

nvest insights

MARCH 31, 2010

PEDESTRIAN CONSIDERATIONS

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

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WEALTH STRATEGIES

Delivering financial
peace of mind.

The least consensus view among investors is believing that we are in the early stages of a multi-year bull market. It is normal human emotions to feel pressure to "jump on board after the train leaves the station"; late is albeit better than missing out altogether. Nevertheless, it is particularly difficult to invest when concerns abound regarding a growing budget deficit, global sovereign debt, and expanding public distrust of elected governments worldwide. It should be equally obvious that global policymakers continue to be willing to do whatever it takes to avoid renewed flirtation with deflation and/or recession. Thus, investors must maintain a "bullish until the bill comes due" perspective and allow cyclical forces (unused economic stimulus, pent-up demand for capital equipment, and a still-accommodative monetary policy) to propel the economy and stocks higher.

We are pleased the first quarter (2010) ended on a stronger note than it began. US domestic stocks outperformed foreign as global economic growth is very bifurcated – some *developed* countries and the US are rebounding strongly while several *developing* countries have paused because their government authorities have reigned in rapid growth from last year. [Longer-term, we expect *developing* economies to outpace growth of *developed* countries] In any case, positive 1Q performance made it four in a row for the new bull market with a 6% gain for the S&P 500.

It was quite a year! In one year following the bear market closing low on 3/9/09, the S&P 500 gained +68.6%, its best 1-year performance in the last 50 years. The previous best was the +58.3% gain following the 1981-82 bear market. Bull markets begin with a jump. From the 3/9/09 bear market low to 11/9/09 (8 months), the S&P 500 gained +61.3% (not including dividends). From 11/9/09 to our recent 3/9/10 (4 months) the S&P 500 gained +4.3%.

Looking ahead, the average gain for the S&P 500 in the second year following a bear market low (in the 13th month through the 24th month) has been +12.2% in the last 50 years. The best 2nd year was +25.3% and the worst 2nd year return was +2.0%. We expect the brightening economic growth outlook will keep the market walking higher.

Client portfolios of all objectives are advancing nicely – growing with less risk than the market. While we are trailing the customized benchmarks (found on page 3) by small margins, the overall growth since the market low is impressive. More recent performance almost seems like a "walk in the park"; steady and forward. Portfolios are broadly diversified owning short maturity bonds (corporate or municipal, no Treasury), and quality-focused domestic and foreign stock funds. Our tactical equity exposure is ahead of the market, we believe. It is ahead of the "kick the can down the street" orientation. When the "bill comes due" and the "can cannot be kicked down the street" any longer (observed via tightening monetary policy and increasing tax rate actions in an attempt to address huge deficits), we expect a global investment structure to be superior in performance and risk than all domestic. Quality focused stocks, and particularly foreign, have lagged the overall market recently, as under-invested latecomers reacquire risk via small and low quality.

Low yielding money market funds continue to experience rapid outflow as investors reacquire risk. Strangely, the exodus seems "rearview mirror" focused. Investors are placing huge amounts of cash into bonds (which offer higher yields, but at yields that remain well below levels before the recession began in late 2007 and way off their historical averages) while almost ignoring stocks of any kind. We expect one of the cruel ironies of 2010 may, in fact, be that the average investor learns he can actually lose money in a bond fund despite his overwhelming desire to play it safe. The longer interest rates remain low, the more investors will reach for yield by purchasing longer dated bonds. But, as governments issue more bonds and yields rise, the price of the bond will fall. As prices fall, that means negative bond investment returns. This may be the point when quality and foreign stocks start to gain the attention of both retail and professional investors alike. We continue to take a steady, pedestrian-like approach to portfolio construction – underweight bond maturity, overweight stocks (domestic and foreign), and overweight commodities.

CONTACT US:

2310 Home Road
Delaware, Ohio 43015
740.917.9234

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

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"After 17 years, the longest without a federal tax increase, the clock is ticking..."

"Cash and bonds reduce stock market risk, but are lousy for fighting our enemies of taxes and inflation."

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WEALTH STRATEGIES

"Investing requires an environmental awareness to the shadow of government."

DATES TO REMEMBER:

- Early-April - Quarterly Reports Sent; 2Q 2010 Investment Management Fees Collected
- **April 15 - Tax Day & Last Day for 2009 IRA Contributions**
- May 31 - Memorial Day: Markets and Nvest Offices Closed
- June 30 - End of 2nd Quarter
- July 5 - Independence Day (observed): Markets & Nvest Offices Closed
- **REMINDER: You may request a current copy of our regulatory filing ADV Part II at any time.**

ROTH IRA CONVERSIONS | IS ROTH A WORTHY IDEA FOR ME??

A big financial planning topic being discussed for 2010 is the conversion of an IRA into a Roth IRA. You may be wondering, "Why all the buzz?"... In theory, it sounds great: distributions from a Roth IRA are tax free in retirement. But in practice, paying the taxes now may not make sense.

