nVEST nSIGHTS

December 31, 2021

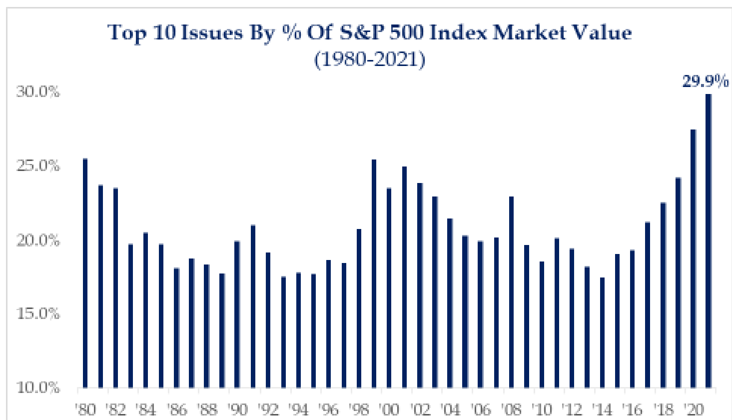
IN THIS ISSUE:

LOWDOWN ON 2021

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

2021 provided a second, actually a third consecutive year of double-digit positive investment returns for stocks. Most forget that the S&P500 jumped +31.5% in 2019 because of the shocking peak-to-trough drawdown of -34% in 1Q2020 as the magnitude of COVID to the economy weighed on financial markets; yet 2020 (full year) advanced +18.2%. For 2021, the S&P500 advanced +28.6%. In the 21-months since the March 23, 2020 low, this young bull market return grew to almost +120%. This new bull market was powered by gigantic fiscal and monetary stimulus that the economy was/is unable to fully use to finance its growth, but it powered asset prices skyward. This stimulus is also in part responsible for the hotter inflation being experienced. Investors would not want to miss this market journey; and attempting to time the market would be a near impossible strategy (if you got the COVID story right, you probably got the market call wrong). For those that wanted to deploy new money last year, a keenly involved investor understands the 2021 advance was also a story of challenge. The greatest pullback was only -5% which never allowed anyone the opportunity to invest at lower values.

Further and perhaps more important, a different performance story existed under the surface. Very few stock investments (mutual funds, ETFs or individual names) finished as strong as the S&P500 index, other than 5 or 10 BIG companies that produced the oomph. Those few names really powered the S&P500 to its final new market highs (total of 70 for the year) as the last quarter of the year concluded. The top 10 names comprise nearly 30% of the overall index making it more top-heavy than ever (historical average is closer to 21%; Apple is the single-issue largest weight of 7%). The average stock is down -13% to -20% over the past few months, while the index is making new highs. Momentum really faded from the start to the end of the year.



Stating it differently… ending 2021 was very different than it began. Beginning the year, more than 90% of S&P500 stocks were continuing in an uptrend, trading above their 200-day moving average. That's most everything performing quite strongly. As we start 2022, roughly 74% (was 65% on 12/5) of stocks in the index were trading above the 200-day moving average trend line. That is still a strong reading, but also testimony that the mood of investors is changing. As reference, when the market hit its low on March 23, 2020 (start of the current new bull market), when most everyone felt bewildered, only about 5% of S&P500 stocks traded above their 200-day moving average.

Recall, no client portfolio owns the S&P500 for many valid reasons – the key being risk. Stock allocations include large-cap (S&P500 exposure), mid- and small-cap (size) company stocks, and foreign. Plus, each cap-size incorporates both value and growth-style disciplines pursued by the various no-load mutual funds or ETFs. Diversification is a key/core principle to managing risk. Looking at the performance of the general stock allocation compared to the S&P500 reveals an underperformance (for market-action reasons cited above). Encouraging though, the tactical strategy employed since the market low is generating positive alpha above a static benchmark for each client investment objective – see Benchmark page. Each benchmark includes static exposure to both bonds and stocks (domestic and foreign). Our tactical strategy employed in client portfolios attempts to slightly adjust exposures based upon valuation and risk characteristics. Valuations and risk rise together. Managing risk involves awareness to valuation – buying low (cheaper valuation with less risk) and selling (rebalancing) at high valuations and risk. An example in simple terms - US/domestic stock valuations are high compared to many other global/world markets. Our focus is to keep advancing you toward your "LIVING LIFE" financial plan goals.

We expect 2022 to continue the new bull market advance, albeit at a slower and more choppy pace. It will be critical to not get distracted by market volatility, even a market correction, while pursuing a long term investor focus.

nvest WEALTH STRATEGIES

Delivering financial peace of mind.

