nVEST nSIGHTS

DECEMBER 31, 2016

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Delivering financial peace of mind.

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FINALLY! AT LAST!

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

"The times they are a changin'." Finally, 2016 broke the 2-year flat, go-nowhere, range bound, low return performance experience of the stock market. At (long) last, investors earned a return worth celebrating as 2016 ended and the New Year was rung. 2016 was marked by stunning surprises – the unexpected happened. The first 6 weeks generated the worst-ever stock market performance to start a new year; yet by the end, it posted its best performance since 2013. Markets experienced volatility through much of the year, telling a story of investors' fears and hopes. While there were many bumps, it was the bumps of worry upon which the markets climbed to new highs. New Year's market celebrations are inspired by expectations of an improving economy (US and global) and hopes of business-friendly policies under President-elect Trump. Various research sources suggest that it sure appears "the times they are a changin'."

Consensus expectations for 2017 reflect that US GDP will grow by +3% (closer to normal). As 2017 begins, 3 key economic themes exist: 1) Trump policies are expansionary (Trump's tax plan has 100% expectation of passage); 2) global growth is accelerating; and 3) global central bank policies are still "extremely stimulative." We too share optimistic expectations, yet we are still aware that the forward path is not always smooth. The 3 biggest risks for 2017 are 1) Trump problems (maybe from an errant "tweet"); 2) Europe problems, and/or 3) China problems. We do not know the "problem" that will surface for Trump, Europe, or China; nothing ever happens perfectly. At the dawn of 2017, it's tough to find too much wrong with the US economy. It's also hard to keep up with how fast consensus is changing and creating a positive backdrop for the financial markets. Yet all investor groups are not "fully onboard" about the improved outlook and are still avoiding owning risk in their portfolios. This fact about investor sentiment should be viewed as encouraging.

Client portfolios advanced with respectful returns for 2016. Owning any asset class in 2016 created performance ups and downs; or performance volatility. What worked at one point did not necessarily work during another. Exposures to non-government bonds provided positive returns (not true for investors owning Treasury securities that produced a 2nd year of price declines). The stock market traveled a 15% range of down, then up, ending the last 6 weeks of the year (following the election) with 11 new record highs. That is encouraging to client portfolios wherein year-end values are near all-time highs. As during the past couple of years, foreign stock exposure again was a drag on overall portfolio stock returns. Yet, the outlook and valuation of international continues to offer some of the best risk/reward potential for long-term investors. 2017 could be another interesting year for international, as several European leaders are up for election; will an angry populous allow the unexpected to happen, and create some short-term distraction (for good or bad) in the foreign markets? Overall, we expect that an improving global economic growth outlook, combined with generally stimulative monetary and fiscal policies, will provide the backdrop for the current bull market continuing to run. Maybe we even experience returns that are reverting to more normal (or historical).

We sometimes get the question, "is it too late for stocks?" The current bull market for stocks began in March 2009 (94 months ago), largely without the participation of individual investors; it is often referred to as "one that nobody loves, or believes in." Watching money fund flows, it is easy to see this truth, as the past couple of years reveal more money being withdrawn from stocks and reinvested in expensive, low yield bonds. That's akin to buying high. Will investors sell low (the opposite of how one should invest) as interest rates rise? We own bonds in client portfolios; always have and probably always will. But at present, we own short maturity and non-government bonds, which are better protected from rising interest rates (falling prices) that occur from current low, zero-rate levels; bonds also provide risk and diversification benefits; yet bonds need careful management in this environment. During the summer, just before the November election, interest rates hit a new all-time low. Since the election, wherein expectations shifted to stronger economic growth and slowly rising inflation, interest rates are rising. The 35 year old bull market in bonds may have just ended. That means bond interest rates may be on the rise (prices falling) for years to come. There are already signs of a turn in money flows - rotating money from bonds into stocks. If that continues and investors feel they need to own more stocks to receive better returns, the current bull market still has further to run. Could it be a start of a great rotation into stocks? Finally, at last; maybe a more normal environment for stock market returns will occur.

Whatever the outcome during 2017, we maintain the key to investment success relates to retaining a

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long-term investment horizon and following established investment objectives. Investors who try timing or short-term trading based on business cycle movements will be challenged. Financial prices tend to "jump, skip, and leap" up/down rather than change in a linear fashion. That's because of unexpected, or "exogenous effects" in the world outside the markets (ie: financial market crisis, bank failures, and/or surprise political events). It is exactly these unexpected events that provide the "bumps" that the market climbs on, and upon which long-term investors earn attractive returns.

