nVEST nSIGHTS

December 31, 2020

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FOR ALL, GIVE THANKS!

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

In all things; for all things, give thanks – whether small or big; even when pondering great concerns, it is good to flavor all things with thanks. That's an attitude of gratitude. During 2020, there was much for which thanks was appropriate. Here are three ideas to consider:

- Family, friends, and our clients – we are thankful for the privilege to work on your behalf. Thanks for your support and for receiving our guidance and advice on investing and "LIVING LIFE" financial planning.
- Financial markets should receive our thanks – rallying for vaccines, medical treatments by first responders; and for the Federal Reserve's quick action when markets were starting to panic.
- US consumers – who continued to buy products and services despite unprecedented hardships, aiding the US and global economy to keep moving albeit sluggishly.

Please give thanks for the many blessings received, including health, healing, and encouragement from so many good relationships. We express our thanks and wish you many blessings for this New Year, 2021.

TRAGEDY OR MIRACLE?

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

2020 could be characterized as a BIG surprise. Depending on your point of view, last year might be deemed a tragedy; or a miracle. What's the biggest surprise – a pandemic; a global lockdown; or the financial market response to it all? Someone defined golf as an endless series of tragedies obscured by the occasional miracle. "Resolve never to quit, never to give up, no matter the situation" (Jack Nicklaus).

Last year provided all investors with a time of tragedy. The March 23 low (2192) for the S&P500 undercut the prior year low (2444), declining -35% in a month. All investors felt pain; a tragedy. Yet, the year-end close (3756) was above the prior year's high (3248), generating an attractive +18.2% for the full year. The index exploded off the 3/23 low, rising +70.3% in 9 months. 2020 was a BIG surprise: 34 new market highs after the market low. Simply WOW!! The huge continuous volume of negative news would never allow anyone to expect a rebound like that. All financial assets zoomed upward due to huge fiscal spending (stimulus checks) and monetary support to the economy and financial market systems, both in the US and globally. Client portfolio values were handsomely higher as well. In essence, money growth was the "miracle" of 2020. It far exceeded what was needed to finance the economy, growing by a huge 25%. Excess money goes somewhere, and last year it flowed into financial assets whose prices soared.

History shares only 3 other examples in the last 90+ years where price action undercut the prior year low, and the final days of market action exceeded the prior year high. Those 3 years were 1935, 1982 and 2016. In each case, the following year provided double-digit advances of +28%, +17%, and +19%, respectively. The data sample is not many observations, so take it with a grain of salt, but it would be nice to add 2021 to that history set. At this point, there are few hints of market fatigue – economy shows signs of recovery; huge stimulus money provides support. We don't expect the robust market action of 2020 to continue in the New Year; volatility will likely be ever present.

The events of 2020 share that while every crisis may be unique, the market's interpretation or reaction to each crisis is not particularly unique. COVID was different than the financial bubble (2007), or dot.com (2000), which was different than 1987, or others. Intense fear creates market capitulation from many different catalysts. And rallies that follow seem to be accompanied by much intense skepticism. Markets rarely lead you down a wrong path too often or for very long. Investing does not require being cute, pursuing the latest fad, or "soup de jour". Successful investing is best when keeping it simple. Remember, you don't get too many opportunities to buy a market down -35% or -40%; it always appears that it could get worse, but probably not much. Tragedy or miracle? Both usually arise as a BIG unexpected surprise.

Let me share a few more golf statements for New Year humor. "It took me 17 years to get 3000 hits in baseball. It took one afternoon on the golf course" (Hank Aaron). "The older I get, the better I used to be" (Lee Trevino). "I have a tip that can take 5 strokes off anyone's game: it's called an eraser" (Arnold Palmer). For sure, "They call it golf because all the other four letter words were taken" (Ray Floyd). "The value of routine – trusting your swing" (Lorii Myers). The most important shot in golf is the next one" (Ben Hogan). True also with the investment routine – trust your process over and over again. Your next investment decision is very important. Golf in January in Ohio? No way; just wishful thinking for a "miracle" of warm temperatures without gray. Important in life - humor is the best medicine for the soul.

