nVEST nSIGHTS

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IN THIS ISSUE:

nvest WEALTH STRATEGIES

Delivering financial peace of mind.

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GOLDILOCKS & GOLD - THE BIG DEBATE

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

It is tough for gold, stocks and bonds to all work in a positive price direction, at the same time. That is, it's tough to have gold and "goldilocks" (stocks and bonds) make sense. History reveals that in a *deflationary* environment like the 1930s where prices of goods/services and assets are declining, an investor could own bonds and gold, but stocks detracted from performance. In an *inflationary* environment like the 1970s, owning oil stocks and gold worked well, while avoiding bonds. When the economic environment includes low inflation and slow economic growth, like the 1990s "goldilocks" period, owning stocks and bonds worked very well; you would not need "insurance" provided by gold or other hard assets. Many label today's economic backdrop of slow growth, low inflation and low interest rates as "goldilocks" – perfect for both stocks and bonds. "Goldilocks" - an outlook and environment that is not-too-hot and not-to-cold (just right) - appears to be in place for the near term.

Central bankers fear deflation (of asset values) and continue to focus on reflationary stimulative monetary policies even as unemployment hovers at low, full-employment levels. Even now, the US Fed is raising interest rates with much care and slow speed, so as to not curb economic progress. If President Trump and Congress can advance pro-growth, pro-business policies - tax reform and modification of regulatory burdens, with fiscal infrastructure spending - these strategies could boost the current "goldilocks" economic growth backdrop from 2% to 3%, and further support the current bull market, now 100 months old (since March 2009). Maybe the US could experience the current economic cycle running another couple of years with fiscal policy help and careful adjustment to monetary policy. The US economic cycle is in the later part of the game, say 7th inning. But this game may well go "extra-innings"/ longer, notably because European and global economic recovery appears to be in its earlier innings which acts as a tailwind in an economically connected world.

Two quotes seem to share a similar idea for the future – the next couple of years. Warren Buffett wrote, "In the business world, the rearview mirror is always clearer than the windshield." Many years back, John F. Kennedy wrote, "When written in Chinese, the word 'crisis' is composed of two characters. One represents danger and the other represents opportunity." At most all points in time, looking forward shows possible dangers; but also recognizes the opportunity that usually exists. That's what is neat about Buffett's investment success – he is always looking forward with an opportunistic perspective. And, being a very long "time-in-the-market" investor makes Buffett the renowned investor of our day.

The big debate at current has many investors ignoring these credible quotes from Buffett and President Kennedy – their message to remain opportunistic long-term focused. Bears are saying the decline in bond yields (even as the Fed is slowly raising interest rates) is screaming recession. They cite the lack of inflation as evidence that demand is falling and the economic cycle is slowing. And, demographics and technology are leaning against demand. At the same time Bulls are saying "Goldilocks" conditions – steady growth and low inflation are positives, creating a "synchronized global expansion." Declining oil prices reflect technology (fracking), and declining bond yields reflect low inflation and effects from the Fed's past QE strategies. Consumer net worth is up; S&P earnings are rising, and BAA bond yields (spreads above AAA bonds) are making new lows (would not happen if a recession were immanent). For the Bear environment to progress, short interest rates need to rise faster and higher than long rates (called an inverted yield curve); BAA spreads would widen significantly; oil prices plunge, or rise so high they act like a tax on consumer's checkbook; China weakens significantly; or the US $ rises significantly.

These economic thoughts are shared, not to be too technical, but to provide some background on investing portfolios during the second half 2017 and 2018. There also remain very real chances for substantive regulatory reform (a key area of relief would be for money-lending activities of banks; with the Fed slowly raising interest rates, if lending can rise following regulatory relief, the velocity of money should accelerate and boost economic growth). These provide durability for the current stock market advance. Opposing Bear and Bull views do not both, remain correct for long. Divergent views can run, but one will ultimately prevail. Investors and advisors should watch for advancing corporate earnings growth being affected by quickly rising inflation and interest rates (instead of slow); or restrictive government policies and higher taxes. Such a scenario is different than what appears before us today, but would alter the appeal of both domestic and international stock investments. For now, we see opportunity for further market advances (not to say there will not be a pause that refreshes). Dr. Nido Qubein (President of High Point University) stated, "Your present circumstances don't determine where you go; they merely determine where you start."

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"Of course, no one can predict that the 2nd half of 2017 will mirror these (positive) historical experiences, but precedent at least suggests that strength begets strength."

