

nvest nsights

September 30, 2007

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Delivering financial
peace of mind.

Happy 5th Birthday, Bull!

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

October 9th, 2007 represents five years since the current bull market began. It started after three agonizing years of despair and market decline. Happy Birthday, Bull!

Since October 9, 2002 the S&P 500 (then at 777) has advanced 97% to 1,527 (on September 29th). The NASDAQ has advanced 142%, from 1,114 to 2,702 (its peak is 5,049). These increases are significant and client portfolios invested during the last five years did not miss these happy returns.

Many market landscapes have changed over these past five years. When the S&P 500 peaked in March 2000, its P/E was 31 (Greenspan called it "irrational exuberance"). At the birth of the current bull market, the average P/E was 25. Today, the P/E is 18. Yes, stocks are up, but company earnings have advanced even more. All these earnings have piled up as cash reserves on company balance sheets. Some cash has been returned to stockholders in the form of dividends. The world is flush with cash and that has lifted the price of all investment types – stocks, bonds, commodities and even real estate. But stocks have advanced, in general, less than the growth of earnings. Thus stocks are cheaper today than five years ago.

Over the past few years too much cash raced into real estate where investment discipline grew lax. Our recent market worries are evidence of how "irrational exuberance" can rotate to different asset types. Financial crisis is not only useful, it is inevitable.

Another look back reveals a huge rotation by the market – from small-cap or value style stocks to large and growth; from domestic to foreign. A seven year performance advantage of value and small stocks has now rotated. During 2007, the rotation has become pronounced with large caps beating small by 5%, and growth outperforming value by a significant 13%.

Birthdays are worth celebrating; but they also require us to plan for tomorrow. As the famous physicist Neils Bohr said, "Prediction is very difficult, especially in the future." We are constantly required to make decisions in an uncertain world. So here's what we are doing.

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Haunted Houses

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

Pumpkins, frost, ghost stories and foliage change are seasonal trademarks of our final calendar-year quarter. They signify nature's shift from summer vibrancy to winter's dormancy.

These symbols of fall also speak to the spookiness in the financial markets during the third quarter. The housing market crunch, credit market turmoil and market volatility make investors feel they visited a "haunted house". It's hard to believe after all the spooky events of the third quarter, that it ended with a positive return. The S&P 500 gained 2%, and has climbed over 9% year-to-date.

Volatility has certainly spooked investors. During the 3Q, the S&P500 and Russell 2000 (small stocks) experienced 17 and 24 trading days, respectively where intraday price movements were 2% or greater. That represents 27% (S&P) and 38% (Russell) of all trading days during the quarter. In contrast, over the past 5 years of the current bull market, intraday moves of 2% or greater represented just 12% and 19% of all trading days, respectively. Add economic uncertainty and housing woes, and it's no wonder investors are spooked.

Investors should be reminded that October, colored by nature as one of the most beautiful times of the year, also marks a revitalization of the stock market's annual performance. Historically, the final calendar-year quarter is the strongest and best. Will it again be true in 2007? A short amount of time will surely tell.

Since 1960, the 4Q has finished in the black almost 80% of the time with the average return being over 4%. Final quarter rallies have been more robust when preceded by a weak economic backdrop. The current year appears to be an almost ideal case. Also, longer summer corrections typically are followed by stronger 4th quarter rallies.

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Happy 5th Birthday, Bull! (Continued from page 1)...

We have experienced a rotation, traumatic year especially during the third quarter. The key economic event of 3Q was the 50 basis point cut in the Fed Funds and Discount rates. The Federal Reserve moved from an immediate focus on inflation to being more concerned about economic growth. They, in essence, took out insurance against weaker economic outcomes.

We know the economy could fall into a recession. But it could also avoid a recession and surprise to the upside with the further aid of the Fed. A weaker US dollar stimulates our exports, and global growth (while slowing) is driven by emerging markets. Getting defensive could result in missing out on returns that could be captured during, potentially, a few more years of economic growth. We also know that historically, long-term investors are rewarded for staying invested.

We remain fully invested, but more broadly diversified than just 18 months ago. We are more risk averse, while still investing client portfolios to their long-term objectives. We expect a 6th birthday for the Bull; maybe even a few more. Many happy returns!!!

Haunted Houses (Continued from page 1)...

We don't utilize a crystal ball or other mystic Halloween devices to make predictions, however it is interesting to study history. History cannot predict what will happen either. Often, the 4th quarter experiences a return to risk-taking by investors, volatility generally abates, growth stocks rise faster than value, and technology often takes leadership.

