nVEST nSIGHTS

SEPTEMBER 30, 2017

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Delivering financial peace of mind.

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COMFORTABLE WITH UNCOMFORTABLE

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

Learning to be comfortable while being uncomfortable is something that we must strive to do. Most of us struggle to tolerate being uncomfortable for short amounts of time. We learn to find relief in various ways, like an ostrich "burying its head in the sand" hoping to withdraw. Or we try to find positive actions to pursue that allow us to deal with discomfort – like writing about it, walking or exercising, seeking help from a trusted friend, and/or praying for guidance/direction/comfort.

How do you feel about these uncomfortable current event topics: North Korea; Charlottesville; hurricanes – Harvey, Irma, and Maria; Las Vegas tragedy; or Washington's political swamp and polarizing tweets? Despite the many topics to make investors uncomfortable – scary and sad – the 3rd quarter provides an example of how learning to be comfortable with being uncomfortable can be the best approach.

The S&P500 rose +4% during the quarter, recording its 8th quarterly advance. Amazing too, was the average daily movement during the quarter was minimal at about 0.3%, its lowest since 1968. The stock market achieved 17 new closing highs during 3Q, with 10 occurring during the 20 trading days of September. During the first 9 months of 2017 the S&P500 index recorded 41 new closing highs while appreciating over +14%. The current bull market is now 102 months old (8.5 years), and appears likely to continue its pursuit of matching the 10-year bull market run of the 1990s. Important too, when September is positive, the 4th quarter usually provides further positive returns (80% of the time looking at historical data since 1950).

Client portfolios are succeeding in like fashion. Portfolios of all objectives enjoyed achieving new highs with the market movements. After all, each portfolio is a function of the markets, advancing in relation to how much stock market exposure is pursued based upon the chosen client investment objective. And, the tactical stock and bond allocations we are pursuing on behalf of clients are working well – owning corporate bonds and related are providing positive yield spread to base-Treasury returns; owning a diversified style and size exposure of stocks that emphasizes large and foreign is contributing nicely for YTD.

Why the success in the financial markets during continuing times of uncomfortable current events? The underlying economic environment is reacting to a "synchronized global economic breakout." This summer marks the end of a decade after the financial crisis started - in the summer of 2007 - and it may be that the global economic landscape is entering a "synchronized breakout year." In their book "This Time is Different" by Carmen Reinhart (University of Maryland) and Kenneth Rogoff (Harvard University), they provide a historical map of financial crises from 1810 to 2010 for 66 countries representing 90% of world GDP. Reinhart/Rogoff's work indicates that after a financial crisis, it takes a decade to get back to "normal". Hey, we're there!

The US economy experienced subpar growth for 10 years, with a lot of global monetary stimulus provided by central bankers to keep the economy slowly moving along. Now, global economic stats show a synchronized global breakout, and stocks (being a leading economic indicator) are reflecting it with their performance. The defining investment theme for investors over the next few years will be an end to financial repression (zero and/or low interest rates to boost economic growth) engineered by global central bankers since the great financial crisis (2007-2008). Moving forward, a greater influence on economic growth will occur from government fiscal, regulatory and trade policies, which will start the "clock" running on the real business cycle. Fiscal policies will lead to greater variations in the cost of capital. Said differently, as interest rates rise, higher rates should adversely impact high debt companies and it should begin to preclude "anyone who could fog a mirror" over the last 10 years from continued access to "cheap", low-interest money.

The Fed's unwinding of QE events and accommodative monetary policies, utilized since late 2008 at the depth of the financial crisis, will be pursued with great care – they want the process to be as boring as possible. It will start slowly with the Fed shrinking its $4.2 trillion portfolio of mortgages and Treasury bonds; allowing some to mature without replacing them. As the Fed progresses, it hopes to quietly close a chapter of extraordinary policy that lowered interest rates to near zero for homeowners, businesses, and consumers. As they wind-down past stimulative efforts, the Fed does not want to disrupt economic growth. They hope the process will be as boring as watching paint dry. Other global central bankers may start to unwind QE in 2018 with care, as well. Inflation expectations will be a key ingredient to monitor, as it greatly influences interest rate policy.