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WEALTH STRATEGIES

FIDUCIARY RULE:

- Became effective June 9.
- Good article/review appears in Wall Street Journal on July 10 in the Money Management Section.
- Bottom line: the best advisers are very transparent about everything.
- Nvest has always operated under the fiduciary standard - putting client interests first - and will continue to do so.

ANNOUNCEMENTS:

- Early July - 3Q 2017 fees collected. Performance reporting packages sent
- July 4 - Independence Day; banks and financial markets closed.
- September 4 - Labor Day; banks and financial markets closed
- September 30 - End of 3Q 2017
- October 9 - Columbus Day; Banks and Bond market closed (stock market to remain open)
- Our ADV Part 2A & B as required by the SEC & Ohio (and other states) is available to you anytime upon request.

THE FINISH: IT COUNTS

Historically, a strong first half often results in above average second half returns. The S&P500 posted its strongest first half of the year gains since 2013. The index set 38 closing records, its most in the first half since 1986. The NASDAQ and Dow Jones indexes were equally attractive. In fact, global stock markets collectively produced their best opening half-year in many years. In the past 20 years, only 4 first half rallies were as widespread or better, than the current global advance. Strengthening corporate earnings, improving economies and continued low interest rate support from central bankers aided the market advance. Since 1950 (see chart pg. 3), when the first half performance was greater than 8%, the S&P second half performance added an average +7% (or median return of over +8%) compared to the average 2H historical performance being +4.5% (median of +4.9%). In a related way, it is interesting to observe that the S&P climbed in each of its first 6 months this year, a feat not accomplished in more than two decades; the last two times the S&P advanced in each month between January and June ('95 and '96) the index went onto gain at least another +12% in the second half. Of course, no one can predict that the 2nd half of 2017 will mirror these historical experiences, but precedent at least suggests that strength begets strength.

Interesting, despite no meaningful accomplishments on either reforming US health care or setting in motion other domestic pro-growth economic agenda, US business confidence is rising. This may be indicative that most feel the dual burdens of taxes and regulation at least won't get any more burdensome than at present (something that couldn't be easily said in recent years). This is not an endorsement of Trump because equally interesting is that those stock sectors enjoying the greatest "Trump Bump" from Election Day until year-end noticeably underperformed the broader market YTD, suggesting the market is of the perspective that the current President and Congress will be largely unsuccessful in accomplishing much of what they campaigned on.

Ellen Zentner (Morgan Stanley chief economist) wrote, "The expansion is aging gracefully, helped by little signs of overheating and a stronger backdrop. Tax reform is delayed but remains a firm promise. Financial conditions are easy, but a lack of inflationary pressures help keep the Fed on a gradual path."

Jeremy Grantham says, "higher valuations will persist: healthy profits, low rates and lack of euphoria suggest no bubble."

Robert Shiller, Nobel Prize winning economist says, "Stay in the stock market because it could go up +50% from here."

Investor skepticism – of the equity market's ability to continue to peck away at new highs – is mounting. Investors live in an ongoing Bull trend. While the advance may (should) continue to grind higher, there exists the susceptibility for, at least, a modest reversal from the recent highs. As we transition from a normal stronger first part of the calendar year to the seasonally weakest summer quarter, we should also be reminded that the final quarter is often among the strongest for the year.

