

nVEST nSIGHTS

March 31, 2009

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WEALTH STRATEGIES

Delivering financial
peace of mind.

GREEN SHOOTS

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

Stocks experienced their best one month gain in March in more than six years; hopefully a sign of more to come. While it was a welcome respite from the battering in January and February, stocks still finished the first quarter with a double-digit loss. If March 9th remains the current bear market low, the US economy still has another 12 months of bad news headlines before the recession is over. The stock market leads the economy by 9 months to a year. Thus, stocks' lower low from November 20 suggests the economy will report more bad news over the next 12 months. And that is despite the colossal stimulus packages instituted by governments the world over. Unemployment in particular, will continue to rise, probably above 10%, even as the economy turns toward recovery.

A horrible economic news environment provided ample reason for the stock market to record another negative quarter of performance. Despite the start of a "Spring Rally" (as we are calling it) starting March 10, the Dow Jones Industrial Average and S&P 500 fell 13% and 11%, respectively for 1Q2009. That makes a string of 6 consecutive quarters of losses, the longest since 1970. The first quarter is also the worst start since 1939. At the "Spring Rally" starting point, the market will need an approximate 108% rise to return to the peak value in October 2007 (markets were off over 54% on March 9).

Investors are wary and pessimistic – and rightly so. This 17 month-old bear market is worse than average, yet is not as old as the typical bear. Investors in general, have experienced a greater loss in a short time interval than is typical during a bear market correction. Add to the experience the deterioration of real estate values and the 3 year bear market to start this decade, and this current decade is an abominable experience for risk-taking growth investors. It is understandable that investors shun stocks and their time horizon extends to no longer than to "tomorrow". We are most certain about the ultimate when we are most uncertain about the immediate. Investor outlook remains short (lack visibility) when they see only dismal prospects.

Our client portfolios generally experienced additional slippage of value during the 1Q; but far less than the stock market averages. Less bad returns have generally been the result for many of the 17 months of this bear market correction. This is attributable to the large cash positions, broad diversification, and owning (for the moment) less aggressive (more tame) stock funds. Our biggest risk is cash not being invested when the market rallies and starts a new bull market. We have our future tactical mix partially implemented in portfolios, and are poised to fully implement the plan in the coming months. It includes swapping some funds for others to position portfolios for quicker market up-capture.

The current bear market is still underway and trends support that view. We experienced a +24% "Holiday Rally" from November 20 to January 6, followed by a retracement taking the market 10% below November 20 reaching a new low on March 9. Another rally, "Spring Rally" is underway, jumping about +21% in 4 weeks. It too may be another head-fake, which may be more powerful than the last, rising maybe +35% through the spring before fading away again. Bear market bottoms experience a number of head-fake rallies and slides before a new bull market begins. Unfortunately, head-fake rallies and slides wear down our psychological perspective for better days in the future.

The worst of the financial and economic collapse is probably behind us. The 1Q2009 economic stats to be announced over the next few weeks will appear as dismal as 4Q2008. An economic recovery may be drawn out. But we suspect the current and future quarters will be less negative as we progress. In other words, gradual improvement should start to appear. Green shoots of improving economic data are starting to appear here (in the US) and even overseas. Catalysts for green shoots include: colossal fiscal stimulus, rapid money growth (though consumers are not spending), lower interest and mortgage rates, lower gas prices, rock-bottom prices (houses and cars), and low inventories.

Policy makers will do whatever it takes. Our outlook does not mean the global economy has bottomed; it does mean that visibility is improving and is likely to continue to improve. Further, we anticipate the pace of the future recovered economic environment will be at a slower speed limit – slower growth. Green shoots are an encouraging sign of spring and should offer new hope of better days for investors as well.

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BAD FINANCIAL INVESTMENT DECISIONS

Emotions often lead some folks to make bad investment and financial decisions. During stressful, uncertain economic times, our time horizon shortens and becomes compressed. Invariably, thoughts that become action are often implemented on days that prove to be the absolute worst. Making a financial decision based upon emotion is often ripe for heartache by creating a double-whammy financial effect. We offer a few ideas designed to protect yourself; what not to do, no matter how tempting.

“Making a financial decision based upon emotion is ripe for heartache”

- Do not invest with emotion; maintain a long-term view (keep focus on long-term goals, not short term problems)
- Asset diversification (between cash, bonds and stocks) provides flexibility – “buckets of time” investing aids long-term success
- Maintain diversification within asset classes (cash, bonds and stocks) to spread risk
- Successful investing takes time (success isn’t immediate); liquidating less marketable investments (real estate) may take 2 – 3 times longer than acquiring it. Diversification allows time to be your ally and not force a sale at depressed values.
- Resist temptation to reach for “yield” – with losses appearing and values low, it is tempting to reach out for risk to recover quickly; invest with prudence and plan.
- Paralysis inhibits action – market demise terrifies many into inaction (fear of making changes or investing). Refocus on your developed plan and rational review of proven strategies.
- Keep saving for the future (retirement plans and personal); dollar-cost averaging provides big up-value boost when markets rebound.

