

# nvest nsights

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## Racing for Records

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

The stock market raced to new records during the 2<sup>nd</sup> quarter. Many of the market indexes established new highs as the economic fuel mix (foreign sales, interest rates and inflation) seemed just right. The Dow Jones Industrials continued to rack up additional new highs since October 2006, now totaling 45 new records. In May, the S&P 500 finally recovered to its peak established 7 years ago in March of 2000. It appears the Federal Reserve has created ideal race conditions for companies to succeed without too high of inflation or interest rates. Add the arrival of many different race fans with lots of money to invest (rapid world money growth) and it appears additional records are possible. We do not view the markets as overvalued (please see our June Market Commentary entitled "Are Stocks Overvalued?" on the Nvest website).

Race conditions can change in a hurry. June looked like a rainy day during the event. Fans worried about bad home loans while an uptick in economic strength might prompt the Fed to alter the fuel mix by raising interest rates (they have paused for 8 meetings now), instead of lowering them. In fact, interest rates on the 10-year Treasury rose from 4.6% to almost 5.3% (prices decline when interest rates rise). Too fast an economic pace could fuel inflation and cause the Fed to alter the course, by raising interest rates.

Despite sputtering engines in June, the S&P 500 advanced almost 6% during the quarter; the Dow Jones finished ahead over 8%, and the NASDAQ zoomed forward more than 7%. Year-to-date returns are only slightly better (see "Widely Held Mutual Funds" on page 4).

All investment choices do not race the same way. It appears that as this race approaches its 5<sup>th</sup> anniversary in October, early leaders are lagging, while those who trailed initially are now taking the lead. Where small and value paced the race for 7 years, we now see growth and large company stocks and mid-size names, coming on strong. It also seems that as the race continues, not all have the same endurance that appeared at the beginning. At the beginning of most races, all appear to start fast. Now, performance is more variable.

*Continued on Page 2*

## Capricious Like a Lamb

An investment process is not worth much if it periodically changes due to a lack of underlying conviction. Does it seem your investment process is attempting to follow the latest fad or story? Buy this stock or fund, even ETF (Exchange Traded Fund) because it is the investment du jour. The lack of a disciplined investment process is the difference between investing and playing in the markets.

Undisciplined investors want to invest without doing the due diligence, or developing a repeatable process. They hear the latest great idea story, and believe it's a winner. Weeks later, they may find it fizzled like other faddish ideas. Occasionally, a story works out and the feeling of success prevails to try more. Invariably undisciplined investors try changing investment ideas in hope of finding something that works. Unfortunately, the long term performance is typically mediocre to poor.

Too often I see financial advisors promoting new investment programs to beat their peers to the cutting edge. Chasing another person's investment process without developing it for their own is a sure recipe to bad investment experiences. Whether an advisor utilizes active mutual funds (attempting to beat indexes), passive strategies (indexes), ETFs, or some combination of these, the key is a defined, repeatable investment process that is practiced for a long time. A changing with the wind approach will likely be blown away.

Attractive long-term investment performance is achieved because the investor has developed a disciplined investment process. The defined process may see small enhancements over time, but its core elements are repeated over and over, and over again. A disciplined investment process defines investor experience.

*Continued on Page 2*



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*Racing for Records (Continued from page 1)...*

We continue to experience increasing value in client investment portfolios. Just as we expect the market to establish additional new records, we expect portfolio values to grow. The difference today is not all funds are advancing as fast as a few years ago. Some funds are racing ahead while others are retooling with a pit stop. Later in a race, there is more rotation that is observed. Beating the index for the portfolio as a whole becomes a greater challenge later in the market advance. A glance at "Benchmarking" (page 3) compared to actual portfolio returns reflects that the portfolio is advancing but currently at a slower pace than the benchmark. That is because some who raced hard early, are now taking a pit stop to refuel.

Investment racing is different. Most long-term investors have noted that it is difficult to know the exact start of the race until after it is well underway. For example, the current bull market started October 9, 2002 or the more recent rally began on July 21, 2006 before the first Fed pause was announced last August. These dates do not fit the traditional monthly, quarterly or calendar reporting time intervals. Thus, investors need to be on the race course so they don't miss the start.

We still own historically strong fund managers. Portfolios are currently positioned with less risk to finish the race strong. We expect the final results will be attractive. Keep your seatbelts fastened and stay in the race. 🚗

*Capricious Like a Lamb (Continued from page 1)...*

Our investment process is time-tested and proven. It is very disciplined and utilizes an asset allocation mix of no-load mutual funds. These actively managed funds are historically strong performers with attractive risk/return profiles. Each client portfolio is diversified with defined exposures to different style funds. The resulting performance has been consistent; achieved with less risk than the markets. Our process is not capricious, but follows a proven, disciplined path.