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"Money growth will support economic prospects in early 2021, but may spell trouble next year and beyond… it will appear that governments operate without [fiscal spending] rules."

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WEALTH STRATEGIES

"Stocks usually provide a positive return experience in the 1st year of a new administration, but with increased volatility - expect pullbacks or correction."

IN THE BLINK OF AN EYE

"In the blink of an eye" means quick, very quick; in a short time, or abbreviated. A person blinks every 4 seconds – that's about 15 times per minute, or over 20,000 times a day (depending on your hours awake). Each blink lasts about a tenth of a second and is enough to clean and lubricate the surface of the eye. Thus, the phrase appropriately means extremely quick.

We shared comments on how amazingly fast the markets rebounded during a short 9 months to end 2020. We also shared that the market advance was propelled by government policies which acted like "rocket fuel" via rapid money growth in excess of amounts needed to finance the economy, both in the US and globally. Rapid money growth beats all else. It seems that the best trends that occur in business or investing move faster than one would ever guess, and exceed even the most optimistic of expectations. (Examples: oil dropped to $0 in February and now trades at $50/barrel; the Japanese Nikkei average surged from 23,000 to 27,500; Bitcoin moved from $12K to $35K in a matter of weeks). It happened in the blink of an eye. What does that mean for investing in 2021? Generally - positive, with several ideas to keep in mind.

The economic recession of 2020 appears over, except for those unemployed (at the lower-end of the pay/education scale) and small businesses that remain at risk. With savings already substantial and income replacement front-loaded due to Washington stimulus, growth should not be scarce in 2021. There are still risks near-term with health lockdowns (regional, not national) and still slow US mobility. Economists expect solid growth in both the US and globally. This should provide support for further financial market advance. In fact, the market rise is making that statement, growth is occurring.

Money growth will support economic prospects in early 2021, but may spell trouble in 2022 and beyond. During recent years and in 2020, it appeared that governments operated without rules – the only rule was there were none. The world governments discarded fiscal operating goals to flood the system with stimulus support. As we progress through 2021, fiscal spending rules will likely appear nonexistent because governments (US and other sovereigns) will pursue large spending actions to displace the negative economic effects from COVID and the Great Lockdown. The US election will transition to new leadership and policies. With the Georgia Senate runoff election complete, the composition of legislation and government action in Washington will change for the next couple of years at a minimum. With the same party controlling the White House, House of Representatives, and the Senate being 50/50 wherein the VP breaks ties, there will likely be less divided government or "gridlock"; financial markets historically prefer gridlock due to slower-moving policy change. Nevertheless, this partisan shift in Washington will be viewed as a mandate for bold action. A changing field of playing rules can be unsettling for business or the financial markets. Markets are anticipating another round of $2000 stimulus checks; Georgia's senator changes provide that opportunity. More fiscal stimulus and deficit spending helps growth in early 2021, but creates headwinds for 2022 and beyond as budget reconciliation rules require repayment over 10 years; that will likely lead to tax increases and other regulations.

Stocks usually provide a positive return experience in the first year of a new administration, but with increased volatility. Investors should not expect robust returns of recent times to continue. Valuations of all investment types are extended. To normalize lofty valuations, company earnings need to continue to grow while asset prices stabilize and allow the current valuation gap to narrow. A new administration will announce new policy direction, which will create uncertainty to the market and investors. As an added result, volatility rises, and this too will dampen the upward pace of returns during 2021. Thus, stocks should provide for a positive return experience at a slower pace, with increased volatility - anticipate pullbacks or a correction.

