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SEPTEMBER 30, 2011 **POLITICAL WARFARE**

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

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Economic and financial market prospects are totally dependent upon political outcome. Coca-Cola's CEO said "The US is becoming a less friendly business environment than China, and US tax burdens and political polarization are creating uncertainty for business." And, we would add, continued uncertainty for its citizens (consumers), investors, and the world in general. It's hard to believe we (US Government) can be doing this to ourselves. But, it appears political warfare will continue through 2012.

Political obstinacy elevated its ugly head in late July with the American debt ceiling process. And, the world's risk-free asset rating was downgraded at the same time Europe's sovereign debt and bank crisis turned chaotic. In essence, regulatory hyperactivity and political divisiveness on both sides of the Atlantic keep business, consumers, and investors on edge (paralyzed). Until greater clarity is achieved regarding basic existential issues (of the European and US financial systems), it appears investors are content to suffer the potential of negative real returns from bonds and money market funds (low interest rates minus inflation and/or taxes = negative real returns) rather than the potential of large absolute losses in risky assets (stocks, commodities, real estate).

The third quarter was the worst since the 3-months ending February 2009 when the stock market hit its bottom following the Lehman Brothers collapse and credit market seizure. August and September were awful months this year that erased first quarter gains. The S&P 500 lost over 7% in September, almost 14% during the quarter, and is off 9% for the year-to-date. The five months ending with September mark the longest consecutive string of negative monthly returns since 2007 (November – March 2008), 1990 (June – October), and 1981 (six months, April – September). In 1974 (oil issues) the S&P endured 9 consecutive monthly negative returns (11 out of 12 months that year were negative). At September 30, the current correction (since April 29) is not yet deemed a bear market (-20%). Smaller stocks are at bear market territory, and foreign stocks are in bear market territory. Such conditions cause investors to feel helpless – it's a bad or cruel practical joke; or, that investing for the future is rigged. **<continued on page 2>**

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TIME TO CHICKEN OUT?

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

Volatility can make any investor uneasy. It's of particular concern to retirees who depend on their portfolios to fund living expenses. It is unnerving to those on the doorsteps of retirement following many years of working, saving, and the negative experiences of frequent market drawdowns over the past 10 years. Market action of recent months pushes most any investor to consider if it is time to chicken out. Such emotional thinking must be acknowledged, but investors must step away from themselves - focusing on what can be controlled to allow one to sidestep emotional and cognitive mistakes.

Emotion is heightened during times of keen uncertainty, often resulting in fear. Frustration with the Euro and US political processes create the ultimate in uncertainty. Because of these uncertain issues and keen concern for client emotional positions, we took action to lessen portfolio drawdown and risk, and increased cash/money market funds. We have a grand plan to reinvest, but do not have a specific timeline for deploying the cash back into stock investments. Let's review several key thoughts to manage emotions.

First, it is always helpful to recall your financial planning "budget" that reflects withdrawal rates and required return goals. This exercise validates long-term goals for return and related risk. Second, it guides you and us to an appropriate asset (stocks/bonds/cash) allocation strategy. We carefully manage to this objective via 3 "buckets" (assets) of time. In early August, we reduced stock exposures and boosted cash. Thus, client portfolios have large amounts of money market funds (an ultra-conservative bucket, currently in excess of 20% in client portfolios), full allocation of bonds (conservative bucket), and reduced stock exposure (growth bucket). Large money market balances often represent several years of "spending" money; thus, clients should be able to weather this political storm without irrational stock liquidation.

Third, we have the burden of when to re-acquire risk – repurchase appropriate stock allocation exposure. This is not your burden to determine the timing to reinvest; we monitor markets and current issues closely and will determine the future timing for reinvestment. We believe the political policy risk is high and uncertain, and additional time is needed to resolve big issues. Bank and financial sector stocks are a key barometer that offers insight into resolution of European sovereign issues. US political inaction on fiscal issues, regulations, and taxes are additional huge items that erode public confidence. In the short-term, the economic outlook should remain soft/muted with high unemployment levels. At the moment, these concerns erase confidence to invest in any asset with risk. **<continued on page 2>**

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INVEST INSIGHTS

“A sustainable bull market cannot materialize if the world and domestic bank systems lack confidence; when banks act better, the markets will also.”

“We are poised to reinvest at an unspecified future date. We have little doubt that stocks will increasingly be viewed as the only way to quench the thirst for yield.”

