

nvest nSIGHTS

MARCH 31, 2011

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WEALTH STRATEGIES

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FIGHTING ON THE PLAYGROUND

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

Life feels like a merry-go-round. News headlines keep spinning with negative stories. When one hops off, it seems another jumps on. The merry-go-round of issues keeps on turning. There's more though. There's "fighting" on the playground. Unrest and fighting seems prevalent in every direction. And turning another direction crates awareness of wind in your face; a headwind. What's going on?

A major fear on the capital markets playground (just behind the consequences of Japan's disasters and Mideast turmoil) is a significant upturn of inflation. Many investors are convinced that a significant rise is all but certain given all the quantitative easing (QE) poured into the economy and the surge in commodity prices. Given Japan's recent nuclear power issues, it seems probable for further permanent increases in energy prices long-term. A major source of global energy, nuclear power, is now in question. As a result it seems likely (we always extrapolate current info into the future with certainty) increased oil prices are a permanent experience. The Fed and other central banks don't have good options to deal with oil price shocks. Oil is like a tax; remaining high it's expected to shave 0.5% - 1% off GDP growth. Something has to give.

Either oil is going to keep rising and push domestic and global growth into a slump, or... If something cannot go on forever, it will stop. At some point, rising prices sow seeds of its own reversal via demand destruction. Headwinds seem likely to slow global growth and that in turn slows the recent rise of energy and commodity prices. Some emerging market governments are already tightening policy to halt inflation pressure. China continues to raise interest rates and bank reserve requirements; Great Britain and Euro monetary authorities will raise rates soon. Meanwhile, Congress is fighting over deficit reduction budgets for 2011 and 2012, and the debt ceiling. All these policy actions are headwinds affecting growth. Of critical importance is the failure to be fiscally responsible - it carries huge negative consequences. Look at Greece, Ireland and now Portugal. Failure of government to act with fiscal responsibility results in market interest rates surging upward (be wary of stretching for yield by extending maturity/duration). Market investors collectively do not tolerate fiscal irresponsibility (high levels of debt). The bill will come due. Government policy (or lack of) is beginning to create a headwind, which ultimately results in slower economic growth (we expect inflation to be managed; read on).

Hey, but the playground is still basking in sunshine. Economic growth has advanced beyond recovery; it is in expansion mode by advancing above its former peak. QE2 will conclude in June with its desired effect of boosting stock market values, economic confidence, and slowly improving employment. The economic expansion will endure, albeit slowly in 2011, and it is expected to continue into 2012. *[This suggests inflation will not be transmitted into higher wage demands due to high unemployment; higher inflation boosts revenue growth and earnings unless wage gains also accelerate. But too high inflation leads to higher interest rates; slowing economic growth and lowering stock market multiples, P/E's.]* Whether inflation is really taking hold is one matter; but there is a developing belief by more and more people that it is.

The path for investments (risk assets) in general, and stocks in particular, is higher, perhaps meaningfully so. This is in an environment in which many developed country central banks and governments are just starting to tighten, with the Fed being last in line. It's important to remember that it is not the first rate hike that hurts you; it's the last (Fed tightens until inflation slows). We also believe that an asset allocation shift away from cash and fixed income (still important diversifiers to own) into stocks is still in the early innings. *If inflation does take hold, fixed income and cash will not fare well; stocks have a much better chance of beating our inflation enemy.* In the meantime, stay out of "fights" and try to enjoy the playground.

TEPID BULL

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

Frequent surveys of investors reveal there are many tepid bulls. Most investors acknowledge the "baby bull" market is 2 years old (started March 9, 2009), but remain lukewarm, or showing little enthusiasm about its future prospects. If the new bull market were to end now, it would be one of the shortest relative to history. The average bull market lasts 57 months (current is 24 months old) and rises 164% (current has recovered 82% of its former peak). That's a decent rebound which we expect will continue.