2021 will provide its own excitement. Most years provide some unexpected surprise. Remember, it happens in the blink of an eye. What's a prospective big surprise for 2021? Maybe it's rising long-term interest rates. Most economic forecasters expect 10-year Treasury rates (currently rising above 1%) to finish 2021 between 1.25% and 1.5%. A very small number anticipate rates rising above 1.5%. The surprise is rates rising to near 2% this year. That could be a combo package of higher inflation from an expanding economy and/or the markets imposing its own limits on expanding debt and deficits (approaching 18% of GDP with no apparent cost). Rising rates could test the Fed's resolve of keeping rates low for a couple of years. Higher rates could also challenge the global US dollar position which enjoys exorbitant privilege in currency markets. As always, higher inflation (oil and commodity prices are rising) and rising long-term interest rates do not define the time or hour of an unhappy "blink of the eye." But for 2021, stocks should advance at a slower pace as the economy

ANNOUNCEMENTS:

- Early January - 1Q 2021 fees collected and 4Q reports distributed.
- January 18 - Martin Luther King Jr. Day; banks & markets closed.
- February 15 - Presidents' Day; banks & markets closed.
- Mid-February - Tax Reports delivered by Schwab for 2020 tax year. See Special Note on page 5 for details.
- March 31 - Last Day of 1Q
- April 2 - Good Friday; stock and bond market closed but banks open.
- April 15 - Deadline to file personal income taxes; and last day to contribute to IRA accounts for 2020 tax year.
- Our ADV Part 2A & B as required by the SEC & Ohio (and other states) is available to you anytime upon request.

and company earnings rise and thereby narrow the valuation gap, and volatility increases - pullbacks or a correction are probable. Uncertainties (risks) include: sentiment is very bullish/aggressive; valuations are full; and rising inflation/interest rates could surprise.

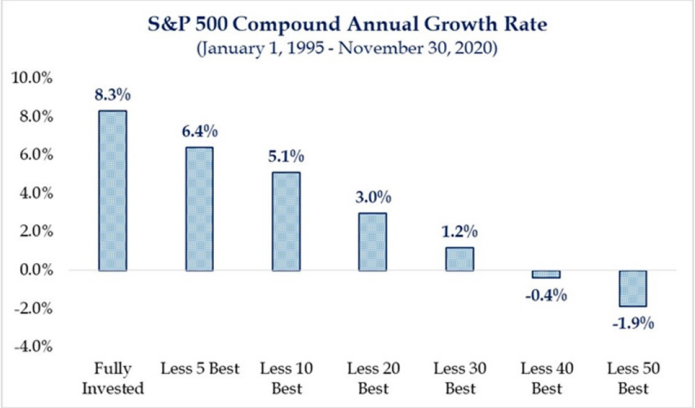
What ideas are being pursued for client investment portfolios? During 2020, we re-established stock and bond allocations to "risk on" as appropriate for the investment objective of an account. We expected the recession to conclude. From experience, recoveries provide a faster market rise for small- and mid-size companies compared to large. And, valuations were more attractive in value-style (not expensive growth styles) and foreign. Even with bond allocations, we re-established exposures for recovering economic conditions. That worked very well. By the end of 2020, we needed to rebalance portfolios for risk; carving off above-target exposures to strong performing stocks and adding to bond allocations. Tough decision – but portfolio risk management is critical. Plus, if income tax changes are legislated, wherein capital gains are taxed as ordinary income, it is better to realize gains in 2020 when cap gains rates are low. 2020 provided a double tax benefit to taxable personal accounts – capture losses to offset future gains (avoid taxes) and then capture some gains at year-end before tax laws potentially change/rise. We are pursuing being fully invested, because we expect financial market to continue to advance, as written herein.

The history lesson from the financial markets indicates that long term returns are up with stocks beating bonds often, and by a lot. Thus, if you have time on your side, you want to own more stocks than bonds. Of course they also experience more volatility. As a result, the best investors are like Rip Van Winkle – they take a long nap and miss the annual surprises. To be successful, you must be invested before you nap. If you are prone to watch and stay awake, you may be surprised what can happen in the blink of the eye. Look back at 2020. Just don't react on emotion; that's trouble.

LIGHT BULBS REVEAL A "BETTER IDEA"

In 1967 Ford unveiled a "see the light" marketing campaign for its new Mustang. That campaign utilized a light bulb which was turned on to illuminate the room with the new Mustang model. This symbolized how seeing something in a new light can result in an epiphany moment – the message: "Ford has a better idea", a different approach.

