NVEST NSIGHTS

December 31, 2017

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nvest WEALTH STRATEGIES

Delivering financial peace of mind.

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FIRST "*PERFECT*" YEAR EVER!

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

Did you know, 2017 is the first year **ever** where the S&P500 posted positive total returns in every month? The previous closest to "perfect" year was 1995, when only the month of October produced a slight negative return. The S&P500 produced a positive return during all 12 months of 2017 and advanced an attractive +21.7%, with 63 daily new highs. Most every domestic and many foreign stock market indexes also achieved new record highs; many ended the year near those levels.

How about a few more statistical tidbits? Despite the S&P's impressive gains in 2017, its performance last year is just the 8th best performance in the past 25 years (1993-2017). The best gain during that period was over +37% (1995). The split of "up" and "down" trading days over the last 50 years (from 1968-2017, or 12,586 trading days) is 53% up and 47% down. The split during 2017 (251 trading days) was 57/43. Over the last 50 years, the S&P index averaged +10% per year; advancing 40 of them or 80% of the time. It was positive in each of the last 9 years (tying the record for consecutive "up" years set between 1991-1999) and in 14 of the last 15 calendar years. Key thought – one needs to be invested.

1995 was cited in both the prior 2 paragraphs; it was not a perfect year, but close. Often we hear individuals fearing that 2018 will be negative, a reversal considering how positive was recent experience. Yet, history suggests that logic is often incorrect. 1996 for example returned +23% with the economy growing +4.5%. Thinking about it; a perfect 2017 occurred during a slower growing economic backdrop than 1995-96, and prospects for 2018 reveal accelerating and synchronized global growth. Further, all 45 countries tracked by the Organization for Economic Cooperation & Development (OECD), expect economic growth for 2018. That's global synchronization, a rare experience. Growth should provide opportunity for additional stock price appreciation.

Client portfolio values also experienced a joyous upward climb on a monthly basis throughout 2017. Our tactical portfolio strategy in portfolios worked well - with greater exposures to large-cap and foreign stocks, both leading the performance parade. We are tactically pursuing some de-risking portfolio structure adjustments in both the bond and stock allocations. Bond exposures favor shorter, non-Treasury funds; the bond market is still an expensive, challenging area to invest. Stock allocations focus on larger and mid-sized companies, and foreign (which offers better valuations than domestic). We completed rebalancing trades near year-end, to de-risk some, if by chance the stock market pauses in 2018. More specifically, we trimmed exposure to key areas that appreciated the most from mid-2016 and added to areas that appear less expensive and should provide better downside protection. A "pause that refreshes" should be expected, as the current domestic stock advance is 381 trading days since its last 5% pullback (remember 1995; during its run into 1996 there was a 394 trading day interval without a 5% pullback).

There is a saying "that markets are born in fear and die in greed." The current bull market does not exhibit the usual traits that exist at the end of bull market runs, particularly greed (see December commentary). We often comment in our writings that the current bull market may be one of the most unloved "rallies" in history. One does not walk around and hear too many people talking about investing in stocks, or specific sectors of stocks, like technology. Some talk about Bitcoin, which is hardly a currency since its value is anything but stable to use in buying any product or service; it surely seems a bubble ready to burst. But, by and large stocks and bonds are not on investor radar screens, and "irrational exuberance" is not present. The domestic market is not inexpensive; care must be pursued to avoid buying some high valuation areas, like FANG stocks (may become a regulatory target). Yet, we expect this current bull market and 2018 will prove rewarding for investors. We are closely monitoring fundamentals: 1) accelerating synchronized global growth; 2) strong company earnings prospects; 3) inflation will probably be moderate; and 4) global central bank policies are still stimulative. The biggest "risks" include: 1) valuations for all asset classes; 2) Fed tightening of monetary policy; 3) inflation spikes; and 4) geopolitical concerns.

Since 1968, the S&P increased +20% or more 12 times. In 10 of those 12 times (83% of the time), real GDP growth was +2.7% or more. For all 12 years, real GDP growth increased in the next year, averaging +3.4%. Starting 2018, economic growth is accelerating and is globally synchronized. In general, global growth matters most for providing the fundamental support that allows the current bull market to continue.

