

# nVEST nSIGHTS

September 30, 2008

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WEALTH STRATEGIES

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## LIONS, TIGERS & BEARS! OH MY!!

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

Confidence has been shaken to the core. Investors are overwhelmingly bearish and a deep gloom is pervading the markets. We have never been alarmists, but what happened in September was very disturbing, more so than October 1987 (market dropped 30% in two days). Government seizures of Fannie Mae and Freddie Mac; Lehman's bankruptcy; bailout of AIG; money market fund worries; and a deepening credit crisis led the Treasury to historic intervention. These are unprecedented times in global financial markets.

These events make the Wizard of Oz song about the woes of lions, tigers and bears seem like a lullaby with its cutesy "Oh My!" The financial dominoes fell rapidly and with greater magnitude in September as a toxic brew of 1) hundreds of billions of dollars of bad loans; 2) financial institutions' leverage (debt); and 3) highly complex securities that interlink many players together in the financial system created near panic. Confidence has eroded to exasperation. Ultimately, exasperation provides the seeds for a new powerful recovery of asset values.

We are optimistic the \$700 billion "asset purchase plan" (not bailout) will allow banks to sell bad loans, take their losses, and recapitalize. It is an important system-wide solution to allow banks to make new loans (to quality borrowers) and allow confidence to slowly return. Further, the Treasury will start to buy short term commercial paper issued by high quality companies to unfreeze the credit pipelines. The "asset purchase plan" and commercial paper investments are really part of a rescue plan for the US economy, businesses and its citizens (consumers).

The financial markets (stocks in particular have declined close to 30% since their peak last October) *will have asset value recovery*. By almost any barometer, now is not an appropriate time to sell. The timing for the start of a recovery of values is most difficult to forecast. We expect asset value recovery will occur gradually over coming months and the next couple of years. A recessionary economic environment will stabilize as home values bottom, and consumers/businesses resume buying that will encourage investors' attitudes to improve. Buying stocks is likely premature, but we should be thinking opportunistically. That brings to mind another Oz song, "Somewhere, over the rainbow, blue birds fly..." We will have "sunny days" again for stocks, bonds, and investors.

## FINANCIAL PEARL HARBOR

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

This is a big one! It is clearly the worst financial crisis of our generation. It has brought the biggest proactive policy response ever to curb its downward path.

But for all investors, the current events create a sinking, loss of control, disbelief feeling. We all feel like quitting. We project these events and feelings into the future that this one will be much worse than the Great Depression. It's easy to put your head in your hands and just wonder.

De-leveraging destroys capital indiscriminately. It widens risk spreads, or stated another way, when perceived risk rises, price drops and potential future long-term returns are increased. We should all understand that as perceived risk has increased, prices of risky bonds, real estate, stocks and commodities fall. Volatility has increased as confusion and lack of confidence abounds.

## CONTACT US:

2310 Home Road  
Delaware, Ohio 43015  
740.917.9234

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

(Financial Pearl Harbor - continued on page 2)

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## FINANCIAL PEARL HARBOR (Continued)

September and the resultant third quarter were horrible. It was an economic Pearl Harbor. The average domestic stock fund lost 10.4% during the quarter, while the S&P 500 sank 8.3% (see "Fund Performance", page 4). Additionally, the negativity of returns has been extremely wide. For the first nine months, both the average domestic stock fund and S&P 500 dropped over 19.3%. Foreign stocks tumbled in excess of 20% and almost 30% for the quarter and YTD, respectively. Performance in the bond market was all over the map. T-bills (cash) were the only sure hiding place (but on two occasions in September, 90-day T-bills were quoted with a 0% yield – meaning investors were willing to accept no return on their money in exchange for the assurance they would simply get it back). It has been a most difficult quarter and exasperating 2008. Aggressive client portfolios have declined in similar manner to the markets. Conservative objective client portfolios have declined but to lesser degrees because of lower stock allocations ("Benchmarking" on page 3 shows the doom of the third quarter, and melt down of longer term returns as well).

Gloom and doom gets pretty thick at the bottom. Pessimism prevails as markets form a bottom. During times of turmoil, all investors modify and shorten their time horizon. But it is at these points we must remember our portfolio's time horizon is really for the balance of our life expectancy.

As difficult as it is to believe, the best investment results earned during and following the Great Depression were earned not by people who sold and fled stocks for the safety of bonds and cash, but by those who stepped up and bought on the way down. Investors (like Warren Buffett) are successful because they remain long-term focused and buy when others flee. There is a better chance of making money now than ever before.