With the start of another year, every investment company is eager to provide their "crystal ball" forecast. Make no mistake, forecasts are helpful and the pages of this newsletter share our perspective about probable key themes for investors in 2021. We believe these insights are thoughtful and backed by fundamentals; they influence how we are tactically positioning portfolios. But the reality is that no one can say for sure what will develop in the months or year ahead or even more important how the markets might react in the short-run. There are those who don't know that they don't know (are dangerous; attempt to jump in an out of the market on news and often miss significant portion of performance), and those who know they don't know. For those wise enough to know they don't know, they focus most intensely on what they can control.



In stark contrast with the illusive working crystal ball, we all know that functional light bulbs exist. Light bulbs brighten the picture; they bring the picture into clear view and eliminate darkness and uncertainty. At Nvest, we believe we can provide a light bulb experience. We call that light bulb LIVING LIFE, and believe our approach to financial planning is relatively unique; a "better idea" if you will. Let us explain.

Anyone can find good tools online or utilize excel to project what savings today might grow to become in the future. But it displays just a piece of the picture. The other important insight to the picture is how you allocate or use your financial resources *today*. We call our financial planning LIVING LIFE because we strongly believe that how most people live life today is very similar to how they will desire to live life in the future. Most people do not change how they live today, or in retirement. But their income changed. While our process is not interested in the detail of where you spend money, the total cash flow or "income statement" picture is powerful information for long-range planning.

Our LIVING LIFE financial planning effort strives to help clients link their "balance sheet" (savings assets) with their "income statement" (spending) and present it in a format that is both comprehensive and easy to "see" how financial life will actually work down the road. It shares how and when accounts and assets will be drawn upon. The process answers, how much do I really need to retire and continue living life the way I am accustomed? How will social security, retirement accounts, pensions, insurance and etc. fit together? What will taxable income look like? How can market volatility impact the success of my plan? It also aids keeping perspective when markets behave in unexpected ways or turn stormy.

These questions and more are what the Nvest approach to financial planning directly reveals, and it is unique to/for each client. Clients share that the insights and analysis are like a "light bulb" being turned on for the first time.

While most financial planners may use tools to look at a piece of the picture (balance sheet or income statement), few strive to marry the two together. That's unfortunate, because this clarity and "light" reveals how savings/assets (we refer to it as one's "life effort compressed") will provide for living life, which is what everyone seeks to understand. This knowledge "delivers financial peace of mind" (our tag line). If you need help with financial questions, or your plan needs updating, resolve to partner with us in this area during 2021.

Benchmarking as of December 31, 2020

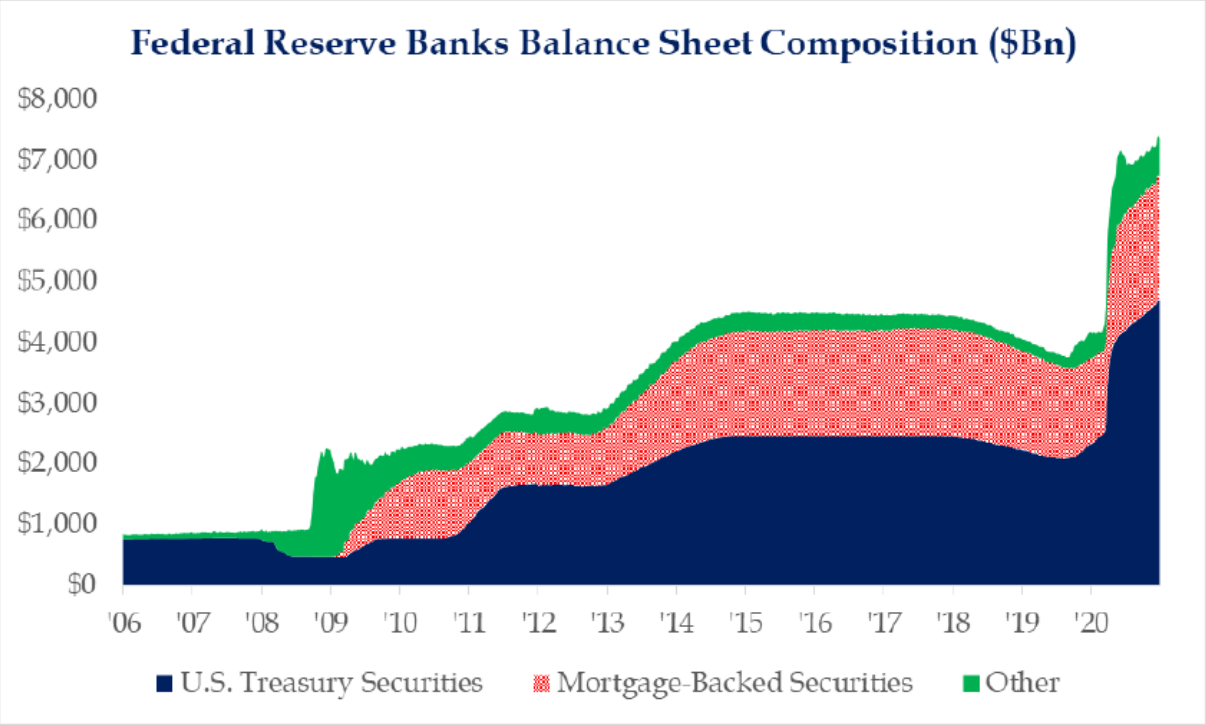
Summary of index portfolio returns compiled by Nvest Wealth Strategies, Inc.