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WEALTH STRATEGIES

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ANNOUNCEMENTS:

- Early January - 1Q 2018 fees collected. Detailed 4Q'17 performance reporting delivered
- January 15 - Martin Luther King Jr. Day; banks/financial markets closed.
- Mid-February - Schwab Tax reports sent for 2017 tax year; Nvest can provide unofficial realized gain/loss and income summary if desired.
- February 19 - Presidents' Day; banks/ financial markets closed.
- March 30/31 - Good Friday and End of 1st Quarter; financial markets closed.
- April 17 - Deadline to file personal income taxes; Traditional and Roth IRA contributions for 2017 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.

ENTERING A NEW DECADE

New Year prognostications abound. One compelling "non-consensus" investment idea we mentioned in our December commentary was "we may be closer to the beginning of this business cycle than the end." In a similar vein, in our 3rd quarter newsletter to clients - Nvest Nsights - we mentioned an economic work by Reinhart & Rogoff that suggested "GDP growth is below normal for a decade (on average) following a financial crisis." The last financial crisis started in the summer of 2007. So, a decade is now passed. Interesting then, new decade stories are popping up – "US housing starts rise to highest level in a ***decade***;" "US economy reaches its potential output for first time in a ***decade***;" and "Japan company credit ratings best in a ***decade***." Also, "2018 brings pay boost to many low-wage workers (minimum wage hikes)." Or, "US tax cuts are part of this new ***decade*** story."

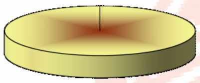
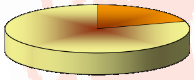
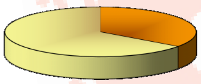
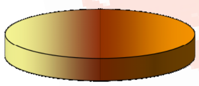
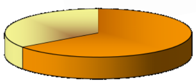
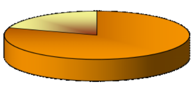
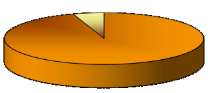
Unusual as well, "Real retail sales (adjusted for inflation) are accelerating." This matters because real retail sales typically decelerate sharply later in a business cycle (ahead of a recession). We are going the other way now; and this is a game changer. Despite the "retail apocalypse" (change in type of spending - not going to bricks and instead buying with clicks), there does not appear to be a problem with the US consumer overall. Confidence is up. And, tax cuts remove one item of uncertainty, which may even lead to "rational recklessness" as other foreign countries review their corporate tax rates to remain economically competitive to the new US corporate tax rates. [Maybe, high-tax states are disadvantaged by federal tax reform, causing some to adjust their high rates.] In general, these are some of the underlying key fundamentals to keep monitoring; they support the synchronized global economic outlook for 2018, which provides underlying support for stock prices and the current bull market.

Lest we sound too bullish, we do wonder if recent tax cuts are like "pouring gasoline on a slow burning fire." Or, could this "gasoline effect" create some investor worry that brings about a stock market correction or "pause that refreshes?" The average unemployment rate for the past 7 major tax cuts was 7% (at present, unemployment is around 4%). When Reagan's tax cuts occurred during the 1982 recession, unemployment was topping 10%. Often tax cuts are legislated when economic conditions are soft, or when the economy is in a recession. The debate looking forward - if the US economy is accelerating from 8+ years of easy monetary policies, the tax reform package effective in 2018 may ignite too much growth. It's worth noting that 2 out of 3 times when the economy was strong prior to a tax cut, it continued strong thereafter. If US economic growth sparks too fast, investors may worry that the Fed will raise interest rates faster, maybe too fast, if they see inflation rising above expectations. Watch high yields (BAA spreads), as they could be the "canary in the coal mine" if interest rates were to rise too fast. One additional thought – if 2017 witnessed very low daily market volatility in market prices, the "gasoline effect" could raise daily market volatility in 2018, which could provide discomfort for some investors.