We encourage you to utilize our expertise. It will assist you in growing your financial success. 🚗

## Year of Confusion

Sometimes there aren't enough minutes in a day – or days in a year – for all we have to do. Well then, how would you like to have a 445-day year? It happened once. The early Romans established their calendar on a *lunar* model, and their year had only 355 days. In 46 BC, Julius Caesar mandated a new *solar* calendar, making the year 365 days long. To bring the new calendar on track, he added the two extra months to the year between November and December, and also squeezed 3 extra weeks between February and March. The result was a one-time-only year of 445 days. It became known as the "Year of Confusion".

At times, every year seems like a year of confusion. Most investors have many things to worry about. If we only invested when we had no worries, most likely no investments would be made.

There are worries a plenty at mid-2007. Is the economy strong or slowing; inflation stubbornly high; is the Fed going to next lower interest rates or raise them? Who will be the next US President; will taxes rise? Will foreign investors still buy US bonds?

We expect 2007 will provide answers to some of these questions. But, it will also raise new questions. We have learned it is critical to be invested despite all the worries. Only TIME IN THE MARKET assures investors success. Such long-term investors win because they do not worry about when to get in or when to get out. If you miss a little of the next advance due to worry, performance will be radically reduced.

We anticipate 2007 will be an attractive performance year. While there are issues that create confusion about the outlook, we believe the second half will add to what has been started during the first. Stocks are not overvalued. The markets have always climbed a wall of confusion. 🚗

### CONTACT US:

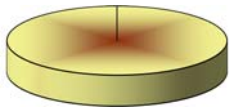


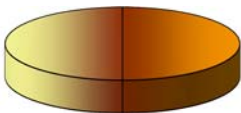

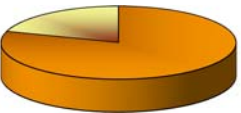

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**Please visit [www.nvestwealth.com](http://www.nvestwealth.com) monthly for investment commentary and mutual fund performance updates!**

## BENCHMARKING AS OF June 29, 2007

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

INDEX PORTFOLIO	STOCK/BOND ALLOCATION		TOTAL RETURN THROUGH 6/29/07					
			2QTR	YTD	12 MTHS	3 YEARS	5 YEARS	
	Capital Preservation	0% / 100%	<i>Cumulative</i> <i>Annualized</i>	0.4% N/A	1.8% N/A	5.0% 5.0%	8.8% 2.8%	16.1% 3.0%
	Income	20% / 80%	<i>Cumulative</i> <i>Annualized</i>	1.8% N/A	3.5% N/A	8.0% 8.0%	15.5% 4.9%	28.0% 5.1%
	Balanced Conservative	35% / 65%	<i>Cumulative</i> <i>Annualized</i>	2.7% N/A	4.8% N/A	10.4% 10.4%	21.5% 6.7%	38.3% 6.7%
	Balanced	50% / 50%	<i>Cumulative</i> <i>Annualized</i>	3.9% N/A	6.3% N/A	13.5% 13.5%	30.1% 9.2%	52.5% 8.8%
	Balanced Growth	65% / 35%	<i>Cumulative</i> <i>Annualized</i>	5.0% N/A	7.6% N/A	16.2% 16.2%	37.4% 11.2%	65.4% 10.6%
	Growth	80% / 20%	<i>Cumulative</i> <i>Annualized</i>	6.1% N/A	9.1% N/A	19.0% 19.0%	46.1% 13.5%	81.1% 12.6%
	Aggressive Growth	95% / 5%	<i>Cumulative</i> <i>Annualized</i>	6.7% N/A	10.1% N/A	20.8% 20.8%	51.3% 14.8%	91.4% 13.9%