## FORWARD LOOKING

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

Investors are forward looking; at least they should be. We look forward with anticipation to asset value rebound and recovery. We do not however, believe there will be a quick jump in prices to initiate a new bull market. We may see several weeks or a couple of months of stock price recovery, but the economy will require re-building of its financial system to insure long-term economic recovery. That may take a couple of years. Asset values will recover, but over time.

In the short-term, we are cautious. All client portfolios are underweight equities (due to the melt down and because we still hold cash from last year-end's dividend distributions). In the short-term, pessimism will continue to battle feelings of optimism.

Pessimism is extreme at present. This sour mood stems from an outlook for a deepening global recession, rising unemployment, still declining home prices, declining stock prices, and a severe financial crisis.

While few are optimistic, there are many factors that should be observed. Those factors will ultimately shift investor sentiment. Extreme pessimism sows the seeds for a new optimism. Unprecedented policy responses around the world, lots of money on the sidelines, lower gas prices, attractively priced assets, and significant global slowdown in inflation will institute a new optimism over time.

We are starting to think opportunistically for the long term. We plan several adjustments that will tactically remix your portfolio in various ways (emphasize domestic over international, boost small and mid stock funds verses normal weights for large, and favor neutral exposure of value and growth styles). In coming weeks, we may start to make these small adjustments. They are akin to rearranging the chairs on the deck (not taking them off for storage in the closet). We have always invested in a planned way, first by helping clients set realistic long-term goals. We then invest conservatively and with discipline, not using the latest fads. We encourage you to spend within your means, and also SAVE. In essence, each of us should do things in our financial lives that are within our own power to control; not sweat the stuff we can't control (short-term performance). Following a long-term plan, even in the midst of the storm, is critical to reaching goals.

We encourage you to shift your shortening time horizon, burdened by gloom, to the upcoming new bull market. It is coming and we will see asset value recovery.

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**"Extreme pessimism sows the seeds for a new optimism... We are starting to think opportunistically for the long term."**

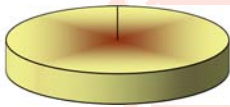

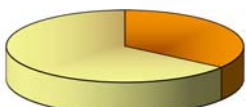
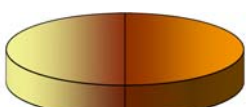
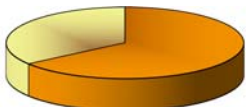
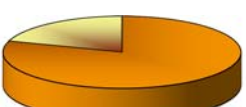

## CONTACT US:

2310 Home Road  
Delaware, Ohio 43015  
740.917.9234

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

# BENCHMARKING AS OF SEPTEMBER 30, 2008

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

INDEX PORTFOLIO	STOCK/BOND ALLOCATION		TOTAL RETURN THROUGH 9/30/08				
			3QTR	YTD	12 MTHS	3 YEARS	5 YEARS
 Capital Preservation	0% / 100%	<i>Cumulative</i> <i>Annualized</i>	-2.3%	-2.6%	-1.5% -1.5%	6.0% 2.0%	8.9% 1.7%
 Income	20% / 80%	<i>Cumulative</i> <i>Annualized</i>	-3.9%	-6.1%	-5.9% -5.9%	4.0% 1.3%	12.8% 2.4%
 Balanced Conservative	35% / 65%	<i>Cumulative</i> <i>Annualized</i>	-5.1%	-8.5%	-8.8% -8.8%	3.0% 1.0%	17.0% 3.2%
 Balanced	50% / 50%	<i>Cumulative</i> <i>Annualized</i>	-7.2%	-11.8%	-12.5% -12.5%	2.6% 0.8%	23.0% 4.2%
 Balanced Growth	65% / 35%	<i>Cumulative</i> <i>Annualized</i>	-8.8%	-14.7%	-15.9% -15.9%	1.8% 0.6%	27.8% 5.0%
 Growth	80% / 20%	<i>Cumulative</i> <i>Annualized</i>	-10.2%	-17.4%	-19.3% -19.3%	1.0% 0.3%	33.7% 6.0%
 Aggressive Growth	95% / 5%	<i>Cumulative</i> <i>Annualized</i>	-10.8%	-18.9%	-21.3% -21.3%	0.3% 0.1%	37.3% 6.6%