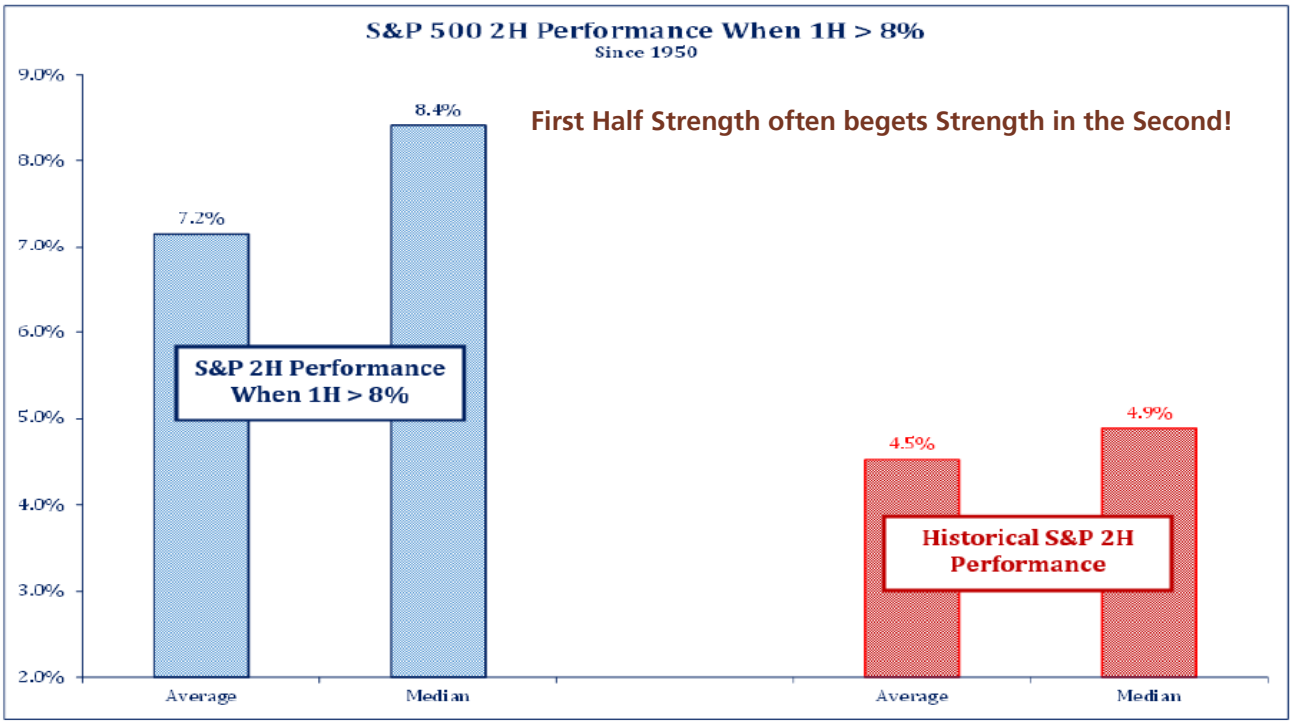
The strongest economic theme today, is "synchronized global expansion." In very many ways, investors should be aware of global economic headlines that characterize a synchronized expansion. Global expansion is most everywhere. Global short interest rates remain in record low territory (even despite talk of "synchronized global tightening" which is still off in the future). Additionally, inflation is MIA (missing in action), thanks to technology, globalization, and intense competition. There is not much inflation in prices (Amazon effect is everywhere) or wages; inflation is appearing in financial asset prices. Today, we enjoy much better economic conditions than 2009. Conditions appear to be approaching normal, which provides support for current market valuations and future market advances. The finish – it depends on where or when you start counting – from here, history predicts it should be good.

BENCHMARKING AS OF JUNE 30, 2017

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

Index Portfolio	Stock/Bond Allocation		Total Return Through 6/30/2017				
			2nd Qtr	YTD	12 Mths	3 Years	5 Years
Capital Preservation	0% / 100%	*Cumulative*	0.5%	1.1%	1.2%	3.0%	6.1%
		Annualized			1.2%	1.0%	1.2%
Income	20% / 80%	*Cumulative*	1.2%	3.0%	4.7%	5.9%	17.9%
		Annualized			4.7%	1.9%	3.3%
Balanced Conservative	35% / 65%	*Cumulative*	1.5%	3.9%	6.4%	7.4%	24.1%
		Annualized			6.4%	2.4%	4.4%
Balanced	50% / 50%	*Cumulative*	2.0%	5.2%	9.1%	9.8%	34.1%
		Annualized			9.1%	3.2%	6.0%
Balanced Growth	65% / 35%	*Cumulative*	2.6%	6.6%	11.7%	11.7%	43.8%
		Annualized			11.7%	3.8%	7.5%
Growth	80% / 20%	*Cumulative*	3.0%	7.9%	14.4%	14.2%	55.3%
		Annualized			14.4%	4.5%	9.2%
Aggressive Growth	95% / 5%	*Cumulative*	3.3%	8.8%	16.2%	15.5%	62.6%
		Annualized			16.2%	4.9%	10.2%

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, 3% Mid Cap, 2% Small Cap, 5% International; Balanced Conservative: 65% Bond, 15% Large Cap, 5% Mid Cap, 3% Small Cap, 7% International; Balanced: 50% Bond, 24% Large Cap, 7% Mid Cap, 4% Small Cap, 10% International; Balanced Growth: 35% Bond, 30% Large Cap, 9% Mid Cap, 6% Small Cap, 15% International; Growth: 20% Bond, 38% Large Cap, 12% Mid Cap, 8% Small Cap, 17% International; Aggressive Growth: 10% Bond, 40% Large Cap, 15% Mid Cap, 10% Small Cap, 20% International. You cannot invest in these indexes or averages and all above indexes/averages include a 5% allocation to the Treasury Bill Index, reflecting a nominal level of cash. The level of diversification represented by these benchmark averages may be 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, 2017