“Investors who are serious about their long-term success should be adding to cash in investment portfolios NOW”

We believe long-term success accrues to those who follow a disciplined plan, both financial and when investing. A long-term rational perspective utilizing asset diversification enables successful investors to weather the worst of economic and financial market storms; they own asset flexibility with their investments.

Investors who are serious about their long-term success should be adding cash to investment portfolios NOW, with much vigor. The bar is so low, that the market is showing it can rally off most any bad news, particularly if it is less bad news than before. We may be at the juncture point where investors no longer should sell on rallies; rather, they should consider buying on dips (that alone is a trend change).

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WEALTH STRATEGIES

LESSONS FROM THE 1930's - EQUITY RETURNS & DELEVERAGING

The market sentiment reveals still more bears among us than bulls, even with the current 4-week “Spring Rally.” Being bearish usually entails a defensive posture and an outlook for further market deterioration. At the top of the “D” list for bears are issues that begin with “d”: deleveraging, deflation and depression. However, for stocks this outlook isn’t necessarily a dire bearish one.

During the 1930’s and early ‘40’s, the longest period of deleveraging in the 20th century, there were two significant +50% multi-year rallies. During this time period, there was improving economic fundamentals fueled by a significant increase in government spending while consumers and businesses deleveraged. Stocks did rally when a large injection of cash from government policy intervention occurred. For more than a year now, the government is trying to make up for the lack of lending via expanding the Fed’s balance sheet, and lack of spending via a record fiscal stimulus. FDR’s New Deal spending programs encouraged stock rallies from ‘33 to ‘37 and again starting in 1942. Is it likely history will provide some guide for our future? If you add the sad fact that the recent decade of stock returns is worse than the negative returns for the ten years of the 1930’s, a reversion back to the historical mean 10% per year average suggests attractive returns should accrue to long-term investors. Maybe it starts in short order.

Great depression, economic recession, or mid-cycle slowdown... the end result is the same. What matters going forward for equities is the momentum in economic prospects. If we are starting to see “green shoots” and less bad news; if the bond/credit markets are unthawing and starting to return to some functionality, then the stock market will expand its rally. At some point, a new bull market will begin. Portfolios must be invested to accrue the benefits of the next bull market.

We are not “out of the woods” yet; there will be “fits and starts”; uncertainty, but hope. Successful long-term investors are continuing to buy undervalued mutual fund shares in their 401k plans, adding new cash to investment portfolios, and positioning portfolios for a recovery in values. One thing for sure, you will miss a lot if you wait for good news.

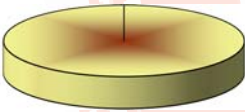
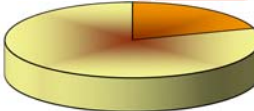
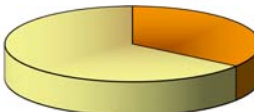
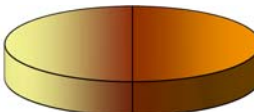
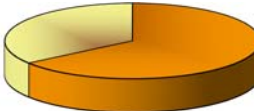
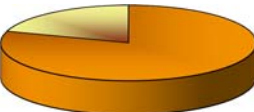

“One thing for sure, you will miss a lot if you wait for good news”

DATES TO REMEMBER:

- April 15 - Deadline to file taxes: [IRA Checks must be received by Schwab](#)
- June 30 - End of 2Q 2009 (reports sent early-July)
- REMINDER: You may request a current copy of our regulatory filing ADV Part II at any time.

BENCHMARKING AS OF MARCH 31, 2009

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

INDEX PORTFOLIO	STOCK/BOND ALLOCATION		TOTAL RETURN THROUGH 3/31/09			
			1QTR	12 MTHS	3 YEARS	5 YEARS
 Capital Preservation	0% / 100%	<i>Cumulative</i>	0.8%	-3.3%	3.9%	6.4%
		<i>Annualized</i>		-3.3%	1.3%	1.3%
 Income	20% / 80%	<i>Cumulative</i>	-1.2%	-10.3%	-5.9%	-0.2%
		<i>Annualized</i>		-10.3%	-2.0%	0.0%
 Balanced Conservative	35% / 65%	<i>Cumulative</i>	-2.7%	-15.6%	-12.5%	-4.1%
		<i>Annualized</i>		-15.6%	-4.4%	-0.8%
 Balanced	50% / 50%	<i>Cumulative</i>	-4.5%	-21.3%	-19.0%	-7.5%
		<i>Annualized</i>		-21.3%	-6.8%	-1.6%
 Balanced Growth	65% / 35%	<i>Cumulative</i>	-6.2%	-26.9%	-25.1%	-11.3%
		<i>Annualized</i>		-26.9%	-9.2%	-2.4%
 Growth	80% / 20%	<i>Cumulative</i>	-8.1%	-32.5%	-31.2%	-14.9%
		<i>Annualized</i>		-32.5%	-11.7%	-3.2%
 Aggressive Growth	95% / 5%	<i>Cumulative</i>	-9.3%	-36.0%	-35.0%	-17.3%
		<i>Annualized</i>		-36.0%	-13.4%	-3.7%

