

# nvest nSIGHTS

JUNE 30, 2011

## TRAINING WHEELS TAKEN OFF

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

The reason for time is so it all does not happen at once!

It seems all the bad news happened at once, during 2Q2011. Tough economic news and continued worries about sovereign debt in the United States and abroad weighed on the financial markets. A string of disasters (Japan earthquake, tornados, floods), high oil and commodity prices – helped create an atmosphere of investor agitation. Economic data (employment, housing, manufacturing, consumer spending, and more) points to a slow patch, and even renewed theories of a “double-dip” recession. What happened to recovery evolving into expansion? Yet, an economic turndown is not probable in an environment of low inflation and interest rates. But what about huge government debt levels? When burdened by too much debt, normal revenue levels are inadequate to provide “discretionary” new spending, and recovery remains fragile. In essence, monetary policy (Fed cannot be more accommodative) and/or fiscal policy (government spending or tax reduction policies) tools are rendered almost useless in our current situation. For the economy, it’s as though the training wheels were taken off and future growth is dependent on how fast we (private sector individuals and businesses) pedal (hire workers and spend).

We expect our ride without training wheels will be wobbly. The world economy is not expected to expand at a robust pace; rather it will be weak. Developed countries with debt will struggle with slow growth, while developing countries with low/no debt will experience stronger growth. In the short term, our soft patch will transition to a growth patch, almost the opposite of the “cash for clunkers” program of 2009. “Cash for clunkers” pulled automobile demand forward, and then growth slowed at its conclusion. The recent soft patch from supply dislocations and geopolitical strife pulled down headline inflation around the world, primarily via lower gas prices. It also reduces the odds that countries who were increasing interest rates will continue to do so in the future. These 2Q events will work in reverse of “cash for clunkers” - from temporarily destroying demand or delaying it, to setting up the prospects for a growth patch in the second half of 2011 as production picks up. <continued on page 2>

## DEALT A PAIR OF TWOS

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

Being a long-term investor can often feel like you were dealt a card hand with a pair of twos. The second quarter and related progression of bad news created corrective action in the financial markets that erased most all of the first quarter gain. In the present, it feels most uneasy and concerning. In reflection, looking at the 24% stock rally since August (2010), the recent correction (pause) seems understandable and reasonable. Recent action is consistent with corrections that materialize during economic recoveries.

When investor sentiment gets worried, some shift their investment mix to bonds. During the second quarter, investors returned to their “risk-off” bond-buying ways. Bonds generally turned in a solid quarter while stocks correspondingly struggled (portfolios with more stocks struggled compared to those owning more bonds). The fallacy for bond investors lies in the future. Can we “play competitively with a pair of twos?” For worried bond investors (in a low interest rate world) to experience additional future success, news needs to get even more terrible. At this point, for treasury prices to rise further, we need new bad news (though we suspect if the federal debt ceiling and deficits were not appropriately managed, this really bad news would cause the opposite - a big drop in Treasury bond prices and big rise in yields/rates like happened in Greece). For bonds to sustain their rally (of the 2Q), they need additional bad news. Our outlook is for an economic rebound during the second half (see “Training Wheels Taken Off”), and a resumption of the current 28 month old bull market. We expect 2011 will provide attractive full year performance.

As Congress temporarily solves our debt/deficit challenge, we continue to discuss the concept of being “bullish until the bill comes due.” The bill comes due because of inflation (due to expansionary monetary and fiscal policies) rather than deflation, which leads to our next recession and bear market. Hindsight reflects that current expansionary policies allowed the global economy to avoid a depression in 2008. Avoiding a sharp downturn in the next 5 years may result from US financial repression, which ushers in shorter, more normal US business cycles of 4 – 5 years.

Financial repression (low real interest rates) has a long history, and includes explicit or indirect caps/ceilings on interest rates, particularly on government debt; creation of a captive domestic “investor” to facilitate credit to the government; and/or extensive management (even ownership) of financial institutions. The government seeks money by taxing/taking the *wealth* that was created in the past, rather than just the *income* generated in the present. The Fed needs to keep interest rates low for an extended time to allow housing and the economy in general, to recover. <continued on page 2>

### IN THIS ISSUE:

Training Wheels Taken Off - PG 1

Dealt a Pair of Twos - PG 1

Market of Discontent - PG 2

Benchmarking - PG 3

Fund Performance - PG 4

**nvest**  
WEALTH STRATEGIES

Delivering financial  
peace of mind.