"The 35 year old bull market in bonds may have just ended. That means bond interest rates may be on the rise for years to come. There are already signs of a turn in money flows. If that continues and investors feel they need to own more stocks to receive better returns, the current bull market still has further to run."

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CLEAN SLATE

Like it or not, 2016 is past and the New Year is begun. Resolutions abound each New Year with the practice of self-reflection and intent to improve being traced all the way back in early biblical times. Resolutions are always created and start with good intention, but often evaporate into frustration and regret. Let's look at a brief history of two often focused New Year resolution ideas.

History of Resolutions regarding losing weight: 2007 - I will get my weight down below 180; 2008 – I will watch my calories until I get below 190; 2009 – I will follow my new diet religiously until I get below 200; 2011 – I will work out 5 days/week; 2012 – I will work out 3 days/week; 2013 – I will try to drive past the gym at least once/week. In the realm of finances: 2007 – I will stick to the budget; 2008 – I will not spend money frivolously; 2009 – I will pay off my bank loan promptly; 2010 – I will pay off my bank loans promptly; 2011 – I will make strong effort to be out of debt by 2012; 2012 – I will try to pay off the interest by 2013; 2013 – I will try to be out of the country by 2014. Laugh, because we all start with good intentions. A new year offers the opportunity to reflect on the past, consider our regrets of failed goals, but clean the slate to start anew with a fresh set of goals and resolutions. Those that have business plans, strategic plans, and personal financial plans which are being followed, should be applauded and encouraged to progress forward. Resolutions take resolve to intentionally act and discipline to find success. So too with achieving one's financial plan and related investment goals.

Let's offer 4 investment resolutions that promote long-term investment success. Following these ideas will lessen our likelihood of hosting regrets at a later stage of life when time may be less our ally.

- I will ignore the forecasts and my feelings/instincts for bonds, stocks, and real estate; own investments for a long time horizon (time in the market is important, not timing).
- I will set my asset allocation based upon my long term goals and attitude toward risk (how much drawdown of paper value in my portfolio value can I afford to see or watch without panic that could lead to wrong action.
- I will go against the herd and rebalance – buy assets that are undervalued (unloved) and reduce exposure to those being highly pursued by the herd (approaching overvalued, or valued with irrational exuberance); in other words, I will stay disciplined in managing portfolio risk/ exposures.
- I will regularly save and regularly contribute money to the growth of my investment portfolio(s) – I am the greatest source of portfolio growth (more so than returns, which are important) over the years. Further, those who regularly contribute to savings report higher levels of satisfaction with the growth of their assets through time and are significantly more likely to achieve their financial goals than those who do not.

Remaining disciplined and focused will move one forward toward achieving their goals and resolutions. Tom Landry (coach of the Dallas Cowboys) stated "the job of the coach is to make men do what they don't want to do so they achieve what they always want to achieve." President Harry S. Truman said, "In reading the lives of great men, I found that the first victory they always won was victory over themselves." H. Jackson Brown Jr. (author of 'Life's Little Instruction Book') wrote, "Talent without discipline is like an octopus on roller skates. There's plenty of movement, but you never know if it's going forward, backward, or sideways." If reaching goals and resolutions came naturally, one would not need discipline. For success with important goals and resolutions, we must self-discipline – do what we don't want to do.

So, let's offer a toast for 2017 and to a clean slate – this year I/we will commit to growing my/our investment portfolios by avoiding emotional distractions, and by making regular periodic deposits to thereby aid achieving my/our long term financial plan. Cheers!!

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ANNOUNCEMENTS:

- Early January - 1Q 2017 fees collected
- January 16 - Martin Luther King, Jr. Day; banks & financial markets closed.
- Mid-February - Schwab Tax reports sent for 2016 tax year; Nvest can provide an unofficial realized gain/loss and income summary if desired at any time.
- February 20 - President's Day - banks and financial markets closed.
- March 31 - End of 1st Quarter; reports sent early April.
- April 18 - Deadline to file personal income taxes; Traditional and Roth IRA contributions for the 2016 tax year not accepted after this date.
- Our ADV Part 2A & B as required by the SEC & Ohio (and other states) is available to you anytime upon request.