Investing is not that easy though. Mature bull markets require investing with the best stock pickers utilizing proven investment processes. The indexes become more challenging to beat as a few big performers propel an index, but stall an active manager who fails to include them in his portfolio. Our client portfolio performances are market competitive, but not outperforming like the last several years. That's attributable to the rotational flow of the market – some money managers are providing exceptional performance while others are stalling. This is a typical late-market experience.

We are optimistic by positive return expectations for the final quarter of 2007. Despite a slowing economy and prospects for softer company earnings, valuations remain attractive and lots of cash (growing in excess of 10% per year) is moving into the markets. Client portfolios are broadly diversified (to reduce risk) utilizing active no-load mutual funds with historically strong performance records and sound investment processes. We believe the economic ingredients and tactical portfolio structures implemented in client portfolios will provide attractive returns as we conclude 2007, and continued growth into 2008.

Inside Nvest (Written by Steve Henderly)

We recently received what we thought was a neat suggestion to include some bits about what's been going on in our lives outside of the office. As such, we will begin to provide you with some periodic updates.

As many of you may be sitting down on the weekends to catch some football, in between the yard work and other activities that coincide with the onset of fall, we too have been watching some football of our own. Bill, who has officiated high school and college football games for many years, has been enjoying officiating various games throughout the state and once a week at Ohio State's practices. Additionally, Bill's youngest son and my brother, Todd, is in his Junior year at Olentangy Liberty and plays, among other positions, as its place kicker. He has been making his field goals and extra points on a regular basis.

Since passing Level II of the CFA exam this past June, I have filled my time by reviving my golf game and getting some much needed relief from studying. Relaxation however, has been limited as my fiancé, Sue and I have been busy making the necessary plans and arrangements for our wedding next August. I have quickly learned that planning a wedding is much work and that while my attendance at meetings with vendors is always requested, my opinions rarely get much consideration (which is perfectly fine). After all, the day is about the bride. As Bill spoke of fall signaling change, October marks the return of my studying for the final level of the CFA program, which I am enrolled to take next June. Otherwise, I (like many of you), have enjoyed spending Saturdays following my alma matter Ohio State as they continue to fight for the top rank in college football... Go Bucks!

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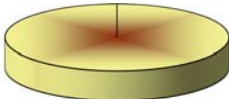
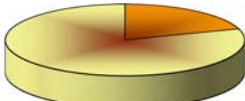
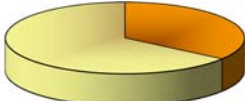
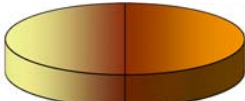
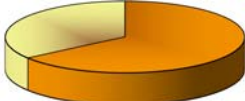

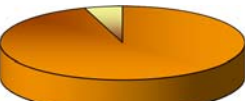
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BENCHMARKING AS OF September 28, 2007

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

INDEX PORTFOLIO	STOCK/BOND ALLOCATION		TOTAL RETURN THROUGH 9/28/07				
			3QTR	YTD	12 MTHS	3 YEARS	5 YEARS
 Capital Preservation	0% / 100%	<i>Cumulative</i> <i>Annualized</i>	1.5% N/A	3.2% N/A	4.4% 4.4%	9.3% 3.0%	15.2% 2.9%
 Income	20% / 80%	<i>Cumulative</i> <i>Annualized</i>	1.3% N/A	4.5% N/A	7.0% 7.0%	16.1% 5.1%	31.1% 5.6%
 Balanced Conservative	35% / 65%	<i>Cumulative</i> <i>Annualized</i>	1.0% N/A	5.4% N/A	8.9% 8.9%	21.8% 6.8%	44.6% 7.7%
 Balanced	50% / 50%	<i>Cumulative</i> <i>Annualized</i>	1.3% N/A	7.0% N/A	12.1% 12.1%	30.8% 9.4%	64.3% 10.4%
 Balanced Growth	65% / 35%	<i>Cumulative</i> <i>Annualized</i>	1.4% N/A	8.4% N/A	14.7% 14.7%	38.5% 11.5%	82.8% 12.8%
 Growth	80% / 20%	<i>Cumulative</i> <i>Annualized</i>	1.2% N/A	9.4% N/A	17.2% 17.2%	46.8% 13.7%	104.7% 15.4%
 Aggressive Growth	95% / 5%	<i>Cumulative</i> <i>Annualized</i>	0.7% N/A	9.8% N/A	18.2% 18.2%	51.2% 14.8%	118.3% 16.9%