### CONTACT US:

2310 Home Road  
Delaware, Ohio 43015  
740.917.9234

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

# INVEST INSIGHTS

**“Our outlook is for an economic rebound during the second half of 2011, and a resumption of the 28 month old bull market.”**

**“Don’t forget, politicians have a big election in 2012, and they don’t want another downturn before.”**

**invest**  
WEALTH STRATEGIES

**“Two growing expectations in our outlook involve the global view, and stocks with growing dividends; we expect both will influence a greater portion of the market’s future total return.**

## ANNOUNCEMENTS:

- Early July - 3Q 2011 Fees collected
- September 5 - Labor Day: banks & markets closed
- September 30 - End of 3rd Quarter; reports sent early October
- REMINDER: Our new ADV Part 2A & B as required by the SEC is available to you anytime upon request.

## TRAINING WHEELS TAKEN OFF (continued from page 1)

QE and QE2 (Fed’s purchase of bonds called Quantitative Easing) provided “training wheels” to our economy. QE2, since August 2010, boosted the S&P 500 by 24%, lowered unemployment by 1.2 million (from 9.6% to 9.1%), and held core inflation unchanged. Unfortunately, our real GDP grew at a slow 2.3% rate, house prices fell 4%, and commodities jumped 31%. And we all see significant evidence that the shadow of Washington over the financial markets and many business sectors is bigger and longer than ever. The private sector (not government) needs to pedal faster to keep the bike upright.

It is understandable that investors are agitated. All bad news and memories of two bear markets in the last 10 years, leaves most everyone intolerant at the prospect of any future bad experience. We believe investor concerns are priced into the current market. Can it continue, and become worse? Sure. But, we expect the debt ceiling to be raised with a dollar-for-dollar reduction in spending; maybe \$1.5 to \$2.0 trillion in spending cuts and tax deduction/credit limitations. And other current market concerns will morph, while new issues will arise. Investing will always be about weathering the storm. It’s about the need to keep on pedaling.

You may imagine what investing would be like if it all happened at once. Since news is ongoing however, we too need to invest with a discerning eye to the future and a reflection of past history.

We remain long-term focused with our investment process. Timing (in/out of the market) is not a productive strategy. We manage risk via asset mix objectives, tactical allocation to various no-load mutual funds, and via diversification. This disciplined long-term approach generates attractive performance experience for our investment clients.

## DEALT A PAIR OF TWOS (continued from page 1)

Governments operating with heavy debt (current US government spending is 25% of GDP compared to a historical 20% level with tax revenues being 18% of GDP) cannot manage massive debt with expensive high interest rates; if interest rates rise, total interest cost the government pays will zoom higher. Maintaining low rates eases the burden, provides for survival, and requires other creative actions. Low interest rates prolong dealing with the big issues of too much debt. Accommodative policies, when continued from weak positions, lack effectiveness with the normal ebb/flow of an economic cycle. In other words, if economic growth stalls, future accommodative policy is not available, or easy. Thus, economic cycles will likely be shortened (than recent “abnormal”) experiences, closer to the norm of roughly 4 years. A cycle this length would put the next downturn in 2013. Don’t forget, politicians have a big election in 2012, and they don’t want another downturn before; after elections there are big decisions to tackle which could create an economic slowdown (can’t keep kicking the can down the street).

When dealt a pair of twos we continue to prospectively plan our investment strategy in client portfolios. First, we monitor macro economic and political developments for impact on investor psychology (sentiment) and prospective trend. Second, we manage client portfolio risk relative to agreed investment objectives via asset mix (stock/bond allocation). Third, our ongoing research helps us evolve our tactical strategy utilizing a diversified mix of no-load bond and stock mutual funds. We utilize active managers (not passive indexes) where we can selectively target themes that should benefit from macro events. This often creates a portfolio structure that is longer-term focused and in front of the market – recently using corporate bonds (not government), global focus (not heavy domestic), dividend growers (not dividend yield), and small foreign companies with dividend growth (not only large company foreign). Also, please see market comments below (“Market of Discontent”). Maybe, we will even witness successful investment performance being validated via a rise in the average investment holding period (currently around 1 year, down from 8 years in 1960). When time horizon lengthens, longer-term broad themes generate attractive performance experiences. This process works for all stage-of-life investors.