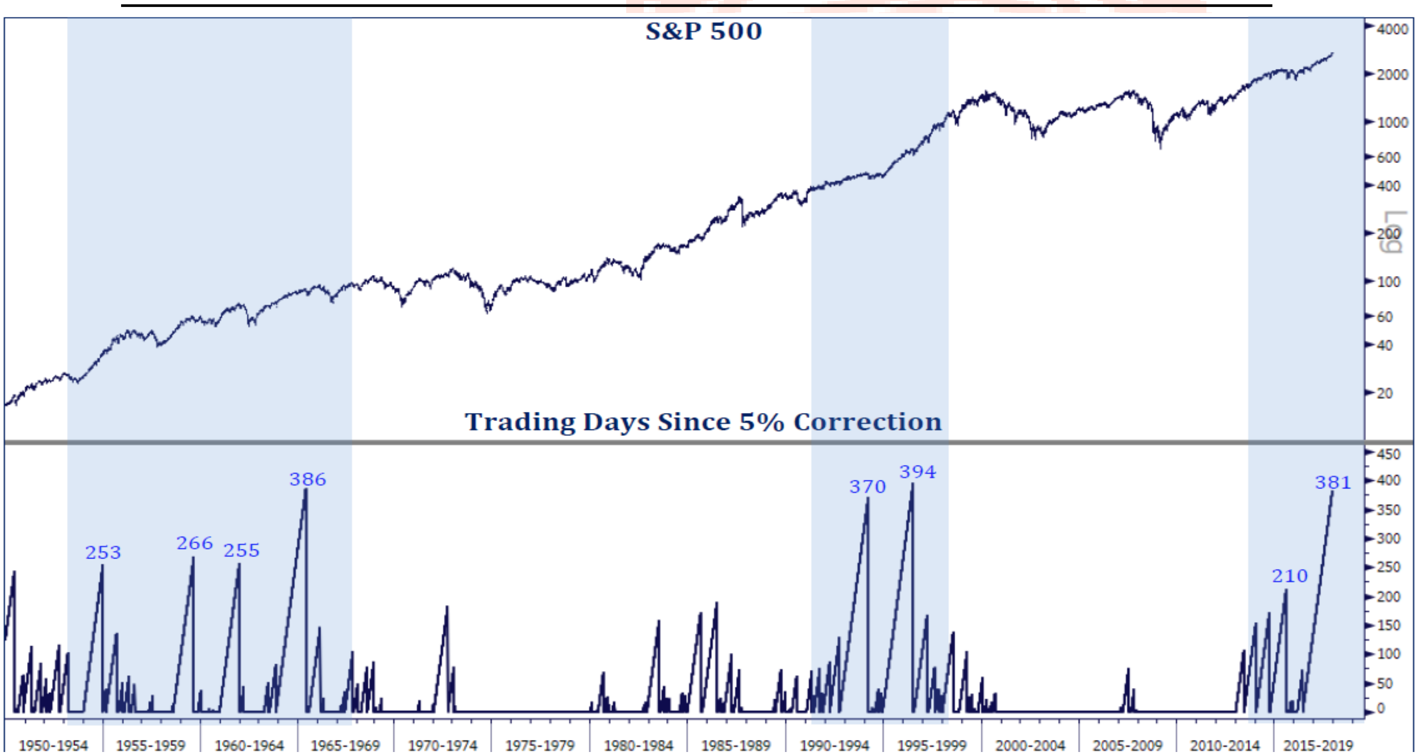
Entering a "new decade" is exciting. "Entering" usually means at the beginning; near the start. It does not suggest that the end occurs a short time after just starting. Expansions – economic and bull markets – don't die of old age. They die because inflation accelerates too fast, and monetary policy is adjusted too aggressively and/or quickly to address it. Thus far in this cycle, most of the inflation in the economic system occurred in financial assets and is largely absent in the real economy. With monetary conditions so easy around the world, equity prices are biased up in a number of ways – from higher valuations, acquisitions, and buybacks. Extraordinary liquidity helps explain the surge in fine wine prices, the Da Vinci sale, equity prices, and asset classes in general. We are not late in the economic cycle, and likely we have further to go. Rarely does an economic acceleration end abruptly. Rather, excess takes time to develop and evolve; excesses are not present today. As we begin 2018, global growth matters more than growth from tax cuts. Thus, this may be the year where the economy outperforms the markets, and a real business cycle emerges.

Benchmarking as of December 31, 2017

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

	Index Portfolio	Stock/Bond Allocation		Total Return Through 12/31/2017: 4th Qtr	12 Mths	3 Years	5 Years
	Capital Preservation	0% / 100%	*Cumulative*	0.0%	1.7%	4.2%	5.4%
			Annualized		1.7%	1.4%	1.1%
	Income	20% / 80%	*Cumulative*	1.0%	5.6%	9.0%	17.8%
			Annualized		5.6%	2.9%	3.3%
	Balanced Conservative	35% / 65%	*Cumulative*	1.6%	7.5%	11.5%	24.4%
			Annualized		7.5%	3.7%	4.5%
	Balanced	50% / 50%	*Cumulative*	2.4%	10.5%	15.3%	35.1%
			Annualized		10.5%	4.9%	6.2%
	Balanced Growth	65% / 35%	*Cumulative*	3.2%	13.5%	19.0%	45.5%
			Annualized		13.5%	6.0%	7.8%
	Growth	80% / 20%	*Cumulative*	4.0%	16.3%	23.0%	57.9%
			Annualized		16.3%	7.1%	9.6%
	Aggressive Growth	95% / 5%	*Cumulative*	4.5%	18.2%	25.5%	65.7%
			Annualized		18.2%	7.9%	10.6%