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 September 28, 2007

BOND FUNDS - TAXABLE	STYLE	3RD QTR	YTD	12 MTHS	3 YEARS	5 YEARS
<i>Taxable Intermediate Bond Average</i>						
Wells Fargo Ultra Short	AS	0.3%	2.7%	4.2%	3.8%	3.2%
Vanguard Short Federal	HS	2.7%	4.6%	5.7%	3.6%	3.0%
PIMCO Low Duration	HS	3.7%	5.1%	5.9%	3.6%	3.6%
Vanguard Short-Term Investment Grade	HS	1.9%	4.0%	5.3%	3.9%	3.8%
American Century GNMA Income	HI	2.8%	3.3%	4.7%	3.7%	3.3%
Wells Fargo Government Securities	HI	3.1%	3.9%	4.9%	3.4%	3.3%
PIMCO Real Return	HI	4.8%	6.0%	4.4%	4.0%	5.5%
PIMCO Total Return	HI	4.6%	5.0%	5.9%	4.4%	5.0%
PIMCO Diversified Income	AI	2.0%	2.5%	5.6%	6.7%	N/A
Diamond Hill Strategic Income	AI	-2.4%	0.5%	4.3%	5.3%	9.0%
Neuberger & Berman Lehman Bros High Income	LI	0.4%	3.4%	7.4%	5.0%	7.2%
Victory Convertible Securities	LI	3.0%	9.9%	14.5%	8.9%	10.5%
BOND FUNDS - TAX EXEMPT						
<i>Tax-Free Intermediate Bond Average</i>						
Vanguard Muni Limited Term	HS	1.7%	2.8%	3.6%	2.5%	2.5%
T. Rowe Price Tax Free S/I	HS	2.0%	2.6%	3.3%	2.4%	2.4%
Vanguard Muni Intermediate Term	HI	1.7%	1.9%	3.0%	3.1%	3.3%
Vanguard Ohio Long-Term	HL	1.7%	1.7%	2.9%	3.4%	3.7%
STOCK FUNDS - DOMESTIC						
<i>S&P 500 Index</i>						
		2.0%	9.1%	16.4%	13.1%	15.5%
<i>Equity Fund Average</i>						
		-0.4%	8.8%	16.8%	13.8%	16.9%
Janus Advisor Risk Managed Growth	LG	3.3%	9.0%	14.9%	10.8%	N/A
Marsico 21st Century	LG	6.4%	18.7%	31.3%	21.4%	22.8%
Vanguard Index 500	LB	2.0%	9.1%	16.3%	13.0%	15.3%
TCW Galileo Dividend Focus	LV	-0.9%	8.4%	15.5%	13.5%	16.6%
Diamond Hill Long/Short	LV	2.5%	2.3%	11.4%	14.8%	17.6%
Munder Mid-Cap Growth	MG	3.2%	20.8%	28.4%	19.3%	21.1%
Columbia Mid-Cap Value	MV	-1.6%	11.0%	19.5%	19.0%	21.3%
Muhlenkamp	MV	-6.0%	-1.9%	6.8%	8.5%	16.9%
Weitz Value	MV	-7.7%	-4.0%	6.2%	7.3%	13.6%
Century Small-Cap Select (Closed)	SG	-2.8%	5.2%	11.1%	9.4%	16.2%
William Blair Small-Cap Growth (Closed)	SG	-2.2%	6.6%	14.0%	12.7%	22.8%
Neuberger & Berman Genesis (Closed)	SB	2.6%	16.6%	23.9%	16.8%	18.8%
Diamond Hill Small-Cap	SV	-5.3%	0.4%	9.1%	10.9%	20.5%
James Small-Cap	SV	-5.7%	-0.8%	2.9%	12.0%	18.9%
Wells Fargo Small-Cap Value (Closed)	SV	1.0%	15.2%	23.0%	18.7%	23.0%
STOCK FUNDS - INTERNATIONAL						
<i>Morgan Stanley EAFE Index (Foreign)</i>						
		2.2%	13.2%	24.9%	23.2%	23.6%
American Century International Discovery	MG	7.6%	26.0%	45.3%	34.9%	30.9%
Harbor International	LV	6.0%	20.5%	37.1%	29.3%	29.2%
Oakmark International (Closed)	LV	-3.5%	4.5%	14.5%	20.8%	22.8%
Tweedy Brown Global Value (Closed)	LV	-0.6%	10.0%	18.9%	17.9%	19.0%
William Blair International Growth	LG	6.7%	19.1%	32.7%	27.3%	25.6%
STOCK FUNDS - SPECIALTY						
PIMCO Commodity Real Return	LB	9.9%	13.2%	16.0%	8.9%	16.1%
Vanguard Special Health Care	LG	1.3%	7.0%	7.9%	13.8%	14.9%
JP Morgan US Real Estate	MV	1.5%	-5.9%	2.7%	20.2%	22.5%
Columbia Technology Z	MG	9.9%	23.7%	30.4%	23.8%	31.1%

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