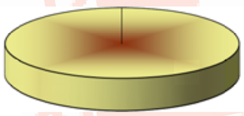
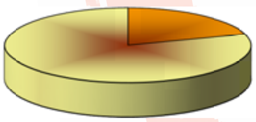
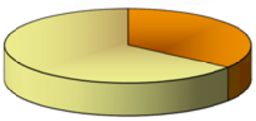
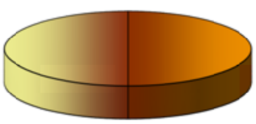
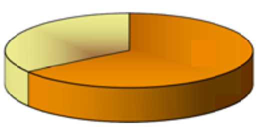
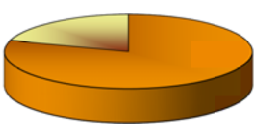
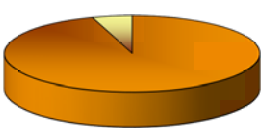
- Performance is "upside down"; meaning less risky objectives (more bonds than stocks) generated better 2011 and recent year performance. Historically, more risky objectives (more stocks than bonds) often generate higher annual and long-term performance.
- International stocks generated significant drag on 4Q 2011 and full 2011 performance. Also observable in Widely Held Mutual Funds (pg. 4); international stock returns look sad (atypical).
- 3-Year portfolio performance is quite attractive (even after the 2011 returns); and this "Current Bull Market" (started 3/9/2009) sports exciting returns through year-end 2011.
- International stock performance, as an asset class, is out of character compared to domestic stock performance (ie: upside down, which suggest future investment opportunity). Foreign and emerging market stock performance over 10 years shows wide advantages to domestic.

ANNOUNCEMENTS:

- January 16 - Martin Luther King Jr. Day: banks & markets closed
- Early February - 1Q 2012 Fees Collected; Nvest tax reports sent
- February 20 - President's Day: banks & markets closed
- Late-February: Form 1099 mailed by Schwab
- February 23 - Talk Strategy/Client Event (further details coming soon)
- Late-March - Mail IRA contributions for 2011 tax year
- April 15 - Deadline to file taxes: 2011 IRA contributions must be received by Schwab
- REMINDER: Our new ADV Part 2A & B as required by the SEC is available to you anytime upon request.

BENCHMARKING AS OF DECEMBER 31, 2011

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

	INDEX PORTFOLIO	STOCK/BOND ALLOCATION		TOTAL RETURN THROUGH 12/31/2011			
				4TH QTR	12 MTHS	3 YEARS	5 YEARS
	Capital Preservation	0% / 100%	*Cumulative*	0.5%	1.5%	14.5%	17.4%
			Annualized		1.5%	4.6%	3.3%
	Income	20% / 80%	*Cumulative*	2.3%	0.2%	21.8%	13.5%
			Annualized		0.2%	6.8%	2.6%
	Balanced Conservative	35% / 65%	*Cumulative*	3.8%	-1.1%	26.0%	9.5%
			Annualized		-1.1%	8.0%	1.8%
	Balanced	50% / 50%	*Cumulative*	4.9%	-2.2%	29.8%	5.4%
			Annualized		-2.2%	9.1%	1.1%
	Balanced Growth	65% / 35%	*Cumulative*	6.4%	-3.5%	34.6%	1.9%
			Annualized		-3.5%	10.4%	0.4%
	Growth	80% / 20%	*Cumulative*	7.8%	-4.8%	39.3%	-1.7%
			Annualized		-4.8%	11.7%	-0.3%
	Aggressive Growth	95% / 5%	*Cumulative*	8.5%	-5.7%	41.3%	-4.7%
			Annualized		-5.7%	12.2%	-1.0%