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WEALTH STRATEGIES

“During periods of high market stress, it is most appropriate to review financial goals, return objectives and risk tolerances.”

ANNOUNCEMENTS:

- Early October - 4Q 2011 Fees
- **November 17 - Talk Strategy and Behavioral Finance presentation (further details coming soon)**
- November 24 - Thanksgiving Day: banks & markets closed
- Early December - Client Appreciation Event: Columbus Zoo Wildlights
- December 26 - Christmas Day (observed); banks & markets closed
- December 31 - End of 4th Quarter; reports sent early January
- **REMINDER: Our new ADV Part 2A & B as required by the SEC is available to you anytime upon request.**

POLITICAL WARFARE (continued from page 1)

It seems surreal to expect a “white-knight” policy response will resolve disjointed European policy and US political ineptness; or create new political collaborative effort. Yet, there is a point where all pressure appears worse (where market vigilantes keep attacking asset values until politicians get it right). Like the only outcome remaining is a “nuclear” explosion and destruction if agreement is not reached. Last minute deals that avoid or delay economic collapse occur at the point where system-wide capitulation convinces politicians that their options are limited. Until that point, the markets and their participants need to endure increased volatility with nerves of steel. We won’t see better long-term market days until politicians determine all will be lost if something constructive is not agreed upon; and not a moment sooner. Thus, the path to a positive outcome could involve more short-term pain in the markets first.

We are cautious as we manage and invest client investment portfolios. We are guarding against prolonged political mistakes. We expect headwinds to continue. Trends are weak and leadership is weak. It is never fun articulating a bearish message; we try to be a “half-glass full” kind of person/firm. But, for the time being, we continue to create a defensive portfolio allocation (holding too much cash/money market funds compared to client objectives). This is not a “rising tide” type of market at the moment. More portfolio tactical positioning detail is provided in “Time to Chicken Out.”

We are poised to reinvest at an unspecified future date. We have little doubt that stocks will increasingly be viewed as the only way to quench the thirst for yield. The Federal Reserve’s “Operation Twist” is designed to push investors back into risk. As the Fed sells its no-yielding short money market investments and purchases 6 to 30 year bonds, its action will drive already low long-rates even lower pushing investors to acquire risk. Of course risk-averse investors will not acquire risk (stocks, commodities, real estate) until they have improved expectations for government fiscal policy (reduced deficits/debt via reduced spending, easier tax structure for individuals and businesses, and less regulations) in the US, and a Euro bond issuance to cure European financing and bank capitalization problems (individual sovereign banks own various country sovereign bonds many with poor credit quality; a Euro bond would equate to US banks owning US government bonds instead of only state issued bonds; thereby providing financial stability to Europe’s banks). The Fed will utilize unconventional policy actions (Operation Twist, QE, and communication strategies) in lieu of traditional policy actions such as rate cuts of the past. The Fed recognizes its traditional transmission strategies of monetary policy are impaired, and they remain in an easing mode while government fiscal policy is inept, inadequate, and hostage to politics.

We are monitoring the financial markets carefully. They need an improving resolution to Europe and US political strife. We are looking for early tone improvement via the monitor/behavior of copper (basic industrial metal used in all manufacturing, etc), and bank stocks. A sustainable bull market cannot materialize if the world and domestic bank systems lack confidence; when banks act better, the overall markets will also. Stocks with dividends will likely replace bonds as the investment of choice, as their yields today often exceed corporate bonds and 10-year Treasury bonds. The S&P 500 earnings yield (less the 10-year Treasury yield) is almost 600 basis points, its highest spread since 1974. The earnings yield is 250 basis points higher than Baa corporate bonds. Stocks really do appear the most attractive asset class relative to other traditional investment alternatives.

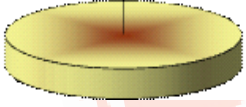

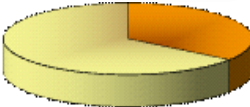
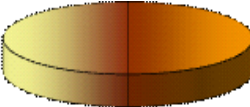
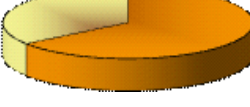
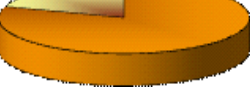

TIME TO CHICKEN OUT? (continued from page 1)