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 June 29, 2007

BOND FUNDS - TAXABLE	STYLE	2ND QTR	YTD	12 MTHS	3 YEARS	5 YEARS
<i>Taxable Intermediate Bond Average</i>		-0.5%	1.0%	6.1%	4.0%	4.5%
Wells Fargo Ultra Short	AS	1.2%	2.4%	5.0%	3.9%	3.1%
Vanguard Short Federal	HS	0.3%	1.9%	5.3%	3.2%	3.1%
PIMCO Low Duration	HS	-0.3%	1.3%	4.6%	2.8%	3.2%
Vanguard Short-Term Investment Grade	HS	0.5%	2.0%	5.7%	3.7%	3.8%
American Century GNMA Income	HI	-0.8%	0.5%	5.5%	3.4%	3.2%
Wells Fargo Government Securities	HI	-0.7%	0.8%	5.1%	3.3%	3.8%
PIMCO Real Return	HI	-1.4%	1.1%	3.0%	3.6%	6.0%
PIMCO Total Return	HI	-1.3%	0.4%	5.2%	4.0%	4.8%
PIMCO Diversified Income	AI	-1.1%	0.5%	8.3%	8.2%	N/A
Diamond Hill Strategic Income	AI	0.4%	2.9%	10.2%	8.0%	N/A
Neuberger & Berman Lehman Bros High Income	LI	0.1%	3.0%	10.7%	6.4%	7.1%
Victory Convertible Securities	LI	4.5%	6.7%	12.7%	7.6%	8.1%
<b>BOND FUNDS - TAX EXEMPT</b>						
<i>Tax-Free Intermediate Bond Average</i>		-0.7%	0.1%	4.7%	4.6%	4.6%
Vanguard Muni Limited Term	HS	0.2%	1.1%	3.7%	2.5%	2.6%
T. Rowe Price Tax Free S/I	HS	-0.9%	0.6%	3.4%	2.4%	2.5%
Vanguard Muni Intermediate Term	HI	-0.6%	0.2%	4.5%	3.6%	3.6%
Vanguard Ohio Long-Term	HL	-0.6%	0.0%	4.8%	4.2%	4.4%
<b>STOCK FUNDS - DOMESTIC</b>						
<i>S&amp;P 500 Index</i>		6.3%	7.0%	20.6%	11.7%	10.7%
<i>Equity Fund Average</i>		6.6%	9.3%	19.5%	13.4%	13.1%
Janus Advisor Risk Managed Growth	LG	4.2%	5.6%	13.9%	8.5%	N/A
Marsico 21st Century	LG	10.3%	11.6%	22.2%	18.7%	18.0%
Vanguard Index 500	LB	6.2%	6.9%	20.4%	11.5%	10.6%
TCW Galileo Dividend Focus	LV	7.8%	9.4%	23.8%	13.4%	13.2%
Diamond Hill Long/Short	LV	0.9%	-0.2%	8.6%	16.1%	12.5%
Munder Mid-Cap Growth	MG	11.4%	17.1%	23.1%	17.3%	17.3%
Columbia Mid-Cap Value	MV	6.3%	12.7%	24.3%	19.9%	16.9%
Muhlenkamp	MV	8.5%	4.3%	12.8%	11.3%	12.8%
Weitz Value	MV	4.5%	4.1%	20.6%	11.0%	11.7%
Century Small-Cap Select (Closed)	SG	5.4%	8.2%	15.1%	9.7%	14.7%
William Blair Small-Cap Growth (Closed)	SG	6.8%	9.0%	17.5%	12.8%	17.5%
Neuberger & Berman Genesis (Closed)	SB	8.2%	13.6%	19.4%	15.3%	16.0%
Diamond Hill Small-Cap (Closed)	SV	6.6%	6.0%	9.8%	14.4%	16.8%
James Small-Cap	SV	4.7%	5.2%	7.0%	12.6%	17.4%
Wells Fargo Small-Cap Value (Closed)	SV	10.3%	14.0%	20.0%	18.8%	18.2%
<b>STOCK FUNDS - INTERNATIONAL</b>						
<i>Morgan Stanley EAFE Index (Foreign)</i>		0.7%	10.1%	26.9%	24.3%	10.4%
American Century International Discovery (Closed)	MG	9.4%	17.1%	36.7%	30.9%	24.6%
Harbor International	LV	10.3%	13.7%	34.5%	27.6%	21.8%
Oakmark International (Closed)	LV	3.2%	8.3%	24.7%	22.1%	17.4%
Tweedy Brown Global Value (Closed)	LV	5.9%	10.7%	26.5%	18.1%	15.0%
William Blair International Growth	LG	7.5%	11.7%	29.7%	24.4%	18.8%
<b>STOCK FUNDS - SPECIALTY</b>						
PIMCO Commodity Real Return	LB	-2.5%	3.0%	0.5%	9.0%	17.7%
Vanguard Special Health Care	LG	3.0%	5.7%	14.4%	12.2%	12.2%
JP Morgan US Real Estate	MV	-8.5%	-7.3%	8.7%	22.5%	19.8%

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## WHO DO YOU CALL WITH QUESTIONS???

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