Investor sentiment (psychology) is fractured. Two bear markets and a lost stock market decade are often cited reasons. Current issues as discussed herein, "Fighting on the Playground", and in past monthly commentaries ["Topsy-Turvy Oil, Spins the World" (March) and "Feeling Caught in the Backfield" (February)] review specific current concerns. March provided its share of new worries (Japan, Libya, and oil) generating a tepid S&P 500 gain of less than 0.1%. The first quarter advanced 5.9% (similar to 5.4% for 1Q 2010). Recall, 2010 generated a 15.1% advance in the midst of many worries, including a much more uncertain outlook for domestic GDP. We should be reminded the S&P 500 gained an average of 9.7% **per year** over the last 50 years (1961 - 2010). <continued on page 2>

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INVEST INSIGHTS

TEPID BULL (continued from page 1)

Client portfolios continued their advance during the quarter. Generally, stock exposures trailed the domestic S&P 500 index alone. Exposure to international stocks (amounting to approximately one-third of client portfolio equity exposure) lagged domestic stocks due to international worries. This reduced our overall equity and portfolio returns compared to domestic-only investing. But late in the quarter we experienced stronger international stock performances, faster than US stocks, and the 1st quarter softness is being erased. We still expect foreign exposure to be a critical influence to strong future portfolio performance. We believe, as other investors also state, that countries with less debt will grow faster than those with heavy debt. It is always interesting to hear what people say, but confirm their beliefs via their actions (investors continue to largely ignore foreign investments). Thus, we may be ahead of the market with exposure to foreign. Bond components of portfolios performed better than the market averages, as short and corporate are key to that success during a very challenging time for bond investing.

We believe we are far away from putting in a major top in stock prices. We expect this baby bull market has more room to run; we expect tepid attitudes will rise in temperature with the stock market advance. We offer nine reasons this bull market will continue through 2011 and beyond.

1. GDP and corporate profits are both at new highs, while the S&P 500 is still 18% below its October 2007 peak.
2. Even as QE2 is ending (June), the Fed is far away from being "tight" – generally it's not the first Fed tightening that puts in the top; it's the last.
3. Most major market tops are associated with a shakeout in credit. LIBOR and short interest rates are far below last May, and 10-year Treasuries are well below "normal" levels (in GDP growth).
4. Market has yet to experience the first "blowout" employment report, though there is recent improvement.
5. Other markets (back-up in 10-year Treasury yields, strength in industrial metals like copper) suggest the global economy is accelerating.
6. 10-year annualized stock returns are just beginning to turn up from secular lows.
7. Sector leadership (stocks) is still cyclical (early market leaders); whereas old, tired bull markets have defensive stock leadership.
8. A major asset shift – away from bonds and into stocks – appears to be just starting. 1Q inflows into stock funds pale in comparison to redemptions over the past 2 years.
9. Merger and acquisition (M&A) activity is accelerating, and the size of the deals is beginning to get larger.

All of these suggest to us, the baby bull market has more time to grow before maturity.

Our focal point is fixed upon government, however. We know the US cannot keep "kicking the can down the street"; the "bill is coming due." It is very critical how deficits are addressed. Deliberations in Congress are underway. Eyes are watching the House versus Senate/President. The proper address has not been pursued. It entails a different path than recent actions to stave off the debt crisis. The prescription is simple (yet painful) involving a relatively smaller public sector and larger private sector, lower public spending, and lower taxes. History is repeat when such direction brought dramatic improvement in economic prosperity; it can happen quickly. The key is if governments can decide to shrink and, by doing so, create a more prosperous era.

In the meantime, we believe it is important to stay invested.

BACK TO THE FUTURE: 2025

Imagine a peek 15 years into the future. What might it look like if...? The following summarizes two amazingly coincidental recent newspaper writings. The NY Times (3/27/11) and the Jakarta Post (3/26/11) carried similar sobering messages. We Americans should not remain passive.

Presidential address delivered in 2026: the day of reckoning is here. The bond market no longer trusts us. The President returned after meeting with the International Monetary Fund (IMF; headquartered in Beijing) with some good news securing a temporary line of credit to help through the crisis.

