

nvest nsights

March 31, 2007



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Delivering financial
peace of mind.

Shoot First, Think Second

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

A hearty "Thank you" to the financial markets for providing a dramatic first quarter. After enjoying a seven-month run of mostly climbing stock prices, investors were spooked in late February by the big drop in the Chinese market. The US stock market followed with a milder one-day drop of more than 3.5%.

Bad headlines cause investors to shoot first, and think second. US markets were already nervous about subprime home mortgages and prospects of a slowing economy. The 9% drop in Chinese stocks was all that was needed to tip the scales. History shows that one-day slips are often recouped within a month. This proved to be fairly accurate. By the end of March, market averages had almost recovered their losses. The quarter ended fine, but not near the robustness it started with in January. For the quarter, the S&P 500 advanced about 0.5% with smaller stocks doing almost 2%.

Client portfolios weathered the one-day slip and softness better than the market. Generally, client portfolios slide less and rise more. We did unfortunately trail the custom benchmarks (see page 3) closing the quarter slightly off pace. The attributes of our underperformance related to 3 factors. Our portfolios have slightly higher than normal exposure to large company stocks (market is not recognizing attractive valuations of this area yet); and two funds with performance struggles (Diamond-Hill Long/Short fund – large value and Muhlenkamp – mid/large value). [For more on Muhlenkamp, see "Bunches of Money", page 2] For the quarter, client portfolio performances ranged between +1.3% for conservative (20% stock/80% bonds) to +2% for aggressive growth (95% stocks/5% bond) objectives.

We are long-term investors. Shorter-term market declines that are driven by fear rather than fundamentals represent opportunity. Single-day drops are not unprecedented and should not be a source of concern for long-term investors (speculators should be worried). Many varied sources of research and discussion with fund managers lead us to believe the current bull market (started October 2002) is still intact.

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Breathe-In; Breathe-Out

Spring is a great time to smell the fresh air – flowers blooming, cleansing rain, and fresh cut grass for the first time. Senses are awakened in the early spring following a winter of indoor living. Breathe-in, breathe-out.

Maybe, the inhaling, exhaling concept is how you feel about recent financial market action. One moment you're feeling exhilarated (Greenspan called it exuberant) and the next exasperated. Investing feels a little like breathing-in and breathing out. Prices of stocks and portfolios seem to go up and go down.

In mid-cycle slowdowns when the economy is shifting from stronger growth to a slower pace, economic reports on any given day or month create a back and forth feeling. In mid-cycle slowdowns, some statistics pull you into believing the world is about to come to an end and then spin you around so that everything seems right. It feels like the markets are inhaling and then exhaling... breathing-in, then breathing-out.

For the long-term investor, these are the times to pay attention to asset mix. It's a time to manage risk. We manage portfolio risk by managing the mix of stocks and bonds. For instance, we decide with the client in the beginning that the risk of a 65% stock/35% bond portfolio is right for them. Over time, we continually rebalance back to 65/35.

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CONTACT US:

2310 Home Road
Delaware, Ohio 43015
740.917.9234

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



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Shoot First, Think Second (Continued from page 1)...

Yes, the economy is slowing. Yes, interest rate increases are impacting the weak link, subprime home loans. They are symptoms of Fed action and represent the weak link breaking loose. We expect investors will be more cautious, seeking safety of larger size stocks with dividends and growth opportunities. We are not investing in an exuberant, overvalued stock market with interest rates at high levels. Bear markets start when valuations are stretched and interest rates are high. That is not the combination today. We believe the economy is fundamentally sound and a recession is unlikely.

Will subprime woes bring a conclusion to the current bull market? Will Fed Chairman Bernake come to the rescue of a slowing economy? Will investors or speculators shoot first and think second? Stay tuned for the second act. 📌

Breathe-In ; Breathe-Out (Continued from page 1)...

When stocks are "breathing-in" the portfolio's stock exposure is growing larger; becoming 70% or more. If left alone and not rebalanced, the portfolio is more risky than at the start. To rebalance (manage risk) we trim 5% from stocks and reinvest in bonds. This re-establishes the objective of 65/35. This discipline manages risk by selling the appreciated asset and buying the under-owned asset. It is an unemotional process of selling high and buying low. The concept is easy to understand, but very difficult to practice. Rebalancing keeps your portfolio risk level under control.