10268 Sawmill Parkway
Powell, Ohio 43065
614.389.4646

WWW.NVESTWEALTH.COM
Email: info@nvestwealth.com

JOURNEY INTO 2022

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

In John Eldredge's little book "Epic", he writes that "life does not come like a math problem which can be solved by plugging numbers into an equation to get an answer. Rather, life is like a story – waking up each day in the middle of this journey that is sometimes wonderful, sometimes awful, usually a confusing mixture of both, and we may be without a clue how to make sense of it all. The plot may thicken as we don't know how a day, a month, or the year may end. We must live one day at a time." So too is a new year – viewed as the end of one chapter and often considered the beginning of another. A better metaphor is describing life being a journey – a path or road trip along life's journey. There is a beginning for every journey, even an opportunity to start again. Each of us also experience our own individual investment and financial journey. There was a beginning which continues over our entire lives. The investment journey in 2022 will evolve; it will be different than guesses offered at its start. As we begin 2022, let's suggest what the path could look like, keeping in mind our "flash light" is somewhat dim or unable to shine ahead very well.

We begin 2022 with a different market tone than last year.

- It's all about rates. Low interest rates and lots of excess money sloshing around in the financial system neutralized index volatility last year; volatility will likely be different in 2022 as the Fed and other central banks raise interest rates and tighten monetary policy to combat rising inflation. Excess money in the financial system is being consumed; not much new will be added. So, 2022 change will occur because of a shift on the monetary policy front – "quantitative tightening"; it will be reflected first by watching the bond market (rates rise), which then creates stock market reaction. Key – monetary policy changes should proceed with care (not speed, which could kill the economy and market).
- "Washington, we have a problem." Inflation surge, the highest in 39 years, is stickier and longer lasting than Fed/central bankers desire due to supply chain and delivery bottlenecks that will gradually ease. "Transitory" needs defining. Because inflation is proving sticky, it means longer than 1 year, maybe 3 to 5 years depending on how shortages (labor, products, etc.) return to "normal." In any case, inflation is the "Grinch" that steals. We are likely at "peak bottleneck" which should lead to "peak inflation", but the Omicron variant may create a small setback.
- Earnings that power stock prices higher should grow at slower rates than 2021. That suggests existing valuations should not expand but could contract. Analysts expect earnings to be softer in 2022. Yet, could estimates prove understated if/as inflation remains sticky and companies raise product and service prices; albeit still growing slower than during 2021? The economy can handle a continued short disruption in demand due to bottlenecks; it also has access to sufficient cash to finance growth; and there is a remedy (vaccination) to the problem (COVID virus and variants) to avoid another Great Lockdown. Key – bringing the health "emergency" to an end and moving life and business activity more normal. This would be especially helpful to foreign vs. domestic investment performance.
- Government policy influencers are present. Midterm election years bring about stock market volatility and buying opportunities (as markets pause/correct); wave elections – voters removed the party in power in 8 of the last 9 elections. State governments' cash coffers are full and even overflowing which could lead to opening their fiscal spigots. "Build Back Better" shrinks in size and seeks to do fewer things better. New regulations on climate change, banks, and big technology are like dark clouds affecting the outlook. Could there occur regulation over legislation? Might Putin (Russia) and Xi (China) press their "bets" against a polarized and frozen western world; at the same time North Korea and Iran press their threats on nuclear and higher oil prices? Key – there are many political "fireflies" that could stir at any time to create new market worry.

What does all this mean; how should investors approach 2022? We believe the tactical strategy implemented coming out of March 2020 remains valid - smaller-size company stocks perform best against inflation; value will be resilient over growth amid rising interest rates and stickier inflation.

Were you ever on a plane near dusk? Recall looking out the window toward the west revealing a beautiful sunset; looking out the east window reveals the blackness of night? One side is beautiful; the other is dark. In either case, the path of the plane is still toward its destination; it's still the

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nvest WEALTH STRATEGIES

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ANNOUNCEMENTS:

- Early January - 1Q 2022 fees collected and performance reports sent.
- January 17 - Martin Luther King Jr Day; markets, banks, and Schwab closed.
- Mid-February - Official tax forms and information will be available from Schwab.
- February 21 - Presidents' Day; markets, banks, and Schwab closed.
- March 31 - End of 1Q. Quarterly Reports sent early April.
- April 18 - Tax Filing Day! Also last day to make contributions to IRA/Roth accounts for 2021.
- Our ADV Part 2A & B as required by the SEC & Ohio (and other states) is available to you anytime upon request.

journey. Similar too with investing. It's all about the path, the journey while staying focused on the destination. Stay on the path. It's rarely easy moving from early-cycle with big ups to mid-cycle in a bull market. That's because as we are near/at full employment, returns get more sloppy and volatile. *We cannot grab hold of the future if we keep holding on to the past*, or being distracted by prospective transitory worries. Look forward, not backward. Investing for a life time, even a short time interval, requires identifying your purpose (for the monies) and time horizon. Then invest pursuant to these key markers.