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 30, 2008

BOND FUNDS - TAXABLE	STYLE	3RD QTR	YTD	12 MTHS	3 YEARS	5 YEARS
<b>Taxable Intermediate Bond Average</b>						
Wells Fargo Ultra Short	AS	-1.5%	-2.3%	-1.8%	2.1%	2.3%
Vanguard Short Federal	HS	1.0%	3.0%	5.8%	5.2%	3.6%
PIMCO Low Duration	HS	-3.8%	-2.8%	-0.1%	3.1%	2.6%
Vanguard Short-Term Investment Grade	HS	-3.4%	-2.4%	-0.7%	3.0%	2.6%
American Century GNMA Income	HI	1.6%	3.2%	6.3%	4.9%	4.0%
Wells Fargo Government Securities	HI	1.4%	3.0%	6.0%	4.6%	3.7%
PIMCO Real Return	HI	-5.8%	-1.4%	3.8%	3.3%	4.7%
PIMCO Total Return	HI	-2.1%	-0.1%	3.8%	4.4%	4.3%
PIMCO Diversified Income	AI	-6.4%	-7.4%	-6.0%	1.6%	4.6%
Diamond Hill Strategic Income	AI	-12.3%	-13.8%	-18.3%	3.5%	0.9%
Neuberger & Berman Lehman Bros High Income	LI	-6.2%	-6.9%	-8.5%	0.9%	3.0%
Victory Convertible Securities	LI	-19.0%	-20.7%	-22.9%	-2.3%	1.7%
<b>BOND FUNDS - TAX EXEMPT</b>						
<b>Tax-Free Intermediate Bond Average</b>						
Vanguard Muni Limited Term	HS	0.2%	1.4%	2.9%	3.1%	2.4%
T. Rowe Price Tax Free S/I	HS	0.1%	1.4%	2.6%	2.9%	2.3%
Vanguard Muni Intermediate Term	HI	-2.2%	-1.8%	-0.3%	2.2%	2.5%
Vanguard Ohio Long-Term	HL	-3.1%	-3.0%	-1.5%	1.9%	2.6%
<b>STOCK FUNDS - DOMESTIC</b>						
<b>S&amp;P 500 Index</b>						
<b>Equity Fund Average</b>						
Janus Advisor Risk Managed Growth	LG	-13.5%	-23.5%	-22.6%	-2.2%	3.6%
Marsico 21st Century	LG	-11.4%	-26.2%	-25.8%	3.9%	9.1%
Vanguard Index 500	LB	-8.4%	-19.3%	-22.0%	0.1%	5.1%
TCW Galileo Dividend Focus	LV	-8.0%	-23.3%	-28.1%	-2.6%	5.1%
Diamond Hill Long/Short	LV	-7.4%	-9.6%	-8.8%	4.0%	11.3%
Munder Mid-Cap Growth	MG	-16.1%	-24.5%	-24.6%	0.7%	9.5%
Columbia Mid-Cap Value	MV	-8.5%	-19.0%	-21.5%	1.6%	10.5%
Muhlenkamp	MV	-9.7%	-23.7%	-29.7%	-10.3%	2.3%
Weitz Value	MV	-2.9%	-21.3%	-26.5%	-4.0%	1.5%
Century Small-Cap Select (Closed)	SG	-8.6%	-17.5%	-19.6%	-2.8%	4.1%
William Blair Small-Cap Growth	SG	-9.3%	-24.2%	-30.4%	-5.9%	4.7%
Neuberger & Berman Genesis (Closed)	SB	-12.1%	-8.6%	-4.4%	5.9%	13.3%
Diamond Hill Small-Cap	SV	-3.6%	-4.9%	-8.9%	0.0%	10.5%
James Small-Cap	SV	-11.6%	-18.8%	-23.1%	-5.4%	6.5%
Wells Fargo Small-Cap Value (Closed)	SV	-17.0%	-17.9%	-21.3%	0.8%	11.3%
<b>STOCK FUNDS - INTERNATIONAL</b>						
<b>Morgan Stanley EAFE Index (Foreign)</b>						
American Century International Discovery	MG	-29.3%	-35.5%	-36.3%	5.1%	13.1%
Harbor International	LV	-20.9%	-26.7%	-25.9%	7.8%	14.7%
Oakmark International (Closed)	LV	-7.4%	-25.0%	-28.6%	0.0%	8.9%
Tweedy Brown Global Value	LV	-10.1%	-24.7%	-26.4%	-0.1%	8.2%
William Blair International Growth	LG	-26.6%	-35.1%	-35.6%	0.3%	9.3%
<b>STOCK FUNDS - SPECIALTY</b>						
PIMCO Commodity Real Return	LB	-32.6%	-11.9%	-3.7%	0.5%	10.8%
Vanguard Special Health Care	LG	-1.0%	-10.2%	-12.3%	2.3%	8.0%
JP Morgan US Real Estate	MV	1.9%	-0.4%	-12.9%	5.5%	14.0%
Columbia Technology Z	MG	-17.1%	-31.4%	-31.5%	-0.3%	8.9%

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

WHO DO YOU CALL WITH QUESTIONS???

RE: Schwab or NWS Statements: Steve  
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RE: Current Disclosure Form ADV Part II: Steve

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