Our tactical portfolio mix is trimmed down and ready for implementation. Its focus is on high-quality stock funds with historically strong performance, particularly attractive up-market capture ratios and equal or lower down-market capture ratios. In essence, this means less volatility. We eliminated several fund names during the third quarter: Marsico 21st Century; TCW Dividend Focus; Columbia Mid-Cap Value, William Blair Small-Cap Growth; William Blair International Growth; Diamond Hill Long/Short; American Century International Discovery; and John Hancock Large-Cap Equity. Already partially installed funds include: Wells Fargo Advantage Growth; Sit Dividend Growth; Calamos International Growth; and Harding Loevner International Small Company. Several other trades are ready to go, including another new fund - John Hancock Disciplined Value Mid-Cap. Overall, the funds utilized have high ratings by Morningstar, increased dividend exposure, and attractive return/risk profiles. When implemented, each portfolio will hold fewer fund names. Further, we believe these fund changes efficiently position portfolios for a slow growth economic outlook - placing emphasis on quality, growth and importance of dividends. We always advocate diversification, and utilize thoughtful tactical strategy allocations that place portfolios in front of anticipated market momentum.

We remain cautious near-term (time is difficult to define) to protect client portfolios. However, it is important to understand that stocks are very attractive relative to bonds and offer superior return opportunity over the long term. We expect attractive upside opportunities exist for patient investors who don’t “chicken out”, and are disciplined to sidestep emotional and cognitive mistakes often pursued in volatile uncertain market environments. During periods of high market stress, it is most appropriate to review financial goals, return objectives and risk tolerances. This exercise will assist in avoiding alterations to investment objectives based upon emotions (fear).

BENCHMARKING AS OF SEPTEMBER 30, 2011

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

INDEX PORTFOLIO	STOCK/BOND ALLOCATION		TOTAL RETURN THROUGH 9/30/11					
			3RD QTR	YTD	12 MTHS	3 YEARS	5 YEARS	
	Capital Preservation	0% / 100%	<i>Cumulative</i>	-0.4%	0.9%	0.8%	12.7%	17.8%
			<i>Annualized</i>			0.8%	4.1%	3.3%
	Income	20% / 80%	<i>Cumulative</i>	-4.1%	-1.9%	-0.1%	11.7%	13.4%
			<i>Annualized</i>			-0.1%	3.8%	2.6%
	Balanced Conservative	35% / 65%	<i>Cumulative</i>	-6.9%	-4.4%	-1.2%	9.7%	9.0%
			<i>Annualized</i>			-1.2%	3.1%	1.7%
	Balanced	50% / 50%	<i>Cumulative</i>	-9.6%	-6.6%	-2.0%	7.8%	4.8%
			<i>Annualized</i>			-2.0%	2.5%	0.9%
	Balanced Growth	65% / 35%	<i>Cumulative</i>	-12.6%	-9.0%	-2.9%	6.0%	1.0%
			<i>Annualized</i>			-2.9%	2.0%	0.2%
	Growth	80% / 20%	<i>Cumulative</i>	-15.5%	-11.5%	-3.9%	4.2%	-2.8%
			<i>Annualized</i>			-3.9%	1.4%	-0.6%
	Aggressive Growth	95% / 5%	<i>Cumulative</i>	-17.3%	-13.0%	-4.7%	2.6%	-5.8%
			<i>Annualized</i>			-4.7%	0.9%	-1.2%

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 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, 2011