While US stocks may not be cheap relative to either history or other foreign markets, an acceleration in both economic growth and corporate profits, coupled with currently well-anchored inflation expectations and low long-term interest rates, should allow market valuations to remain elevated. All these thoughts suggest the current bull market may get older yet. The conclusion of financial repression changes the investment >>

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landscape and means watching inflation expectations and interest rate policy changes by central bankers is important. It means being watchful of the underlying economic developments and growth of company earnings. It may mean that active investment strategies find benefits over passive (own everything) strategies, as investors differentiate between well managed and highly-leveraged companies. It means long-term investors should be rewarded for remaining "time in the markets" (not timing). It also means continuing to learn how to be comfortable with being uncomfortable – that means disciplined.

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HUMPTY DUMPTY

All readers recall a best known English nursery rhyme, personified as an egg sitting on a stone wall. "Humpty Dumpty sat on a wall; Humpty Dumpty had a big fall. All the king's horses and all the king's men; couldn't put Humpty together again." The rhyme does not explicitly state the subject is an egg, possibly because it was originally posed as a riddle. Humpty Dumpty remains, however, a highly popular nursery rhyme character.

Now, let's turn this Humpty Dumpty character into market commentary, or outlook. This ought to be good?!!

What could alter the current bull market run? What could disrupt a "synchronized global economic breakout?" What could make our comfort with the uncomfortable, become uncomfortable? What could make Humpty Dumpty fall off the wall? Answer – 1) a rapid rise in inflation expectations; or 2) a significant policy error of some sort; or 3) an exogenous (coming from outside the market) event. Any of these could trigger a recession that brings about an end to the current bull market.

nvest
WEALTH STRATEGIES

As discussed in our other commentary article, we anticipate the current economic stats (fundamentals) are reflecting a "synchronized global economic breakout" is occurring. Stocks are leading indicators pointing the way. Yet, with near-full employment in the US and several other developed countries, employee wages should start to rise. Historically wages rise when employment is high (unemployment rates are low) because employers try to retain workers and higher wages are demanded for those moving jobs; that puts pressure on companies to grow earnings as labor costs rise. With full employment, consumers are buying more products and demand starts putting pressure on product supply prices, creating inflation. One reason for low current inflation is low interest rates. And one current theory for the lack of rising inflation when near full employment is that low interest rates and accommodative QE money policies put too much money into the financial system which is being used in mergers/acquisitions of smaller companies to grow earnings. A merger usually results in some downsizing of duplicate employee activities, and downsizing is keeping a lid on wage increases. We expect a synchronized global economic breakout environment to provide more time for the current bull market run.

"we anticipate the current economic stats are reflecting a 'synchronized global economic breakout' is occurring. Stocks are leading indicators pointing the way."

But… if the Fed or other central bankers were to anticipate inflation expectations to rise quickly, if they were to run-off QE maturities too abruptly (not boringly slow), or raise interest rates too quickly, these policy changes could quickly slow economic growth and bring an end to the bull market. If government fiscal policies (like raising taxes instead of tax relief), regulations (like increased bank control limiting lending activities), trade policies became restrictive, and/or government becomes further dysfunctional, these actions could slow economic growth. Exogenous events are more challenging to consider their source. Could it be a North Korea world war event? Could it be incorrectly appointed/approved Fed bankers desiring to end QE policies too quickly? IF we avoid a recession over the next four years, then 1 out of 10 American households will be worth at least $1 million (not including primary residences) in 2020.

Did you know, since 2014 the US stock market weathered 6 Fed "tightening events?" After each, the S&P500 moved higher, with the index now up almost +700 points from the first. The Fed will start its balance sheet roll off in October (this month) – another tightening event. And odds of a December interest rate hike of 0.25% are pretty high. History shows that stocks do rise through Fed rate hikes. However, there is no "in the past" for QE reductions (this is the first time). But, market participants are well aware of those risks. Janet Yellen, Fed Chair, wants the QE run-off to be very boring (see chart of Fed Balance sheet at bottom of pg. 3). We expect and hope all the planning will bring that about.

The current bull market is getting older, from a historical perspective. Also, the stock market's current rally is more than 300 trading days since it last experienced a 5% pull-back. We would not be surprised if the "wrinkles" we see, or small "cracks" that exist were to cause investors to consider Humpty Dumpty is falling off the wall. So, are you comfortable with the uncomfortable?

We expect Humpty Dumpty to stay sitting on the wall.