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, 2011

BOND FUNDS - TAXABLE	STYLE	4TH QTR	12 MTHS	3 YEARS	5 YEARS
Taxable Intermediate Bond Average		*1.3%*	*5.9%*	*9.2%*	*5.6%*
Wells Fargo Ultra Short	AS	0.2%	0.5%	4.2%	1.7%
Vanguard Short Federal	HS	0.4%	2.8%	2.9%	4.6%
American Century Short Duration	HS	0.6%	2.0%	3.5%	4.4%
PIMCO Low Duration	HS	1.1%	1.7%	6.6%	5.2%
Vanguard Short-Term Investment Grade	HS	0.5%	1.9%	6.9%	4.3%
American Century GNMA Income	HI	1.3%	7.3%	6.4%	6.6%
Wells Fargo Government Securities	HI	0.5%	6.8%	5.3%	6.1%
PIMCO Real Return	HI	4.5%	22.1%	16.5%	10.6%
PIMCO Total Return	HI	2.2%	4.2%	8.9%	8.1%
PIMCO Diversified Income	AI	4.0%	4.4%	16.2%	7.2%
Artio Global High Income	LI	4.8%	-0.2%	20.1%	6.5%
Calamos Convertible Securities	LI	3.7%	-4.0%	12.6%	3.0%
Miller Convertible	LI	5.9%	-3.2%	46.1%	N/A
BOND FUNDS - TAX EXEMPT					
Tax-Free Intermediate Bond Average		2.2%	*9.0%*	*7.5%*	*4.6%*
Vanguard Muni Limited Term	HS	0.8%	3.7%	3.7%	3.7%
T. Rowe Price Tax Free S/I	HS	1.1%	4.6%	4.6%	4.1%
Vanguard Muni Intermediate Term	HI	2.3%	9.6%	7.3%	5.0%
Vanguard Ohio Long-Term	HL	2.0%	10.1%	8.0%	4.8%
STOCK FUNDS - DOMESTIC					
S&P 500 Index		11.8%	*2.1%*	*14.1%*	*-0.3%*
Equity Fund Average		11.4%	*-2.4%*	*15.2%*	*-0.0%*
Wells Fargo Advantage Growth	LG	9.9%	7.9%	26.1%	8.8%
Marsico 21st Century	LG	10.4%	-12.1%	9.6%	-2.9%
John Hancock Large Cap Equity	LB	10.9%	-9.0%	11.6%	3.3%
Vanguard Index 500	LB	11.8%	2.0%	14.0%	-0.3%
Sit Dividend Growth	LV	12.7%	3.3%	14.7%	3.7%
TCW Dividend Focus	LV	13.4%	-2.1%	15.7%	-2.6%
Diamond Hill Long/Short	LV	10.1%	3.0%	6.6%	-0.9%
Munder Mid-Cap Growth	MG	10.7%	-1.0%	18.0%	2.2%
Columbia Mid-Cap Value	MV	13.4%	-4.0%	16.2%	-0.3%
John Hancock Disciplined Value Mid-Cap	MV	14.0%	0.6%	20.5%	4.5%
Century Small-Cap Select	SG	14.7%	0.8%	19.7%	1.2%
William Blair Small-Cap Growth	SG	11.9%	-13.1%	19.9%	-2.1%
Neuberger & Berman Genesis	SB	12.8%	4.7%	17.1%	5.6%
Diamond Hill Small-Cap	SV	10.3%	-7.2%	13.8%	0.9%
Wells Fargo Small-Cap Value	SV	12.7%	-7.6%	18.8%	2.7%
STOCK FUNDS - INTERNATIONAL					
Morgan Stanley EAFE Index (Foreign)		*3.5%*	*-12.2%*	*8.5%*	*-4.1%*
Harbor International	LV	7.4%	-11.1%	11.3%	-0.8%
Oakmark International	LV	3.4%	-14.1%	16.0%	-1.8%
Allianz NFJ International Value	LV	6.7%	-11.2%	11.5%	-0.5%
Calamos International Growth	LG	4.7%	-5.7%	21.3%	2.5%
William Blair International Growth	LG	4.8%	-14.5%	13.5%	-3.8%
Oppenheimer Developing Markets	LG	3.9%	-18.1%	23.6%	5.6%
American Century International Discovery	LG	7.1%	-16.8%	10.5%	-4.3%
Harding Loevner International Small Company	SG	1.2%	-13.7%	22.5%	N/A
STOCK FUNDS - SPECIALTY					
PIMCO Commodity Real Return	LB	2.2%	-7.6%	17.1%	2.4%
Princeton Managed Futures	LB	-4.0%	-8.0%	N/A	N/A
Vanguard Special Health Care	LG	6.7%	11.5%	12.7%	4.0%
JP Morgan US Real Estate	MV	14.4%	6.0%	19.8%	-3.1%

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WHO DO YOU CALL WITH QUESTIONS???

RE: Schwab or NWS Statements: Steve

RE: Portfolio Management & Strategy: Bill

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