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, 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,



Selected Mutual Funds - Total Return Performance Summary

As of December 31, 2017

Bond Funds - Taxable	Style	4th Qtr	YTD	12 Mths	3 Years	5 Years
Taxable Short-Term Bond Average		*-0.1%*	*1.7%*	*1.5%*	*1.1%*	*2.3%*
Taxable Intermediate Bond Average		*0.3%*	*3.7%*	*2.2%*	*2.1%*	*4.1%*
Wells Fargo Ultra Short	AS	0.2%	1.2%	1.2%	0.9%	0.7%
AC Alternatives Market Neutral Value	AS	0.9%	1.6%	1.6%	2.9%	2.7%
Vanguard Short Federal	HS	-0.2%	0.7%	0.7%	0.9%	0.7%
American Century Short Duration	HS	-0.2%	1.4%	1.4%	1.4%	1.0%
Pioneer Short-Term Income	HS	0.1%	1.4%	1.4%	1.3%	1.3%
PIMCO Low Duration	HS	0.0%	1.8%	1.8%	1.5%	1.1%
Vanguard Short-Term Investment Grade	HS	-0.1%	2.0%	2.0%	1.9%	1.7%
American Century GNMA Income	HI	-0.2%	1.2%	1.2%	1.0%	1.1%
Diamond Hill Corporate Credit	LI	1.0%	7.6%	7.6%	6.8%	5.5%
Miller Convertible	LI	0.5%	5.2%	5.2%	4.6%	7.5%
Bond Funds - Tax Exempt						
Tax-Free Intermediate Bond Average		*0.4%*	*4.6%*	*2.3%*	*2.4%*	*3.7%*
Vanguard Muni Limited Term	HS	-0.5%	2.0%	2.0%	1.1%	1.1%
T. Rowe Price Tax Free S/I	HS	-0.6%	1.7%	1.7%	0.8%	1.0%
Vanguard Muni Intermediate Term	HI	0.3%	4.5%	4.5%	2.5%	2.6%
Vanguard Ohio Long-Term	HL	1.4%	6.3%	6.3%	3.8%	3.8%
Stock Funds - Domestic						
S&P 500 Index		*6.6%*	*21.8%*	*21.8%*	*11.4%*	*15.8%*
Equity Fund Average		*5.1%*	*18.3%*	*18.3%*	*8.5%*	*12.7%*
Schwab Large Cap Growth	LG	7.4%	27.9%	27.9%	11.6%	16.9%
Parnassus Endeavor	LG	5.2%	19.8%	19.8%	14.5%	18.5%
T.Rowe Price Dividend Growth	LV	5.8%	19.3%	19.3%	10.9%	14.8%
Goldman Sachs US Equity Dividend & Premium	LV	4.6%	14.8%	14.8%	9.7%	12.7%
Sit Dividend Growth	LV	6.8%	19.9%	19.9%	9.9%	13.7%
Hennessy Focus	MG	5.7%	19.3%	19.3%	9.6%	14.4%
John Hancock Disciplined Value Mid-Cap	MV	5.0%	15.3%	15.3%	10.5%	16.2%
SPDR S&P600 Small Cap Growth	SG	3.8%	14.6%	14.6%	12.9%	16.3%
Neuberger & Berman Genesis	SB	5.7%	15.6%	15.6%	11.0%	13.4%
Diamond Hill Small-Cap	SV	3.8%	10.6%	10.6%	6.7%	12.2%
Wells Fargo Small-Cap Value	SV	3.1%	13.9%	13.9%	10.5%	9.9%
Stock Funds - International						
Morgan Stanley EAFE Index (Foreign)		*5.0%*	*27.2%*	*27.2%*	*7.8%*	*6.8%*
Oakmark International	LV	2.4%	29.8%	29.8%	10.4%	10.5%
John Hancock International Growth	LG	4.5%	36.3%	36.3%	11.5%	11.3%
Thornburg Developing World	LG	6.6%	35.3%	35.3%	5.5%	5.7%
Harding Loevner International Small Company	SG	4.9%	34.4%	34.4%	11.8%	10.8%
Hennessy Japan	LB	11.5%	32.0%	32.0%	18.4%	17.5%
Stock Funds - Specialty						
Salient-Forward Select Income (REIT)	MV	-1.1%	1.5%	1.5%	4.4%	6.8%
Neuberger Berman Real Estate Securities	MV	3.8%	11.6%	11.6%	6.1%	8.2%

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BITCOIN & BUBBLES - PRACTICAL APPLICATION OF COMMON BEHAVIORAL ERRORS

Steve Henderly, CFA, Nvest Wealth Strategies, Inc.