ANNOUNCEMENTS:

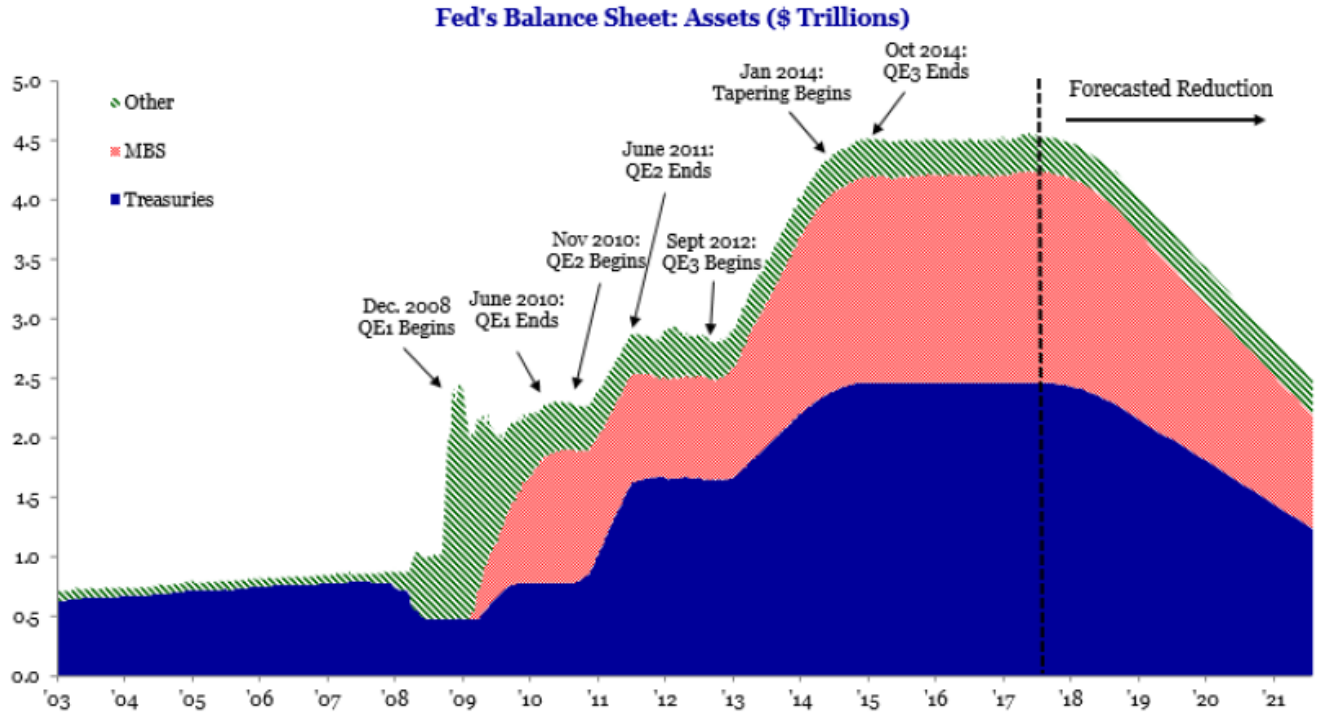
- Early October - 4Q 2017 fees collected. Performance reporting packages sent
- October 9 - Columbus Day; banks and bond market closed; stocks open.
- November 23 - Thanksgiving Day (banks & financial markets closed)
- December 25 - Christmas Day (banks & financial markets closed)
- December 31 - End of 4Q 2017
- Our ADV Part 2A & B as required by the SEC & Ohio (and other states) is available to you anytime upon request.

BENCHMARKING AS OF SEPTEMBER 30, 2017

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

Index Portfolio	Stock/Bond Allocation		Total Return Through 9/30/2017				
			3rd Qtr	YTD	12 Mths	3 Years	5 Years
Capital Preservation	0% / 100%	*Cumulative*	0.5%	1.6%	1.2%	3.9%	5.5%
		Annualized			1.2%	1.3%	1.1%
Income	20% / 80%	*Cumulative*	1.3%	4.3%	4.5%	8.3%	17.0%
		Annualized			4.5%	2.7%	3.2%
Balanced Conservative	35% / 65%	*Cumulative*	1.7%	5.7%	6.2%	10.5%	23.2%
		Annualized			6.2%	3.4%	4.3%
Balanced	50% / 50%	*Cumulative*	2.4%	7.7%	8.7%	13.8%	33.0%
		Annualized			8.7%	4.4%	5.9%
Balanced Growth	65% / 35%	*Cumulative*	3.0%	9.8%	11.2%	17.0%	42.6%
		Annualized			11.2%	5.4%	7.4%
Growth	80% / 20%	*Cumulative*	3.6%	11.7%	13.7%	20.7%	53.9%
		Annualized			13.7%	6.5%	9.0%
Aggressive Growth	95% / 5%	*Cumulative*	4.0%	13.0%	15.3%	22.9%	61.2%
		Annualized			15.3%	7.1%	10.0%