Index Portfolio	Stock/Bond Allocation		Total Return Through 12/31/2020			
			4th Qtr	12 Mths	3 Years	5 Years
Capital Preservation	0% / 100%	*Cumulative*	1.0%	3.5%	9.2%	13.3%
		Annualized		3.5%	3.0%	2.5%
Income	20% / 80%	*Cumulative*	4.2%	6.3%	13.9%	24.2%
		Annualized		6.3%	4.4%	4.4%
Balanced Conservative	35% / 65%	*Cumulative*	5.9%	7.7%	16.4%	30.1%
		Annualized		7.7%	5.2%	5.4%
Balanced	50% / 50%	*Cumulative*	8.2%	9.8%	20.3%	39.4%
		Annualized		9.8%	6.4%	6.9%
Balanced Growth	65% / 35%	*Cumulative*	10.7%	11.7%	23.6%	48.2%
		Annualized		11.7%	7.3%	8.2%
Growth	80% / 20%	*Cumulative*	13.2%	13.9%	27.9%	58.9%
		Annualized		13.9%	8.6%	9.7%
Aggressive Growth	95% / 5%	*Cumulative*	15.1%	15.3%	30.2%	65.4%
		Annualized		15.3%	9.2%	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,

Fed Support

In response to the economic lockdowns imposed to slow the spread of COVID-19, policymakers around the globe pursued extraordinary fiscal and monetary stimulus in early 2020. In the US, the Money Supply (M2) is up an astonishing +25% over last year and the Federal Reserve grew the size of its balance sheet over 75% by quickly dusting off programs first created during the 2007-09 "Great Financial Crisis". For now, it appears that governments can operate without fiscal limit, and financial assets are a benefactor.