Day in the life of the US President in 2025: Rosalinda Rodriguez (daughter of illegal Mexican immigrants) visits China to attend the A4 meeting, permanently hosted in Shanghai (clean air is purified and scented by giant multifunction fragrance dispensers, and temperature is adjusted by outside air conditioners). The exclusive G4 (successor to G8, and recently expanded from G3 includes China, India, and Russia) recently added the US. The US President's Chinese limo (no US auto manufacturers remain) delivers her to UN headquarters (in Hong Kong) for reprimand on trying to secretly revive a nuclear program, and also denies a pardon request of 100 top US war criminals serving life sentences in the Singapore detention center of the World Court of Justice since the Iraq War.

Why could this nightmare happen? The US financial position is so eroded from fiscal irresponsibility that we work for those who own our debt and currency. The "bill is coming due"; but by who's actions?

"The path for investments (risk assets) in general, and stocks in particular, is higher, perhaps meaningfully so"

"GDP and corporate profits are both at new highs, while the S&P500 is still 18% below its October 2007 peak."

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WEALTH STRATEGIES

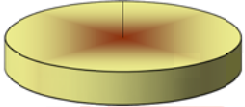


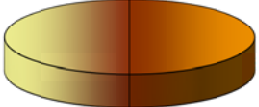



"a major asset shift - away from bonds and into stocks - appears to be just starting."

ANNOUNCEMENTS:

- Early April - 2Q 2011 Fees collected
- **April 18 - Deadline to file taxes: 2010 IRA contributions must be received by Schwab**
- April 22 - Good Friday: banks & markets closed
- May 30 - Memorial Day: banks & markets closed
- June 30 - End of 2nd Quarter; reports sent early July
- **REMINDER: Our new ADV Part 2A & B as required by the SEC is available to you anytime upon request.**

BENCHMARKING AS OF MARCH 31, 2011

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

INDEX PORTFOLIO	STOCK/BOND ALLOCATION		TOTAL RETURN THROUGH 3/31/11			
			1QTR	12 MTHS	3 YEARS	5 YEARS
 Capital Preservation	0% / 100%	<i>Cumulative</i>	0.6%	3.2%	10.5%	20.3%
		<i>Annualized</i>		3.2%	3.4%	3.8%
 Income	20% / 80%	<i>Cumulative</i>	1.9%	6.6%	11.7%	19.7%
		<i>Annualized</i>		6.6%	3.8%	3.7%
 Balanced Conservative	35% / 65%	<i>Cumulative</i>	2.7%	9.0%	12.6%	19.5%
		<i>Annualized</i>		9.0%	4.0%	3.6%
 Balanced	50% / 50%	<i>Cumulative</i>	3.3%	11.0%	11.9%	18.4%
		<i>Annualized</i>		11.0%	3.8%	3.4%
 Balanced Growth	65% / 35%	<i>Cumulative</i>	4.0%	13.2%	11.8%	17.3%
		<i>Annualized</i>		13.2%	3.8%	3.3%
 Growth	80% / 20%	<i>Cumulative</i>	4.9%	15.7%	12.1%	16.5%
		<i>Annualized</i>		15.7%	3.9%	3.1%
 Aggressive Growth	95% / 5%	<i>Cumulative</i>	5.5%	17.4%	13.1%	16.6%
		<i>Annualized</i>		17.4%	4.2%	3.1%