BOND FUNDS - TAXABLE	STYLE	3RD QTR	YTD	12 MTHS	3 YEARS	5 YEARS
BOND FUNDS - TAXABLE						
<i>Taxable Intermediate Bond Average</i>		-0.5%	2.6%	2.7%	7.7%	5.1%
Wells Fargo Ultra Short	AS	-0.4%	0.3%	0.7%	2.5%	1.9%
Vanguard Short Federal	HS	1.1%	2.4%	1.8%	4.1%	4.8%
American Century Short Duration	HS	0.2%	1.4%	1.3%	4.0%	N/A
PIMCO Low Duration	HS	-1.6%	0.6%	0.8%	6.7%	5.2%
Vanguard Short-Term Investment Grade	HS	-0.2%	1.5%	1.4%	5.9%	4.5%
American Century GNMA Income	HI	2.7%	6.0%	6.2%	7.3%	6.6%
Wells Fargo Government Securities	HI	4.0%	6.3%	4.9%	6.6%	6.2%
PIMCO Real Return	HI	9.2%	16.8%	14.0%	14.1%	9.1%
PIMCO Total Return	HI	-1.1%	1.9%	1.0%	9.9%	7.8%
PIMCO Diversified Income	AI	-3.6%	0.4%	0.4%	12.2%	7.0%
Artio Global High Income	LI	-9.3%	-4.7%	-2.1%	10.2%	6.4%
Calamos Convertible Securities	LI	-10.4%	-7.4%	-2.0%	6.5%	3.1%
Miller Convertible	LI	-11.8%	-8.6%	-2.8%	23.0%	N/A
BOND FUNDS - TAX EXEMPT						
<i>Tax-Free Intermediate Bond Average</i>		2.4%	6.3%	2.8%	6.5%	4.2%
Vanguard Muni Limited Term	HS	1.0%	2.9%	2.0%	4.0%	3.7%
T. Rowe Price Tax Free S/I	HS	1.1%	3.5%	2.3%	4.8%	4.1%
Vanguard Muni Intermediate Term	HI	3.1%	7.2%	3.4%	7.1%	4.7%
Vanguard Ohio Long-Term	HL	3.8%	7.9%	3.3%	7.4%	4.6%
STOCK FUNDS - DOMESTIC						
<i>S&P 500 Index</i>		-13.9%	-8.7%	1.1%	1.2%	-1.2%
<i>Equity Fund Average</i>		-17.4%	-12.3%	-1.6%	1.3%	-0.8%
Wells Fargo Advantage Growth	LG	-14.1%	-1.5%	11.8%	12.5%	8.5%
Marsico 21st Century	LG	-21.3%	-20.3%	-8.2%	-4.0%	-2.9%
John Hancock Large Cap Equity	LB	-18.9%	-18.0%	-9.3%	-1.5%	3.2%
Vanguard Index 500	LB	-13.9%	-8.8%	1.0%	1.2%	-1.3%
Sit Dividend Growth	LV	-14.2%	-8.3%	1.4%	2.7%	2.4%
TCW Dividend Focus	LV	-18.5%	-13.7%	-1.8%	-0.1%	-3.8%
Diamond Hill Long/Short	LV	-9.6%	-6.5%	-2.0%	-2.4%	-1.2%
Munder Mid-Cap Growth	MG	-18.1%	-10.6%	1.4%	3.5%	1.4%
Columbia Mid-Cap Value	MV	-21.0%	-15.4%	-3.1%	-0.1%	-1.3%
John Hancock Disciplined Value Mid-Cap	MV	-19.6%	-11.9%	0.9%	19.0%	19.7%
Century Small-Cap Select	SG	-22.6%	-12.1%	2.1%	3.1%	-0.4%
William Blair Small-Cap Growth	SG	-23.5%	-22.4%	-11.2%	2.6%	-2.9%
Neuberger & Berman Genesis	SB	-15.1%	-7.2%	5.9%	1.5%	4.4%
Diamond Hill Small-Cap	SV	-18.9%	-15.8%	-6.1%	1.3%	0.7%
Wells Fargo Small-Cap Value	SV	-17.6%	-18.0%	-9.6%	3.8%	1.6%
STOCK FUNDS - INTERNATIONAL						
<i>Morgan Stanley EAFE Index (Foreign)</i>		-19.9%	-17.2%	-10.5%	0.3%	-1.9%
Harbor International	LV	-22.8%	-17.2%	-10.2%	0.2%	0.4%
Oakmark International	LV	-20.4%	-16.9%	-10.5%	5.9%	-0.6%
Allianz NFJ International Value	LV	-19.9%	-16.8%	-10.9%	-1.3%	0.5%
Calamos International Growth	LG	-16.0%	-9.9%	-2.2%	7.9%	4.1%
William Blair International Growth	LG	-20.0%	-18.4%	-12.4%	0.8%	-2.6%
Oppenheimer Developing Markets	LG	-20.1%	-21.2%	-14.0%	9.4%	8.2%
American Century International Discovery	LG	-25.3%	-22.3%	-13.0%	-2.0%	-2.7%
Harding Loevner International Small Company	SG	-18.4%	-12.9%	-4.0%	37.2%	N/A
STOCK FUNDS - SPECIALTY						
PIMCO Commodity Real Return	LB	-11.2%	-9.6%	4.4%	0.3%	2.5%
Princeton Managed Futures	LB	0.1%	-4.1%	0.3%	N/A	N/A
Vanguard Special Health Care	LG	-9.3%	4.5%	8.9%	6.8%	2.9%
JP Morgan US Real Estate	MV	-15.1%	-7.3%	-0.2%	-3.0%	-4.0%

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WHO DO YOU CALL WITH QUESTIONS???

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