In times like recent, managing asset allocation controls risk and prevents your portfolio from huge feelings of exasperation. Practice your breathing techniques – breathe-in, breathe-out. Using this process with your investments assures the long-term investor of healthy living. 📌

Bunches of Money

We are making a fund swap in client portfolios. We are swapping Muhlenkamp (mid-value) into Columbia Mid-Cap Value in the coming weeks.

Muhlenkamp (MUHLX) has been a star performer in client portfolios over the past five years. We have made bunches of money, creating a double in value for many clients. Ron Muhlenkamp has done a great job and we still like his fund. It has more volatility than the market, both up and down. Recently, it has lagged its peers and the market, and has slowed overall portfolio performance. It is always tough to sell a fund that has contributed so greatly.

Columbia Mid-Cap Value (NAMAX) is a five-year old fund with an attractive performance record. During its history it shows a more consistent performance track. The management utilizes a very disciplined process and manages risk well. A quick review of its performance (see Widely Held Funds, page 4) shares the expectations we have for its inclusion in client portfolios. 📌

Points to Ponder

After years of scrimping and saving, a father told his family the good news: "We've finally saved enough money to buy what we started saving for in 1989."

"You mean a brand new Cadillac?" they asked eagerly.

"No," he replied, "a 1989 Cadillac." 📌

A counterfeiter decided that the easiest way to pass off his phony \$18 bills would be to unload them in some small rural town, so he drove until he found a tiny town with a single general merchandise store. He entered the store, went up to the counter, and handed one of the bogus bills to the man behind the counter. "Could you change this for me, please?" 📌

The store clerk looked at the bill for a few seconds, then smiled at the man. "Of course I can. Would you prefer two \$9 bills or three \$6 bills?"

The biggest barrier to becoming rich is living like you're rich before you are. - Kiplinger's, October 2006 📌

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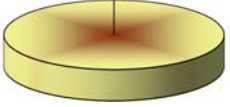
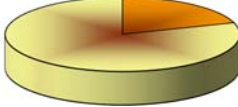

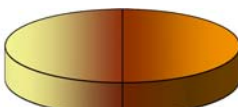
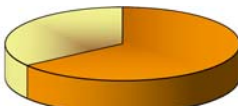
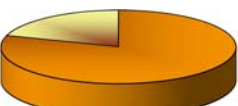
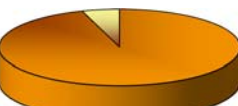
2310 Home Road
Delaware, Ohio 43015
740.917.9234

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

BENCHMARKING AS OF MARCH 30, 2007

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



INDEX PORTFOLIO	STOCK/BOND ALLOCATION	TOTAL RETURN THROUGH 3/30/07					
		<i>Cumulative</i>	1QTR	YTD	12 MTHS	3 YEARS	5 YEARS
			<i>Annualized</i>				
 Capital Preservation	0% / 100%	<i>Cumulative</i>	1.3%	1.3%	5.1%	7.3%	18.2%
		<i>Annualized</i>	N/A	N/A	5.1%	2.4%	3.4%
 Income	20% / 80%	<i>Cumulative</i>	1.5%	1.5%	5.7%	12.4%	23.1%
		<i>Annualized</i>	N/A	N/A	5.7%	4.0%	4.2%
 Balanced Conservative	35% / 65%	<i>Cumulative</i>	1.8%	1.8%	6.3%	17.1%	28.3%
		<i>Annualized</i>	N/A	N/A	6.3%	5.4%	5.1%
 Balanced	50% / 50%	<i>Cumulative</i>	2.1%	2.1%	7.4%	23.6%	37.0%
		<i>Annualized</i>	N/A	N/A	7.4%	7.3%	6.5%
 Balanced Growth	65% / 35%	<i>Cumulative</i>	2.2%	2.2%	8.0%	29.0%	43.5%
		<i>Annualized</i>	N/A	N/A	8.0%	8.9%	7.5%
 Growth	80% / 20%	<i>Cumulative</i>	2.5%	2.5%	8.9%	35.6%	52.4%
		<i>Annualized</i>	N/A	N/A	8.9%	10.7%	8.8%
 Aggressive Growth	95% / 5%	<i>Cumulative</i>	2.8%	2.8%	9.8%	39.9%	57.7%
		<i>Annualized</i>	N/A	N/A	9.8%	11.8%	9.5%