Bond Funds - Taxable	Style	2nd Qtr	YTD	12 Mths	3 Years	5 Years
Taxable Short-Term Bond Average		*0.6%*	*1.2%*	*1.2%*	*1.1%*	*1.3%*
Taxable Intermediate Bond Average		*1.5%*	*2.6%*	*1.0%*	*2.2%*	*2.5%*
Wells Fargo Ultra Short	AS	0.3%	0.7%	1.1%	0.7%	0.7%
AC Alternatives Market Neutral Value	AS	-1.7%	0.4%	0.3%	2.8%	2.9%
Vanguard Short Federal	HS	0.2%	0.6%	-0.2%	0.9%	0.8%
American Century Short Duration	HS	0.6%	1.1%	1.3%	1.4%	1.1%
Pioneer Short-Term Income	HS	0.5%	1.1%	1.8%	1.3%	1.7%
PIMCO Low Duration	HS	0.5%	1.0%	1.7%	1.0%	1.4%
Vanguard Short-Term Investment Grade	HS	0.7%	1.5%	1.2%	1.8%	2.1%
American Century GNMA Income	HI	0.4%	0.6%	-0.8%	1.4%	1.2%
Diamond Hill Corporate Credit	LI	2.2%	4.9%	10.5%	5.7%	5.8%
Miller Convertible	LI	1.2%	2.8%	9.0%	3.2%	8.1%
Bond Funds - Tax Exempt						
Tax-Free Intermediate Bond Average		*1.7%*	*3.0%*	*-0.8%*	*2.5%*	*2.5%*
Vanguard Muni Limited Term	HS	0.8%	1.9%	0.2%	1.2%	1.2%
T. Rowe Price Tax Free S/I	HS	0.9%	2.0%	0.1%	1.1%	1.2%
Vanguard Muni Intermediate Term	HI	1.8%	3.2%	-0.5%	2.9%	2.9%
Vanguard Ohio Long-Term	HL	2.3%	3.6%	-0.7%	4.2%	4.0%
Stock Funds - Domestic						
S&P 500 Index		*3.1%*	*9.3%*	*17.9%*	*9.6%*	*14.6%*
Equity Fund Average		2.7%	*7.7%*	*17.6%*	*6.1%*	*12.0%*
Schwab Large Cap Growth	LG	4.8%	13.8%	21.7%	10.4%	15.5%
Parnassus Endeavor	LG	5.7%	10.0%	31.0%	14.5%	19.1%
Sit Dividend Growth	LV	3.0%	8.4%	15.1%	8.2%	12.7%
Hennessy Focus	MG	3.1%	7.8%	13.8%	8.6%	14.4%
John Hancock Disciplined Value Mid-Cap	MV	1.9%	6.2%	18.4%	9.5%	16.5%
SPDR S&P600 Small Cap Growth	SG	2.1%	4.5%	22.8%	10.1%	15.4%
Neuberger & Berman Genesis	SB	2.1%	5.1%	17.5%	7.3%	12.6%
Diamond Hill Small-Cap	SV	0.9%	1.7%	13.4%	2.6%	12.1%
Wells Fargo Small-Cap Value	SV	2.0%	5.4%	23.8%	5.1%	9.8%
Stock Funds - International						
Morgan Stanley EAFE Index (Foreign)		*6.1%*	*13.8%*	*20.3%*	*1.2%*	*8.7%*
Oakmark International	LV	6.2%	16.2%	40.1%	3.7%	12.7%
John Hancock International Growth	LG	9.3%	21.1%	15.9%	6.0%	11.3%
Thornburg Developing World	LG	8.1%	17.1%	14.5%	-2.2%	5.0%
Harding Loevner International Small Company	SG	10.9%	21.2%	21.6%	4.0%	11.2%
Hennessy Japan	LB	7.9%	14.0%	16.6%	13.0%	14.9%
Stock Funds - Specialty						
Salient-Forward Select Income (REIT)	MV	1.0%	1.9%	6.3%	5.9%	8.3%
Neuberger Berman Real Estate Securities	MV	2.6%	6.0%	-0.4%	7.1%	7.6%

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PERSONAL FINANCE: BEWILDERED AT THE DOORSTEP

The artist Chester Harding visited the aged Daniel Boone in 1819 to paint the explorer's portrait. During their time together, Harding asked Boone if he was ever lost in the wilderness. "No, I was never lost," Boone replied, "but I was bewildered once for three days."