Selected Mutual Funds - Total Return Performance Summary

As of December 31, 2020

Bond Funds - Taxable	Style	4th Qtr	12 Mths	3 Years	5 Years
Taxable Short-Term Bond Average		*1.1%*	*3.8%*	*3.1%*	*2.7%*
Taxable Intermediate Bond Average		*1.0%*	*7.5%*	*5.1%*	*4.3%*
Wells Fargo Ultra Short	AS	0.6%	2.4%	2.4%	2.0%
Vanguard Short Federal	HS	0.4%	4.4%	3.2%	2.3%
American Century Short Duration	HS	1.1%	4.1%	3.3%	2.7%
Pioneer Short-Term Income	HS	1.9%	1.0%	2.3%	2.0%
DoubleLine Low Duration	HS	0.8%	1.8%	2.5%	2.5%
Vanguard Short-Term Investment Grade	HS	1.0%	5.1%	3.9%	3.3%
American Funds Bond Fund of America	HI	1.5%	10.7%	6.1%	4.8%
American Century GNMA Income	HI	0.6%	3.7%	3.4%	2.5%
Diamond Hill Corporate Credit	LI	5.4%	9.5%	7.4%	8.3%
Miller Convertible	LI	7.8%	19.4%	8.1%	8.0%
Bond Funds - Tax Exempt					
Tax-Free Intermediate Bond Average		*1.9%*	*4.5%*	*4.0%*	*3.2%*
Vanguard Muni Limited Term	HS	1.7%	5.1%	4.4%	3.5%
T. Rowe Price Tax Free S/I	HS	0.7%	3.3%	2.7%	1.9%
Vanguard Muni Intermediate Term	HI	1.7%	5.1%	4.4%	3.5%
Vanguard Ohio Long-Term	HL	2.1%	7.0%	5.3%	4.6%
Stock Funds - Domestic					
S&P 500 Index		*12.2%*	*18.4%*	*14.2%*	*15.2%*
Equity Fund Average *(Morningstar Mgr Agg US Core EW)*		*20.0%*	*15.4%*	*9.8%*	*12.3%*
Schwab Large Cap Growth	LG	11.7%	39.1%	23.2%	20.6%
Parnassus Endeavor	LG	25.9%	27.4%	13.7%	16.4%
T.Rowe Price Dividend Growth	LV	11.8%	13.9%	13.9%	14.5%
WisdomTree US Quality Dividend Growth	LV	9.6%	13.8%	11.8%	14.7%
American Century Equity Income	LV	10.5%	1.1%	6.3%	10.2%
Hennessy Focus	MG	10.7%	5.5%	8.4%	10.2%
John Hancock Multifactor Mid-Cap	MB	20.3%	16.2%	11.0%	13.3%
John Hancock Disciplined Value Mid-Cap	MV	21.7%	5.6%	5.3%	9.1%
SPDR S&P600 Small Cap Growth	SG	29.8%	19.5%	11.5%	14.1%
Neuberger & Berman Genesis	SB	20.7%	24.8%	14.7%	15.5%
Diamond Hill Small-Cap	SV	20.6%	-0.6%	0.8%	5.3%
SPDR S&P600 Small Cap Value	SV	32.8%	2.7%	3.7%	10.3%
Stock Funds - International					
Morgan Stanley EAFE Index (Foreign)		*16.1%*	*7.8%*	*4.3%*	*7.5%*
Oakmark International	LV	31.5%	4.9%	-0.1%	6.9%
Schwab Fundamental International Index	LV	21.8%	4.0%	1.9%	7.1%
John Hancock International Growth	LG	12.2%	22.1%	10.9%	12.0%
Thornburg Developing World	LG	21.6%	22.7%	10.3%	13.3%
Harding Loevner International Small Company	SG	15.4%	18.5%	8.1%	11.2%
Hennessy Japan	LB	12.6%	25.5%	11.5%	15.3%
Stock Funds - Specialty					
Salient-Forward Select Income (REIT)	MV	9.1%	-3.2%	1.4%	3.8%
Neuberger Berman Real Estate Securities	MV	6.3%	-1.6%	7.0%	7.3%

SPECIAL TAX NOTICES:

Official tax-related documents and 1099 information will be delivered directly from Schwab to clients with taxable accounts (such as individual, joint, or trust accounts) around mid-February. These 1099 forms detail realized gains/losses and dividend or interest income generated in your account during the 2020 tax year. Schwab intentionally delays delivery of these documents until mid-February to reduce the issuance of corrected 1099 forms.

For retirement accounts, forms detailing distributions (Form 1099-R) will be delivered in mid-January. Reporting of contributions (Form 5498) are made available *after* the April 15 tax filing deadline; if you are planning to make a Traditional or Roth IRA contribution for the 2020 tax year, it must be received by Schwab not later than April 15, 2021. Contributions received after that time will either be returned to you or posted as a 2021 contribution. This deadline applies even if you are filing for an extension. If you would like us to furnish Schwab's tax documents to your CPA or tax professional as they become available, please direct us to do so and provide us with their contact information in an email.

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