During the latter third of 2017, not a day seemed to pass without a fresh news story or client inquiry on the topic of Bitcoin. The fever-pitch became most acute during the Holiday season, as the cryptocurrency was recording eye-popping gains. Thankfully, from our perspective, most of the inquiries from clients were couched with incredulous skepticism and/or outright curiosity as to what "bitcoin and cryptocurrency" is, rather than a serious desire to acquire a stake or join the stampede.

This article is not aimed at providing a crash course on Bitcoin or similar cryptocurrencies – the topic is hard to adequately explain in the short space that we can justify devoting to something so speculative, and even the academic sources available on the subject still leave most scratching their heads in confusion and/or disbelief as to why anyone would commit real money toward it (and make no mistake, real people are). Rather, our objective is to put in context what we believe are the driving forces behind the frenzy, but also how disciplined investors should be encouraged to view any individual asset in the context of their portfolio, total wealth picture, and long-term financial goals.

As alluded to earlier, cryptocurrencies are perhaps the epitome of speculation rather than investing. We are of that perspective because there is nothing of lasting value behind the currency; it is still not a widely accepted medium of exchange, and has no intrinsic value other than what the next person is willing to pay for it. At least in prior manias - be it Tulips in the 1600s, dot-com stocks in the 1990s, or real estate in 2000s - one at least still had a claim on something tangible (physical asset in most cases) when the bubble popped. But the personal reasons for buying them range from *FOMO* (fear of missing out), to crime (its anonymous distributed ledger technology is ripe for money laundering), to those who believe that digital currencies will ultimately replace traditional fiat currencies including the US dollar, Euro, or Yen for example. Note: currencies are usually defined as being somewhat stable/predictable in value from one day to the next AND widely accepted as a form of payment. Bitcoin and others like it, fail both measures. If Bitcoin and cryptocurrencies are an inflating bubble, as many believe, it is likely due to the behavioral biases any of us can succumb to if not aware of them.

Herding is driven by our human desire to belong to a community and aversion to missing out. It is this herd-mentality that is most credited with the building of the dot-com bubble in the late-90's as individuals clamored to buy any tech name they could get, including diving headfirst into IPOs. While Bitcoin is the most well-known of the cryptocurrencies, there are dozens of other "me-too" currencies and "initial coin offerings" popping up that are reminiscent of the dot-com days. *Hindsight bias* and *overconfidence* are behaviors also closely linked with *herding* and is the belief that performance enjoyed (or suffered) in the past will continue indefinitely into the future. Cryptocurrencies are enjoying the fruits of *hindsight bias* at the moment.

While problematic behaviors are visible right now in the area of cryptocurrency/Bitcoin-mania, the lessons are applicable more generally. For instance, *herding*, *hindsight bias*, and *overconfidence* can all be huge motivators behind the allure of recent high-flying stocks, including the so-called FAANG names (Facebook, Amazon, Apple, Netflix, and Google). These may all be great companies, but investors must also consider what they are willing to pay based on their fundamentals and the unique risks of each. Similarly, biases are regularly present with individuals who decide to own their own employer's stock in an outsize proportion to their overall net worth. Often, because there is familiarity with one's employer and its operations, the perceived risk appears lower.

For all investors, we advocate disciplined adherence to a long-term plan. Human behavioral biases are a risk to each of us if we allow ourselves to be distracted by anything other than the big picture. Chasing eye-popping performance, the fear of missing out, or overconfidence can quickly distract one from achieving their long-term objectives. Instead, focus most on the areas that you can control: how much you save/spend; what asset mix (proportion to cash, bonds, stocks, real estate, private equity) you pursue with your liquid net worth; diversification is equally important. Pre-defining what your financial pie should look like, and being cognizant of how it deviates is perhaps the most important step toward managing risk, avoiding one-off distractions or fads, and ultimately achieving long-term goals. As evidenced by the longer-run history data shared in this newsletter (Perfect Year, found on page 1), time in the market is very rewarding if one avoids getting distracted. We look forward to continuing our partnership pursuit with you in 2018!