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, 2011

BOND FUNDS - TAXABLE	STYLE	1ST QTR	12 MTHS	3 YEARS	5 YEARS
BOND FUNDS - TAXABLE					
<i>Taxable Intermediate Bond Average</i>		1.5%	7.2%	5.7%	5.4%
Wells Fargo Ultra Short	AS	0.6%	2.7%	2.1%	2.5%
Vanguard Short Federal	HS	0.1%	2.3%	3.4%	4.9%
American Century Short Duration	HS	0.3%	2.5%	3.9%	N/A
PIMCO Low Duration	HS	1.1%	3.9%	5.1%	5.5%
Vanguard Short-Term Investment Grade	HS	0.6%	3.8%	4.4%	4.9%
American Century GNMA Income	HI	0.5%	4.9%	5.7%	6.1%
Wells Fargo Government Securities	HI	0.1%	3.9%	4.5%	5.6%
PIMCO Real Return	HI	1.8%	8.0%	4.6%	6.5%
PIMCO Total Return	HI	1.1%	6.6%	8.0%	8.1%
PIMCO Diversified Income	AI	1.9%	10.6%	9.5%	7.7%
Artio Global High Income	LI	4.1%	11.9%	11.9%	9.0%
Calamos Convertible Securities	LI	5.3%	13.7%	7.1%	6.0%
Miller Convertible	LI	5.1%	16.5%	27.0%	N/A
BOND FUNDS - TAX EXEMPT					
<i>Tax-Free Intermediate Bond Average</i>		0.0%	0.6%	3.0%	2.8%
Vanguard Muni Limited Term	HS	0.4%	1.9%	3.2%	3.7%
T. Rowe Price Tax Free S/I	HS	0.4%	1.9%	3.7%	3.9%
Vanguard Muni Intermediate Term	HI	0.6%	1.9%	4.2%	4.0%
Vanguard Ohio Long-Term	HL	-0.2%	0.2%	3.8%	3.7%
STOCK FUNDS - DOMESTIC					
<i>S&P 500 Index</i>		5.9%	15.7%	2.4%	2.6%
<i>Equity Fund Average</i>		6.5%	19.5%	4.2%	2.9%
Marsico 21st Century	LG	5.4%	16.9%	0.2%	1.9%
John Hancock Large Cap Equity	LB	5.2%	14.7%	0.5%	8.7%
Vanguard Index 500	LB	5.9%	15.5%	2.3%	2.5%
TCW Dividend Focus	LV	7.3%	20.0%	1.6%	1.7%
Diamond Hill Long/Short	LV	4.1%	5.0%	-2.1%	1.4%
Munder Mid-Cap Growth	MG	7.9%	26.3%	4.4%	4.1%
Columbia Mid-Cap Value	MV	7.3%	22.3%	4.9%	3.7%
Century Small-Cap Select	SG	11.6%	37.9%	8.7%	3.5%
William Blair Small-Cap Growth	SG	2.6%	9.7%	8.3%	1.7%
Neuberger & Berman Genesis	SB	9.3%	26.2%	5.4%	6.7%
Diamond Hill Small-Cap	SV	4.5%	19.5%	7.7%	3.5%
Wells Fargo Small-Cap Value	SV	4.1%	18.5%	7.5%	6.0%
STOCK FUNDS - INTERNATIONAL					
<i>Morgan Stanley EAFE Index (Foreign)</i>		3.8%	11.6%	-2.2%	2.0%
Harbor International	LV	4.1%	15.8%	-0.2%	5.7%
Oakmark International	LV	2.3%	12.4%	7.2%	5.3%
Allianz NFJ International Value	LV	4.6%	15.2%	-0.9%	6.0%
William Blair International Growth	LG	-0.1%	16.0%	-3.2%	1.5%
Oppenheimer Developing Markets	LG	-0.7%	22.5%	9.8%	12.5%
American Century International Discovery	LG	3.1%	21.5%	-3.7%	2.6%
STOCK FUNDS - SPECIALTY					
PIMCO Commodity Real Return	LB	6.9%	36.6%	-3.2%	5.5%
Princeton Managed Futures*	LB	0.0%	5.4%	N/A	N/A
Vanguard Special Health Care	LG	6.6%	10.0%	7.5%	4.7%
JP Morgan US Real Estate	MV	6.0%	25.4%	-0.2%	0.1%

* Reflects Partial 1-Year Performance: fund inception 7/19/10

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