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 September 30, 2017

Bond Funds - Taxable	Style	3rd Qtr	YTD	12 Mths	3 Years	5 Years
Taxable Short-Term Bond Average		*0.8%*	*3.2%*	*0.5%*	*2.4%*	*2.0%*
Taxable Intermediate Bond Average		*0.7%*	*1.6%*	*-0.3%*	*1.1%*	*-0.0%*
Wells Fargo Ultra Short	AS	0.3%	1.0%	1.0%	0.8%	0.7%
AC Alternatives Market Neutral Value	AS	0.4%	0.8%	1.2%	2.7%	2.5%
Vanguard Short Federal	HS	0.3%	0.9%	0.0%	1.1%	0.7%
American Century Short Duration	HS	0.5%	1.6%	1.4%	1.5%	1.1%
Pioneer Short-Term Income	HS	0.2%	1.3%	1.4%	1.3%	1.3%
PIMCO Low Duration	HS	0.9%	1.9%	1.9%	1.5%	1.2%
Vanguard Short-Term Investment Grade	HS	0.6%	2.1%	1.2%	2.0%	1.8%
American Century GNMA Income	HI	0.8%	1.4%	-0.4%	1.5%	1.1%
Diamond Hill Corporate Credit	LI	1.4%	6.5%	7.4%	6.6%	5.6%
Miller Convertible	LI	1.9%	4.7%	5.4%	4.4%	7.7%
Bond Funds - Tax Exempt						
Tax-Free Intermediate Bond Average		*0.9%*	*3.8%*	*0.3%*	*2.1%*	*2.0%*
Vanguard Muni Limited Term	HS	0.7%	2.5%	1.0%	1.3%	1.2%
T. Rowe Price Tax Free S/I	HS	0.3%	2.3%	0.7%	1.1%	1.1%
Vanguard Muni Intermediate Term	HI	1.0%	4.3%	0.9%	2.8%	2.6%
Vanguard Ohio Long-Term	HL	1.2%	4.8%	1.1%	3.9%	3.7%
Stock Funds - Domestic						
S&P 500 Index		*4.5%*	*14.2%*	*18.6%*	*10.8%*	*14.2%*
Equity Fund Average		*4.2%*	*12.3%*	*16.8%*	*8.3%*	*11.8%*
Schwab Large Cap Growth	LG	5.0%	19.5%	20.5%	11.6%	15.2%
Parnassus Endeavor	LG	3.5%	13.9%	22.3%	15.3%	17.8%
Sit Dividend Growth	LV	3.5%	12.3%	15.6%	9.3%	12.2%
Hennessy Focus	MG	4.7%	12.8%	15.8%	11.0%	14.6%
John Hancock Disciplined Value Mid-Cap	MV	3.4%	9.8%	15.7%	11.6%	16.1%
SPDR S&P600 Small Cap Growth	SG	5.6%	10.4%	21.0%	14.8%	15.7%
Neuberger & Berman Genesis	SB	4.0%	9.4%	17.3%	11.0%	12.6%
Diamond Hill Small-Cap	SV	4.8%	6.6%	14.9%	6.4%	12.0%
Wells Fargo Small-Cap Value	SV	4.8%	10.5%	20.1%	10.3%	8.8%
Stock Funds - International						
Morgan Stanley EAFE Index (Foreign)		*4.8%*	*17.2%*	*16.0%*	*2.3%*	*5.5%*
Oakmark International	LV	9.1%	26.7%	34.9%	9.4%	12.9%
John Hancock International Growth	LG	7.6%	30.3%	18.5%	10.3%	11.5%
Thornburg Developing World	LG	8.5%	27.0%	17.6%	2.5%	5.0%
Harding Loevner International Small Company	SG	5.8%	28.2%	23.0%	8.6%	10.8%
Hennessy Japan	LB	3.9%	18.4%	13.1%	13.9%	15.0%
Stock Funds - Specialty						
Salient-Forward Select Income (REIT)	MV	0.6%	2.5%	2.4%	6.5%	7.7%
Neuberger Berman Real Estate Securities	MV	1.4%	7.5%	2.9%	8.6%	8.0%

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PERSONAL FINANCE: PLANNING FOR HEALTHCARE IN RETIREMENT

Steve Henderly, CFA, Nvest Wealth Strategies, Inc.