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 March 30, 2007



BOND FUNDS - TAXABLE	STYLE	1ST QTR	12 MTHS	3 YEARS	5 YEARS
<i>Taxable Intermediate Bond Average</i>					
Wells Fargo Ultra Short	AS	1.5%	6.2%	3.0%	5.0%
Vanguard Short Federal	HS	1.2%	5.0%	3.5%	3.0%
PIMCO Low Duration	HS	1.6%	5.6%	2.6%	3.6%
Vanguard Short-Term Investment Grade	HS	1.7%	5.3%	2.7%	3.8%
American Century GNMA Income	HS	1.6%	6.1%	3.1%	4.0%
Wells Fargo Government Securities	HI	1.3%	5.7%	3.4%	4.1%
PIMCO Real Return	HI	1.4%	5.7%	2.6%	4.8%
PIMCO Total Return	HI	2.6%	5.0%	3.1%	7.6%
PIMCO Diversified Income	HI	1.7%	6.3%	3.7%	5.8%
Neuberger & Berman Lehman Bros High Income	AI	1.6%	8.4%	7.5%	N/A
Victory Convertible Securities	LI	2.8%	9.8%	6.1%	7.3%
	LI	2.1%	7.7%	5.5%	5.7%
BOND FUNDS - TAX EXEMPT					
<i>Tax-Free Intermediate Bond Average</i>					
Vanguard Muni Limited Term	HS	0.7%	4.6%	3.3%	4.6%
T. Rowe Price Tax Free S/I	HS	0.8%	4.0%	2.0%	3.1%
Vanguard Muni Intermediate Term	HS	0.7%	3.7%	1.9%	3.0%
Vanguard Ohio Long-Term	HI	0.7%	5.1%	3.1%	4.4%
	HL	0.7%	5.3%	3.7%	5.4%
STOCK FUNDS - DOMESTIC					
<i>S&P 500 Index</i>					
		0.6%	11.8%	10.1%	6.3%
<i>Equity Fund Average</i>					
		2.1%	8.1%	10.5%	7.6%
Janus Advisor Risk Managed Growth	LG	1.4%	4.8%	7.8%	N/A
Marsico 21st Century	LG	1.1%	7.8%	14.8%	15.6%
Vanguard Index 500	LB	0.6%	11.7%	9.9%	6.2%
TCW Galileo Dividend Focus	LV	1.5%	15.0%	11.5%	10.5%
Diamond Hill Long/Short	LV	-1.1%	9.9%	16.5%	10.4%
Munder Mid-Cap Growth	MG	5.1%	5.7%	14.4%	13.1%
Columbia Mid-Cap Value	MV	6.0%	15.2%	18.6%	14.0%
Muhlenkamp	MV	-3.9%	-1.7%	8.4%	8.5%
Weitz Value	MV	-0.4%	18.3%	9.0%	7.9%
Century Small-Cap Select (Closed)	SG	2.7%	3.6%	7.9%	12.5%
William Blair Small-Cap Growth (Closed)	SG	2.1%	4.0%	11.3%	15.1%
Neuberger & Berman Genesis (Closed)	SB	5.0%	5.8%	14.0%	13.1%
Diamond Hill Small-Cap (Closed)	SV	-0.5%	0.0%	13.4%	14.0%
James Small-Cap	SV	0.5%	1.3%	11.2%	16.0%
Wells Fargo Small-Cap Value (Closed)	SV	3.4%	7.5%	15.1%	15.2%
STOCK FUNDS - INTERNATIONAL					
<i>Morgan Stanley EAFE Index (Foreign)</i>					
		3.3%	17.4%	19.4%	16.0%
American Century International Discovery (Closed)	MG	7.0%	22.3%	25.3%	21.5%
Harbor International	LV	3.1%	20.8%	23.4%	19.3%
Oakmark International (Closed)	LV	4.9%	24.4%	21.6%	16.1%
Tweedy Brown Global Value (Closed)	LV	4.5%	16.0%	17.0%	12.3%
William Blair International Growth	LG	3.9%	16.4%	20.5%	16.9%
STOCK FUNDS - SPECIALTY					
PIMCO Commodity Real Return	LB	5.6%	8.5%	7.1%	N/A
Vanguard Special Health Care	LG	2.6%	10.6%	12.1%	9.4%
JP Morgan US Real Estate	MV	1.3%	18.7%	25.2%	22.3%

NVEST WEALTH STRATEGIES
2310 HOME ROAD
DELAWARE, OH 43015
740.917.9234

WHO DO YOU CALL WITH QUESTIONS???

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

This list of mutual funds is not a recommendation of these funds. Past performance is no guarantee of future results.