"Life is a story, in volumes three - the past, the present, and the yet to be. The first is finished and laid away. The second we're reading day by day. The third and last, volume 3 is locked from sight until eternity." What we lived, we cannot undo; the past is over. Volume 2 is today's path along the journey. So keep moving along the path, and keep writing your today.

HEALTHY HABITS

Steve Henderly, CFA | Nvest Wealth Strategies, Inc.

Are you setting New Year's resolutions in pursuit of being a better version of you? Health and finance are two common areas of resolution focus. When it comes to being healthy, people often resolve to sit less (move more), eat more nutritious foods, and of course exercise. On the personal finance side, the most common ideas are to spend less and/or save more. Sounds simple, but how can we make the resolution more intentional and enhance the probability of success… and your long-term financial "journey"?

For Nvest clients, a familiar question we ask at the beginning of almost every investment review meeting: "is the investment plan (objective) still valid; has anything changed?" Has the purpose or time horizon of the money in your accounts materially changed since the investment objective was last set/adjusted? Losing sight of how much of your money in each account which can comfortably remain longer-term, can dramatically reduce the growth of your assets over time. Recall, your investment mix is the biggest driver of your return experience. It's not about timing the market (getting in or out), what securities you own, or other factors… it's all about what proportion is held in stocks, bonds, real estate, cash, etc. To the extent time (we define as 5+ years) is available, money can remain growth oriented.

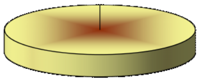
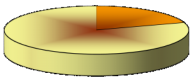
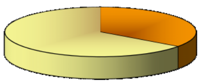
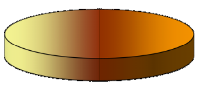
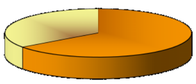
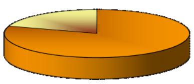
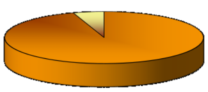
So, how can one save more and make the most of time on their side? And, where should savings occur to optimize growth AND flexibility? A few ideas:

- Are you eligible to contribute to an HSA (health savings account)? If so, this should be of high priority if you can largely avoid utilizing it for current health expenses. That's because HSAs are the only "triple tax advantaged" account that exists. Money is contributed pre-tax, can be invested and grow inside the account tax-deferred like an IRA, <u>and</u> is tax free upon withdraw anytime for health-related expenses. This strategy advocates investing the monies in a growth-oriented mix until retirement with the resulting accumulation being quite large; not spending the money annually. Even if you do not use the account for health expenses down the road (which seems unlikely considering how expensive is healthcare), withdraws in retirement will be treated the same as your traditional IRA.
- Did you get a raise? If you are not already maxing out your retirement account contributions, give your retirement account a boost as well. 401k and 403b contribution limits increase in 2022 - now $20,500 for individuals; individuals over age 50 can contribute an additional $6,500.
- Consider also using your raise to increase your after-tax savings in personal brokerage accounts. Saving after-tax money is one of the best ways to enhance your financial freedom both now and someday in retirement. Those with only pre-tax savings often observe quicker consumption of their investment assets, and fewer strategies to control taxes in the future.
- Spend less. Sounds simple, but difficult if one lacks the detail where spending is actually occurring. Consider developing a simple spending plan (aka budget). Then, track your spending against it (our LIVING LIFE client portal can largely automate this!) . Comparing your budget to where money is actually flowing can help you assess whether your spending matches your priorities (needs, wants, luxuries, and help identify areas that you otherwise consider "waste").
- Hoard less cash – thoughtfully review and set guardrails at the bank. How much cash is too much? Consensus tends to center around keeping 3-6 months of living expenses in cash. More than that for most people is likely unproductive. If you experience a regular monthly surplus, set up automatic transfers into your investment account. This is also a way to reduce the emotional obstacle that can arise when one is considering moving a large lump of cash that's accumulated at the bank into investments (moving size creates a "time" of worry?). For most people it feels more daunting to deploy large amounts vs. several smaller ones.