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 31, 2009

BOND FUNDS - TAXABLE	STYLE	1ST QTR	12 MTHS	3 YEARS	5 YEARS
<i>Taxable Intermediate Bond Average</i>					
Wells Fargo Ultra Short	AS	0.4%	-5.6%	0.1%	1.1%
Vanguard Short Federal	HS	2.0%	-4.0%	2.4%	2.1%
PIMCO Low Duration	HS	-0.2%	-2.8%	3.3%	2.5%
Vanguard Short-Term Investment Grade	HS	2.0%	-4.0%	2.4%	2.1%
American Century GNMA Income	HI	2.4%	7.2%	6.8%	5.0%
Wells Fargo Government Securities	HI	1.1%	5.5%	6.6%	4.3%
PIMCO Real Return	HI	4.7%	-6.8%	3.8%	3.3%
PIMCO Total Return	HI	1.5%	3.0%	6.7%	4.9%
PIMCO Diversified Income	AI	0.6%	-12.9%	-1.1%	2.1%
Diamond Hill Strategic Income	AI	-1.8%	-16.0%	-4.9%	-1.2%
Artio Global High Income	LI	5.5%	-18.3%	-3.5%	1.0%
Victory Convertible Securities	LI	-3.3%	-30.3%	-9.0%	-3.8%
BOND FUNDS - TAX EXEMPT					
<i>Tax-Free Intermediate Bond Average</i>					
Vanguard Muni Limited Term	HS	1.8%	3.4%	4.1%	2.8%
T. Rowe Price Tax Free S/I	HS	2.3%	3.7%	4.1%	2.9%
Vanguard Muni Intermediate Term	HI	3.1%	2.9%	3.5%	3.0%
Vanguard Ohio Long-Term	HL	4.2%	2.0%	3.1%	3.0%
STOCK FUNDS - DOMESTIC					
<i>S&P 500 Index</i>					
<i>Equity Fund Average</i>					
Janus Advisor Risk Managed Growth	LG	-4.9%	-37.4%	-14.7%	-5.8%
Marsico 21st Century	LG	-16.4%	-46.7%	-16.5%	-3.9%
John Hancock Large Cap Equity	LB	-4.8%	-39.9%	-3.5%	2.9%
Vanguard Index 500	LB	-11.0%	-38.1%	-13.1%	-4.9%
TCW Dividend Focus	LV	-10.9%	-44.9%	-17.0%	-7.2%
Diamond Hill Long/Short	LV	-8.9%	-30.1%	-7.3%	2.8%
Munder Mid-Cap Growth	MG	-7.0%	-40.8%	-14.0%	-2.0%
Columbia Mid-Cap Value	MV	-11.9%	-42.1%	-15.6%	-2.7%
Century Small-Cap Select	SG	-9.2%	-38.5%	-17.2%	-7.2%
William Blair Small-Cap Growth	SG	1.5%	-36.6%	-18.5%	-6.3%
Neuberger & Berman Genesis	SB	-10.2%	-37.2%	-9.5%	0.7%
Diamond Hill Small-Cap	SV	-13.9%	-35.1%	-14.9%	-2.1%
James Small-Cap	SV	-12.3%	-38.4%	-18.9%	-6.2%
Wells Fargo Small-Cap Value (Closed)	SV	-6.0%	-38.1%	-12.7%	-1.2%
STOCK FUNDS - INTERNATIONAL					
<i>Morgan Stanley EAFE Index (Foreign)</i>					
American Century International Discovery	MG	-13.6%	-53.8%	-16.2%	-1.1%
Harbor International	LV	-15.1%	-47.7%	-11.4%	1.6%
Oakmark International	LV	-9.3%	-39.9%	-14.3%	-1.9%
Allianz NFJ International Value	LV	-11.2%	-47.1%	-10.1%	N/A
Tweedy Brown Global Value	LV	-9.4%	-38.6%	-12.6%	-1.6%
William Blair International Growth	LG	-8.8%	-51.6%	-16.8%	-2.9%
Oppenheimer Developing Markets	LG	-0.3%	-42.4%	-7.8%	9.5%
STOCK FUNDS - SPECIALTY					
PIMCO Commodity Real Return	LB	-0.9%	-50.9%	-10.6%	-4.1%
Vanguard Special Health Care	LG	-8.0%	-16.6%	-5.5%	1.5%
JP Morgan US Real Estate	MV	-36.6%	-63.2%	-28.1%	-9.3%
Columbia Technology Z	MG	3.4%	-36.9%	-15.9%	N/A

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