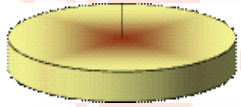
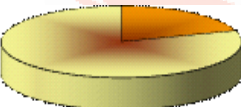
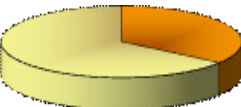
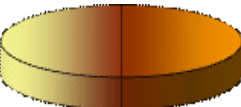

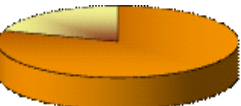

## MARKET OF DISCONTENT

In general, the financial markets struggled with a host of bad news during the 2<sup>nd</sup> quarter. As such, a minor correction in stock prices erased much, if not all the gains from the 1<sup>st</sup> quarter. Foreign stock exposure in portfolios provided more drawdown in values than domestic, as they in general were more worried about continuing sovereign debt issues in Greece and other world turmoils. In general, we anticipate 2011 will appear like a mirror copy of 2010 wherein the last half of the year provides a rebound to attractive full year performance. We believe our forward, in-front tactical strategy which includes greater global exposure with an added focus on dividend growth (not yield) is an attractive theme for the next few years as investors seek both growth (compared to a slow growing world economy) and income – this is the definition of total return (income + price change).

Enjoy a fun summer. We look forward to talking/visiting with you.

# BENCHMARKING AS OF JUNE 30, 2011

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

INDEX PORTFOLIO	STOCK/BOND ALLOCATION		TOTAL RETURN THROUGH 6/30/11				
			2ND QTR	YTD	12 MTHS	3 YEARS	5 YEARS
 Capital Preservation	0% / 100%	<i>Cumulative</i>	0.7%	1.3%	2.8%	11.2%	20.4%
		<i>Annualized</i>			2.8%	3.6%	3.8%
 Income	20% / 80%	<i>Cumulative</i>	0.8%	2.6%	9.4%	11.9%	21.1%
		<i>Annualized</i>			9.4%	3.8%	3.9%
 Balanced Conservative	35% / 65%	<i>Cumulative</i>	0.7%	3.3%	14.0%	11.9%	20.4%
		<i>Annualized</i>			14.0%	3.8%	3.8%
 Balanced	50% / 50%	<i>Cumulative</i>	0.8%	4.3%	18.8%	11.0%	19.7%
		<i>Annualized</i>			18.8%	3.5%	3.7%
 Balanced Growth	65% / 35%	<i>Cumulative</i>	0.8%	5.2%	23.9%	11.1%	19.4%
		<i>Annualized</i>			23.9%	3.6%	3.6%
 Growth	80% / 20%	<i>Cumulative</i>	0.7%	6.0%	28.8%	11.2%	19.0%
		<i>Annualized</i>			28.8%	3.6%	3.5%
 Aggressive Growth	95% / 5%	<i>Cumulative</i>	0.8%	6.5%	31.7%	10.2%	18.1%
		<i>Annualized</i>			31.7%	3.3%	3.4%