Nvest Wealth Strategies has studied extensively the Roth IRA conversion concept and has developed some guidelines for helping you understand when and under what conditions, it might make sense to convert an IRA to a Roth.

The paper can be found on our website at www.nvestwealth.com/files/RothIRAConversions.pdf.

NEW NORMAL - FEAR OF GOVERNMENT'S BIG SHADOW

Ever wonder... if "con" is the opposite of "pro"; is Congress the opposite of progress? We recently read about our government "in action" (or should we say "inaction") – the average processing time for an individual awaiting a decision from social security regarding a disability claim is 442 days (source: Social Security). That is waiting on the government (too bad we can't wait on paying our taxes)!

2010 will prove to be a transitional year – election year for Congress, new health care regulations which incorporate new taxes on high income wage earners in an attempt to begin the process of paying for stimulus programs which prevented a financial meltdown. Access to easy money of yesteryear forced government to takeover private debt. The inevitable next step is starting to pay for "the bill coming due". The growth in the federal deficit makes it near certain to expect higher taxes. Because the Bush tax cuts sunset at the end of this year, no political capital is needed to raise these taxes to their "old" levels – 20% for capital gains and whatever one's top marginal tax bracket will be for dividends. When one adds new revisions found in healthcare reform, all tax payers should begin to see the growing tax shadow appearing.

The effect of higher taxes on expected bond and stock returns is obvious, less return after taxes. When combined with potentially higher interest rates, inflation, and regulatory costs, a higher tax burden seems likely to be a headwind for investments in years to come. The US has not had federal tax increases since 1994. After 17 years, the longest without a federal tax increase, the clock is ticking. We can be sure that taxes will rise faster than income growth and net wealth, and a future deficit reduction package could further increase the federal tax burden.

What does this suggest for how your investment portfolio is managed?

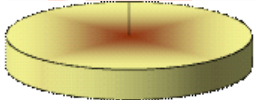
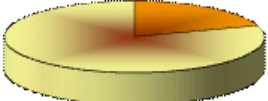

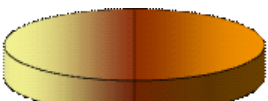
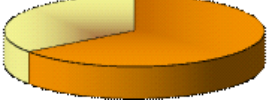
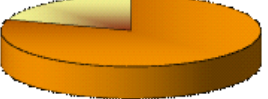
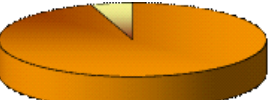
Nvest Wealth Strategies has always been "return for risk" focused. Investors must be aware of investment enemies – taxes and inflation. As a result, we are very sensitive to managing portfolios under different inflationary and tax environments. Aside from the economic cyclical influences on the financial markets, our second largest issue is managing client monies for the negative effects of inflation and taxes. Mixing cash, bonds, and stocks together is very important for risk management. But they do not all battle our investment enemies in the same way. Cash and bonds reduce stock market risk, but are lousy fighting our enemies of inflation and taxes. Stocks generally fight inflation and taxes pretty well. Thus, we combine asset classes (cash, bonds and stocks) to reduce risk, provide better after tax, after inflation returns, AND provide asset flexibility.

We have not found any investment vehicle that does it all. To find success, investors must utilize a disciplined consistent approach to investment management. Incorporate an understanding of taxes and inflation into the tactical asset mix and periodically rebalancing via a predefined allocation guidelines lead to long term investment success.

Can you see it – the shadow preceding the strong arm of government? In our new normal, tax rates are on the rise. Investors need to lower their return expectations and invest using diversification and care. Despite prospects for higher taxes, investing requires an environmental awareness to the shadow of government. Don't fear it; continue to invest despite it.

BENCHMARKING AS OF MARCH 31, 2010

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

INDEX PORTFOLIO	STOCK/BOND ALLOCATION		TOTAL RETURN THROUGH 3/31/10			
			1QTR	12 MTHS	3 YEARS	5 YEARS
 Capital Preservation	0% / 100%	<i>Cumulative</i>	1.4%	9.5%	10.6%	19.3%
		<i>Annualized</i>		9.5%	3.4%	3.6%
 Income	20% / 80%	<i>Cumulative</i>	2.6%	18.8%	6.3%	18.6%
		<i>Annualized</i>		18.8%	2.1%	3.5%
 Balanced Conservative	35% / 65%	<i>Cumulative</i>	3.6%	26.0%	3.3%	18.4%
		<i>Annualized</i>		26.0%	1.1%	3.4%
 Balanced	50% / 50%	<i>Cumulative</i>	4.1%	33.3%	-0.2%	19.2%
		<i>Annualized</i>		33.3%	-0.1%	3.6%
 Balanced Growth	65% / 35%	<i>Cumulative</i>	4.8%	40.1%	-3.4%	19.1%
		<i>Annualized</i>		40.1%	-1.2%	3.6%
 Growth	80% / 20%	<i>Cumulative</i>	5.6%	47.6%	-6.9%	19.2%
		<i>Annualized</i>		47.6%	-2.4%	3.6%
 Aggressive Growth	95% / 5%	<i>Cumulative</i>	6.4%	53.1%	-8.9%	19.2%
		<i>Annualized</i>		53.1%	-3.1%	3.6%