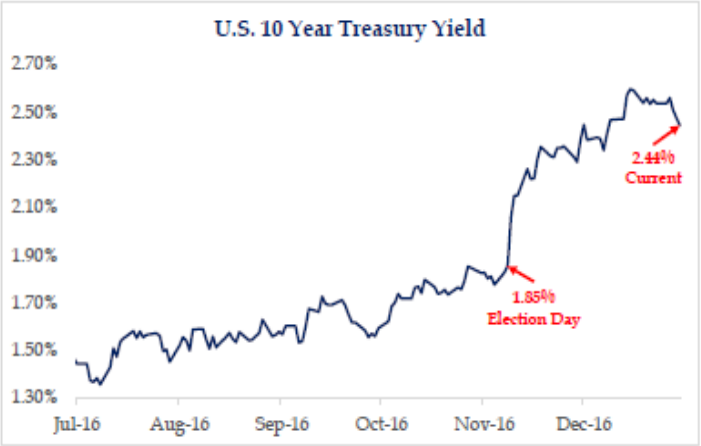
BENCHMARKING AS OF DECEMBER 31, 2016

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

Index Portfolio	Stock/Bond Allocation		Total Return Through 12/31/2016				
			4th Qtr	YTD	12 Mths	3 Years	5 Years
Capital Preservation	0% / 100%	*Cumulative*	-0.4%	1.9%	1.9%	2.9%	6.8%
		Annualized			1.9%	1.0%	1.3%
Income	20% / 80%	*Cumulative*	0.1%	3.2%	3.2%	4.8%	17.8%
		Annualized			3.2%	1.6%	3.3%
Balanced Conservative	35% / 65%	*Cumulative*	0.4%	3.9%	3.9%	5.8%	23.6%
		Annualized			3.9%	1.9%	4.3%
Balanced	50% / 50%	*Cumulative*	0.8%	4.9%	4.9%	7.4%	32.7%
		Annualized			4.9%	2.4%	5.8%
Balanced Growth	65% / 35%	*Cumulative*	1.2%	5.8%	5.8%	8.4%	41.6%
		Annualized			5.8%	2.7%	7.2%
Growth	80% / 20%	*Cumulative*	1.8%	6.9%	6.9%	10.2%	52.3%
		Annualized			6.9%	3.3%	8.8%
Aggressive Growth	95% / 5%	*Cumulative*	2.1%	7.6%	7.6%	10.9%	58.9%
		Annualized			7.6%	3.5%	9.7%

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 perfor-

"The 35 year old bull market in bonds may have just ended. That means bond interest rates may be on the rise for years to come. There are already signs of a turn in money flows. If that continues and investors feel they need to own more stocks to receive better returns, the current bull market still has further to run."



Selected Mutual Funds - Total Return Performance Summary

As of December 31, 2016

Bond Funds - Taxable	Style	4th Qtr	12 Mths	3 Years	5 Years
Taxable Short-Term Bond Average		*-0.4%*	*2.0%*	*1.1%*	*1.5%*
Taxable Intermediate Bond Average		*-1.8%*	*3.9%*	*1.4%*	*0.6%*
Wells Fargo Ultra Short	AS	0.0%	1.4%	0.6%	0.8%
AC Alternatives Market Neutral Value	AS	0.4%	3.5%	3.0%	3.2%
Vanguard Short Federal	HS	-0.9%	1.1%	1.0%	0.8%
American Century Short Duration	HS	-0.2%	1.9%	1.1%	1.1%
Pioneer Short-Term Income	HS	-0.1%	1.6%	1.1%	1.9%
PIMCO Low Duration	HS	0.0%	1.9%	1.1%	1.9%
Vanguard Short-Term Investment Grade	HS	-0.8%	2.7%	1.8%	2.2%
American Century GNMA Income	HI	-1.7%	1.1%	2.2%	1.3%
Diamond Hill Corporate Credit	LI	0.9%	11.9%	5.0%	5.9%
Aberdeen Global High Income	LI	1.5%	9.0%	-0.1%	4.7%
Miller Convertible	LI	0.6%	9.0%	4.3%	8.0%
Bond Funds - Tax Exempt					
Tax-Free Intermediate Bond Average		*-3.4%*	*-0.4%*	*2.6%*	*2.1%*
Vanguard Muni Limited Term	HS	-1.5%	-0.2%	1.0%	1.0%
T. Rowe Price Tax Free S/I	HS	-1.6%	-0.3%	0.9%	1.1%
Vanguard Muni Intermediate Term	HI	-3.3%	0.1%	3.4%	2.8%
Vanguard Ohio Long-Term	HL	-3.6%	1.0%	5.4%	4.0%
Stock Funds - Domestic					
S&P 500 Index		*4.3%*	*10.6%*	*9.2%*	*14.7%*
Equity Fund Average		4.1%	*10.8%*	*5.1%*	*12.0%*
Schwab Large Cap Growth	LG	0.9%	6.8%	8.5%	14.9%
Wells Fargo Advantage Growth	LG	-4.1%	-0.7%	1.9%	10.6%
Sit Dividend Growth	LV	3.0%	10.5%	7.4%	12.4%
Hennessy Focus	MG	2.6%	7.2%	6.7%	13.9%
Munder Mid-Cap Growth	MG	2.5%	7.1%	3.9%	11.6%
John Hancock Disciplined Value Mid-Cap	MV	5.4%	15.0%	9.8%	16.8%
SPDR S&P600 Small Cap Growth	SG	9.6%	22.1%	9.2%	16.2%
Century Small-Cap Select	SG	2.3%	2.7%	0.7%	9.3%
Neuberger & Berman Genesis	SB	7.2%	18.1%	5.7%	12.2%
Diamond Hill Small-Cap	SV	7.8%	14.1%	4.7%	12.6%
Wells Fargo Small-Cap Value	SV	8.8%	32.8%	7.1%	9.8%
Stock Funds - International					
Morgan Stanley EAFE Index (Foreign)		*-1.7%*	*3.1%*	*-1.8%*	*5.1%*
Harbor International	LV	-4.3%	0.3%	-3.5%	4.9%
Oakmark International	LV	6.4%	7.9%	-0.6%	10.4%
Allianz NFJ International Value	LV	-2.4%	-6.6%	-8.6%	0.4%
John Hancock International Growth	LG	-9.1%	-5.1%	1.0%	8.4%
Thornburg Developing World	LG	-7.4%	2.6%	-5.6%	3.6%
Harding Loevner International Small Company	SG	-4.0%	0.1%	-0.3%	9.0%
Hennessy Japan	LB	-4.5%	11.3%	10.4%	13.6%
Stock Funds - Specialty					
Salient-Forward Select Income (REIT)	MV	-0.2%	13.6%	9.4%	10.3%
Neuberger Berman Real Estate Securities	MV	-4.3%	3.9%	9.8%	9.2%