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 30, 2011

BOND FUNDS - TAXABLE	STYLE	2ND QTR	YTD	12 MTHS	3 YEARS	5 YEARS
<i>Taxable Intermediate Bond Average</i>						
Wells Fargo Ultra Short	AS	0.1%	0.7%	2.2%	2.1%	2.3%
Vanguard Short Federal	HS	1.2%	1.3%	1.8%	4.1%	5.0%
American Century Short Duration	HS	0.9%	1.2%	2.4%	4.3%	N/A
PIMCO Low Duration	HS	1.1%	2.2%	4.4%	5.9%	6.0%
Vanguard Short-Term Investment Grade	HS	1.0%	1.6%	3.7%	4.8%	5.0%
American Century GNMA Income	HI	2.7%	3.1%	4.4%	6.9%	6.8%
Wells Fargo Government Securities	HI	2.1%	2.2%	2.6%	5.7%	6.0%
PIMCO Real Return	HI	3.3%	5.3%	7.9%	6.5%	7.5%
PIMCO Total Return	HI	1.9%	3.0%	5.9%	9.5%	8.9%
PIMCO Diversified Income	AI	2.2%	4.2%	11.9%	11.2%	8.8%
Artio Global High Income	LI	0.9%	5.0%	15.4%	11.4%	9.2%
Calamos Convertible Securities	LI	-1.8%	3.3%	16.5%	6.5%	5.8%
Miller Convertible	LI	-2.5%	3.2%	20.3%	29.9%	N/A
<b>BOND FUNDS - TAX EXEMPT</b>						
<i>Tax-Free Intermediate Bond Average</i>						
Vanguard Muni Limited Term	HS	1.5%	1.9%	2.4%	3.7%	3.8%
T. Rowe Price Tax Free S/I	HS	2.0%	2.4%	2.9%	4.5%	4.3%
Vanguard Muni Intermediate Term	HI	3.5%	4.0%	3.6%	5.2%	4.8%
Vanguard Ohio Long-Term	HL	4.1%	3.9%	2.7%	5.0%	4.6%
<b>STOCK FUNDS - DOMESTIC</b>						
<i>S&amp;P 500 Index</i>						
<i>Equity Fund Average</i>						
Wells Fargo Advantage Growth	LG	1.4%	14.6%	48.7%	13.2%	11.2%
Marsico 21st Century	LG	-4.0%	1.2%	27.6%	-0.1%	1.7%
John Hancock Large Cap Equity	LB	-3.8%	1.2%	25.4%	-3.2%	7.5%
Vanguard Index 500	LB	0.1%	6.0%	30.5%	3.3%	2.9%
Sit Dividend Growth	LV	1.2%	6.8%	32.6%	5.4%	6.7%
TCW Dividend Focus	LV	-1.3%	5.9%	35.5%	4.0%	1.4%
Diamond Hill Long/Short	LV	-0.7%	3.4%	14.0%	-1.7%	0.8%
Munder Mid-Cap Growth	MG	1.2%	9.1%	38.3%	4.3%	5.3%
Columbia Mid-Cap Value	MV	-0.1%	7.2%	37.6%	4.9%	3.9%
Century Small-Cap Select	SG	1.8%	13.6%	49.9%	9.0%	5.0%
William Blair Small-Cap Growth	SG	-1.1%	1.5%	22.6%	8.6%	2.6%
Neuberger & Berman Genesis	SB	0.0%	9.3%	35.6%	2.7%	7.6%
Diamond Hill Small-Cap	SV	-0.6%	3.8%	27.2%	7.3%	4.0%
Wells Fargo Small-Cap Value	SV	-4.4%	-0.5%	22.9%	4.0%	5.3%
<b>STOCK FUNDS - INTERNATIONAL</b>						
<i>Morgan Stanley EAFE Index (Foreign)</i>						
Harbor International	LV	3.0%	7.2%	36.0%	1.0%	6.6%
Oakmark International	LV	2.1%	4.4%	28.6%	11.3%	5.1%
Allianz NFJ International Value	LV	-0.8%	3.8%	27.5%	-1.8%	6.0%
William Blair International Growth	LG	2.1%	2.0%	27.8%	-2.0%	2.7%
Oppenheimer Developing Markets	LG	-0.7%	-1.4%	29.8%	10.1%	14.6%
American Century International Discovery	LG	0.9%	4.0%	37.2%	-4.0%	3.2%
Harding Loevner International Small Company	SG	1.7%	6.8%	38.2%	32.2%	N/A
<b>STOCK FUNDS - SPECIALTY</b>						
PIMCO Commodity Real Return	LB	-5.0%	1.8%	34.7%	-8.5%	3.9%
Princeton Managed Futures*	LB	-3.6%	-4.3%	1.6%	N/A	N/A
Vanguard Special Health Care	LG	8.0%	15.2%	30.6%	10.0%	6.4%
JP Morgan US Real Estate	MV	3.0%	9.2%	32.5%	3.1%	0.7%

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

**Nvest Wealth Strategies, Inc.**

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

*Delivering financial peace of mind.*

WHO DO YOU CALL WITH QUESTIONS???

RE: Schwab or NWS Statements: Steve

RE: Portfolio Management & Strategy: Bill

RE: Request Current Disclosure Form ADV Part II: Steve

Visit us on the web for weekly updates: [www.nvestwealth.com](http://www.nvestwealth.com)