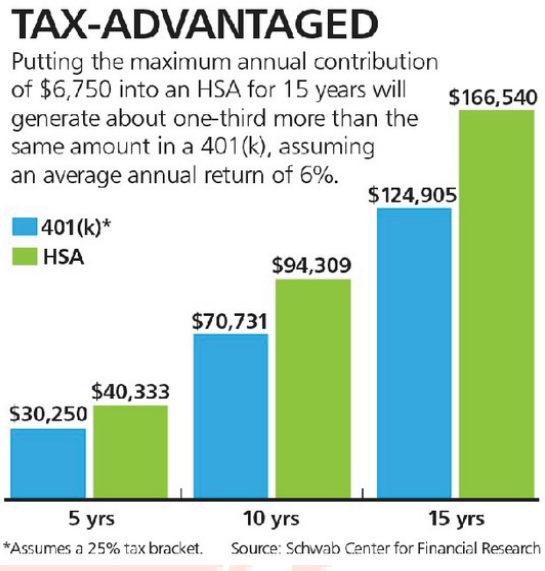
Policymakers continue to fight with each other over how to address the dysfunction of the US healthcare and insurance markets while at the same time the US population demographic is gradually aging with life expectancies growing longer. This means healthcare related spending will probably remain one of the biggest single expense categories for most individuals in retirement years. For many of us, healthcare is creating great uncertainty, and requires savers to build in a generous allowance for healthcare spending during retirement.

While healthcare spending can vary widely among individuals, estimates suggest that the *average* couple will spend more than $275,000 on healthcare in retirement. That's a staggering number, and it is not hard to see why health-related expenses have the potential to change even the most solid of financial pictures for the worse. But aside from the "easier-said-than-done" or often beyond our control pursuits of staying healthy or saving more, what can individuals do now to make the most out of a frustrating and unsettling scenario? The most important theme is to make ourselves better informed consumers when it comes to our healthcare decisions, regardless of whether it is employer-provided or obtained independently.

For those who are responsible for purchasing their own insurance, such as small business owners or early-retirees, many clients are surprised to learn that alternatives to the limited, expensive ACA marketplace plans do exist, which can still satisfy the individual mandate and avoid penalties. Medi-Share for example, is a quick growing Christian-based co-op that works, acts, and feels like traditional insurance, but features noticeably lower monthly rates (called sharing) and deductibles. Some advocates tout it may actually provide better coverage and portability (travel) than traditional insurance plans offered through the ACA exchanges.

For those who have the option to pair a current "high-deductible" health insurance plan with an HSA (Health Savings Account), pursue it. Do it, but in a different way than most use it. An HSA account is often overlooked and/or not used as efficiently as could be. Most individuals tend to view HSAs as "money-in money-out" accounts to pay for current-year health-related spending, and never really accumulate meaningful balances. Accordingly, individuals either don't contribute, or only contribute enough to roughly offset projected current-year out-of-pocket health spending. Viewing HSAs in this way misses out on their biggest long-term saving and tax-free-growth potential. If one regularly contributes and invests the accumulated $$ inside the account, a sizable HSA account may be utilized in later years to help with healthcare expenses. If your employer plan or HSA account does not have good investment choices for investing unused balances and/or if it pays only miniscule interest, rollovers to other HSA custodians with more attractive investment menus should be considered. Rollovers are permitted anytime regardless of employment status.

When invested with a longer-view, you will quickly discover that contributing to HSA accounts is more tax efficient than traditional retirement accounts like 401ks and IRAs (both traditional and Roth). This is because contributions are tax deductible when deposited; investment returns are tax deferred in the account, and tax-exempt when withdrawn for out-of-pocket health-related expenses. This is not to suggest or imply that you should abandon saving for retirement if course. But it is not inconceivable that one's HSA balance could easily grow well north of $100,000 during the working years if regular contributions are made and the balances are invested with a growth-oriented investment mix. This creates a handsome savings bucket to pay for health-related expenditures in retirement. The HSA savings could be used to pay for Medicare premiums, long-term care insurance, prescription drugs, dental work, hearing aids, and/or more.



While health spending is ordinarily an unpleasant discussion, there are ways to blunt its potential impact. Of course making healthy-life decisions is probably the single-best thing you can do. But being a smart consumer and taking care to manage expenses and accumulate money that can be used to offset health-related expenses in retirement can enhance one's financial peace of mind.