More than half of workers (56%) report that they and/or their spouse have not tried to calculate how much money they need to save by the time they retire, so that they can live a comfortable retirement.

How much savings, both personal and retirement money, does one need to save as they approach the doorstep of retirement? Related question; can I live in a similar way that I did during my working years? This question, or variations of it, is paramount to every client wherein we manage personal and retirement monies over many years. Did they save enough, and thereby not need to be too risk-taking with investing during retirement? At the doorstep to retirement, this upcoming life experience is most often scary and unknown, like being lost in the wilderness. Retirement life follows years of being a "person at work." Now, one transitions to living life from their "life effort compressed" – their savings or "money at work." This in itself is an adjustment for the most disciplined savers; they now transition to someone who is consuming savings which often feels quite uncomfortable initially.

There is generally little reason to be bewildered about the retirement years. Agreed, there are large unknowns – the number of years one will live during retirement; withdrawal of "money at work" for living expenses and ever changing (uncertain, rising) health care costs; possible desire to leave something to kids and grandkids, and even charity. Did you know the size of your accumulated personal and retirement savings is only part of the answer to these questions? The other key part of the equation is how you are living life, both during working years and during retirement. At retirement, most do not quickly change how they live life or spend money; they continue to live similar to how they did while they were a "person at work."

When one puts a pencil to paper, capturing how they live life – listing where money is spent during the typical month and year, then when wages from being a "person at work" are turned off in retirement and replaced by a pension or social security payment - one can quickly observe if their known sources of income match their "living life" expenses. Most often in retirement, fixed or known retirement sources of income are less than "living life" expenses. This shortfall must be covered by withdrawals from savings (personal and retirement IRAs). This is where "living life" analysis marries together accumulated savings with annual "living life" expenses. The resulting analysis provides financial peace of mind (most often) by evaporating the bewilderment about the retirement "wilderness."

"Living Life" financial analysis, as we call it, provides understanding to how long the savings will last. By dividing the annual shortfall (retirement income less living life expenses) into the total accumulated savings, one quickly determines an annual withdrawal rate. Using this withdrawal rate (say 4%) to divide it into 100 (100 is the percent (all) of the accumulated life savings one has to use over their remaining life), provides a rough number of years savings will last; 100 divided by 4 equals 25 years, assuming there are no investment returns (a very conservative assumption). In a similar way, if one retired with $500,000 in savings (personal and retirement monies) AND needed $20,000 per year ($1,666/month) to withdraw from the savings (because their fixed retirement income was short of "living life" expenses), then dividing $20,000 into $500,000 means the savings will last 25 years, without investment returns. If 65 years old at retirement, 25 years would mean one would be 90 years old when their saving runs out.

In general, one does not need a large total savings at retirement if their "living life" expenses are not too large. It is logical then that one will need a larger amount of total savings in retirement if their "living life" expenses are higher. If expenses are high and accumulated savings is small, then "living life" expenses must be altered, or bewilderment is likely. As a simple rule, if the annual withdrawal rate is 4% or lower, then most often one saved enough for their retirement years. Obviously, if the annual withdrawal rate is lower, say 3% or even 2%, then accumulated savings will endure longer (33 years, or 50 years, respectively with no investment returns – a conservative assumption) and/or enhancing the potential of leaving assets to a future generation or charitable pursuits. Retiring at earlier/younger ages naturally means one's target maximum withdrawal rate should be lower depending on the age of early retirement and how many years they hope to live off their accumulated assets. This same process can be used in the inverse, to guide one on how much to save (based upon lifestyle) and how much investment risk is appropriate. In general, this framework supports the old adage "save early and often" and invest appropriate for the years (time) of your life expectancy; also manage "living life" expenses or lifestyle. Nvest Wealth Strategies helps "*deliver financial peace of mind*" to clients via developing "living life" financial analysis. It is powerful, dynamic and driven by your life efforts. If we have not already worked with you to create this analysis, or it has been a while since we reviewed the inputs, we welcome the opportunity to develop or update the analysis with you; we believe the insight it provides is powerful!