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, 2010

BOND FUNDS - TAXABLE	STYLE	1ST QTR	12 MTHS	3 YEARS	5 YEARS
<i>Taxable Intermediate Bond Average</i>		2.4%	15.7%	4.9%	4.5%
Wells Fargo Ultra Short	AS	1.5%	9.7%	1.6%	2.7%
Vanguard Short Federal	HS	1.0%	2.9%	5.5%	4.9%
American Century Short Duration	HS	1.0%	5.0%	5.5%	N/A
PIMCO Low Duration	HS	1.9%	15.5%	6.3%	5.1%
Vanguard Short-Term Investment Grade	HS	2.0%	14.0%	4.9%	4.8%
American Century GNMA Income	HI	1.8%	5.1%	6.6%	5.6%
Wells Fargo Government Securities	HI	1.6%	4.1%	6.1%	5.1%
PIMCO Real Return	HI	1.2%	13.1%	6.6%	4.9%
PIMCO Total Return	HI	2.9%	15.2%	9.3%	7.2%
PIMCO Diversified Income	AI	4.9%	36.8%	6.6%	7.1%
Artio Global High Income	LI	4.5%	53.0%	7.5%	8.5%
Calamos Convertible Securities	LI	2.6%	33.9%	3.7%	5.4%
BOND FUNDS - TAX EXEMPT					
<i>Tax-Free Intermediate Bond Average</i>		0.8%	7.6%	3.8%	3.6%
Vanguard Muni Limited Term	HS	0.5%	4.3%	4.1%	3.7%
T. Rowe Price Tax Free S/I	HS	0.6%	5.5%	4.7%	3.9%
Vanguard Muni Intermediate Term	HI	0.8%	7.8%	4.4%	4.3%
Vanguard Ohio Long-Term	HL	0.9%	9.5%	4.4%	4.5%
STOCK FUNDS - DOMESTIC					
<i>S&P 500 Index</i>		5.4%	49.8%	-4.2%	1.9%
<i>Equity Fund Average</i>		6.1%	54.4%	-3.7%	2.5%
Janus Advisor Risk Managed Growth	LG	4.9%	46.5%	-4.6%	0.6%
Marsico 21st Century	LG	5.5%	61.6%	-4.4%	3.9%
John Hancock Large Cap Equity	LB	4.7%	47.1%	3.7%	10.6%
Vanguard Index 500	LB	5.4%	49.7%	-4.2%	1.8%
TCW Dividend Focus	LV	6.4%	58.6%	-7.6%	-0.4%
Diamond Hill Long/Short	LV	-1.1%	28.0%	-2.4%	4.1%
Munder Mid-Cap Growth	MG	6.9%	52.2%	-2.8%	4.1%
Columbia Mid-Cap Value	MV	8.1%	62.7%	-5.3%	3.4%
Century Small-Cap Select	SG	6.3%	51.5%	-6.0%	-0.7%
William Blair Small-Cap Growth	SG	9.1%	82.7%	-1.7%	3.5%
Neuberger & Berman Genesis	SB	5.1%	47.9%	1.2%	5.7%
Diamond Hill Small-Cap	SV	7.6%	61.1%	-0.3%	4.0%
Wells Fargo Small-Cap Value	SV	4.9%	69.4%	1.6%	7.1%
STOCK FUNDS - INTERNATIONAL					
<i>Morgan Stanley EAFE Index (Foreign)</i>		0.2%	50.0%	-9.6%	1.1%
American Century International Discovery	MG	2.4%	59.3%	-8.5%	7.3%
Harbor International	LV	0.6%	64.2%	-1.9%	9.2%
Oakmark International	LV	5.7%	82.2%	-2.6%	7.2%
Allianz NFJ International Value	LV	0.5%	59.9%	-1.5%	8.8%
Tweedy Brown Global Value	LV	4.4%	58.9%	-3.0%	5.0%
William Blair International Growth	LG	3.5%	61.3%	-7.3%	4.5%
Oppenheimer Developing Markets	LG	2.9%	87.6%	8.5%	17.8%
STOCK FUNDS - SPECIALTY					
PIMCO Commodity Real Return	LB	-3.3%	36.0%	-3.9%	-0.5%
Vanguard Special Health Care	LG	2.9%	35.3%	1.1%	6.3%
JP Morgan US Real Estate	MV	10.3%	115.7%	-12.3%	2.9%

Nvest Wealth Strategies, Inc.

2310 Home Road
Delaware, Ohio 43015
Ph: 740.917.9234
Email: info@nvestwealth.com

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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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