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PERSONAL FINANCE: RESOLVE TO BE SAFE ONLINE

Throughout the recent election we repeatedly heard how hackers (perhaps Russian?) accessed the email accounts of various public officials and subsequently dumped select contents of information to the public in pursuit of influencing our election process. On a more personal level, recent confirmation by Yahoo that 500 million of its email user accounts and passwords were again hacked, reminds us how vulnerable any one can be.

While most of us do not harbor state secrets in our email, surveys reveal that more than a quarter of people utilize the exact or mostly the same password across online accounts. In talking with clients, we estimate that practice is far greater than these surveys suggest. While common login credentials pose a threat to your financial security, one's inbox often contains messages relating to many areas of one's life, giving a potential hacker direct clues or insights about where we conduct business and keep our financial accounts, arming them to be even more sophisticated in their pursuit of our personal information or stealing our identify. This reason alone is why Nvest utilizes encrypted email messaging for the transmission of sensitive information with clients. Being safe online and preventing identity theft goes beyond using antivirus software or utilizing unique passwords across online accounts. Below is a list for some ways each of us could resolve to be more "fit" and "improve" online security in the years ahead.

An Ounce of Prevention:

- Create strong passwords and avoid re-using the same password for multiple sites. Consider utilizing two-factor authentication for sites that offer it.
- Keep personal information private, only revealing to those you trust most and on an as-needed basis
- Treat personal information like cash; keep it out of view at home; make sure important documents are not visible and/or locked in a drawer or safe. If you're shopping or banking online, stick to sites that utilize encryption; a quick tell is to look for "https" at the beginning of the web address ("s" is for secure).
- Shred junk mail and other items like old credit cards, Data CDs, etc.
- Open mail immediately and be on the watch for clues that your identify has been stolen or compromised

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Be a savvy consumer:

- Spot imposters: If you receive an email, call, or letter that appears to be from a financial institution or organization asking you to verify information or click a link, it is wise to contact that institution directly (call verified number or type web address manually) rather than clicking a link or providing information to someone who contacted you. Don't believe your caller ID or the "from" address in an email as accurate or true. In other words, always be cautious, suspicious, and guarded with personal information; slow to provide.
- Pay with cash at vendors whom you lack trust
- When paying with "plastic", use a credit card instead of a debit card, because recovering losses is much more difficult from a drained checking account
- Regularly (daily if possible) monitor your accounts and transactions online
- Avoid telephone and door-to-door solicitations. Just hang-up on robocalls; don't press 1 to speak to a person or be taken off the list – it generally leads to more calls.

Recovery steps if your information has been compromised:

- Act immediately! Call police and file a report. If you spot a scam, report it at ftc.gov/complaint.
- Request an initial fraud alert with/from the three major credit reporting agencies.
- Notify bank and financial institutions you do business with to be on the watch for suspicious activity.
- Document details and dates of all conversations you have in pursuit of resolving/reporting the breach.