Some final thoughts as you consider your resolutions for 2022. What causes individuals to fall short in regularly saving or straying from their optimal goal? It often boils down to near term uncertainty and emotion created by noisy news. Thus, resolve to consume less news. Remain aware of what's going on, knowing that there was never a time absent of worry (for life or financial markets). Consider disabling push notifications on news apps and limit the TV & talk radio. Do your best to automate and be regular in your savings. Time is your greatest ally. Keep focused on your goals, and realize that there will be uncomfortable moments along the journey; worry less about what you hear friends or colleagues doing. These things can interrupt or impair achieving <u>*your*</u> financial goals and achieving peace of mind. "There's something HOPEFUL about going into The New Year knowing good people are on your side."

BENCHMARKING AS OF DECEMBER 31, 2021

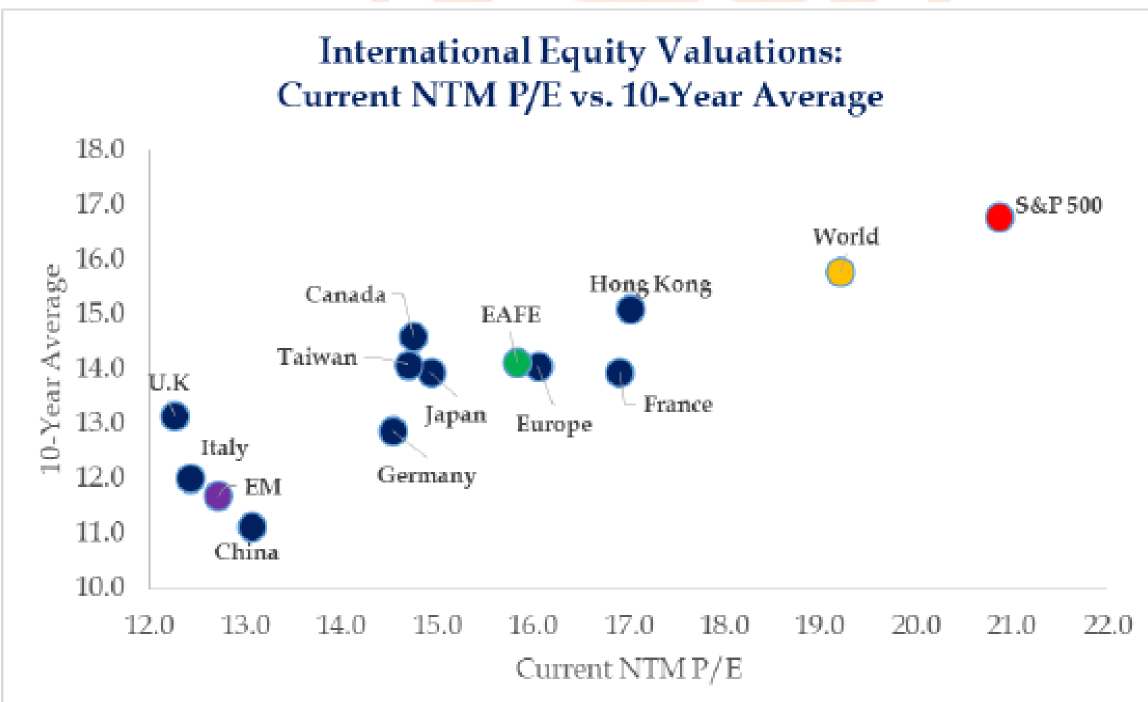
Summary of index portfolio returns compiled by Nvest Wealth Strategies, Inc.

	Index Portfolio	Stock/Bond Allocation		Total Return Through 12/31/2021			
				4th Qtr	12 Mths	3 Years	5 Years
	Capital Preservation	0% / 100%	*Cumulative*	-0.4%	0.1%	8.7%	11.7%
			Annualized		0.1%	2.8%	2.2%
	Income	20% / 80%	*Cumulative*	0.8%	3.9%	18.9%	25.6%
			Annualized		3.9%	6.0%	4.7%
	Balanced Conservative	35% / 65%	*Cumulative*	1.4%	5.9%	24.4%	33.2%
			Annualized		5.9%	7.5%	5.9%
	Balanced	50% / 50%	*Cumulative*	2.4%	9.0%	32.6%	45.6%
			Annualized		9.0%	9.9%	7.8%
	Balanced Growth	65% / 35%	*Cumulative*	3.2%	11.7%	40.9%	57.5%
			Annualized		11.7%	12.1%	9.5%
	Growth	80% / 20%	*Cumulative*	4.2%	14.8%	50.3%	71.7%
			Annualized		14.8%	14.6%	11.4%
	Aggressive Growth	95% / 5%	*Cumulative*	4.7%	16.6%	56.8%	80.4%
			Annualized		16.6%	16.2%	12.5%

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,

U.S. Expensive Compared to International

The S&P500 remains one of the most expensive global markets. It is no secret that international equities are a relative bargain, but what can be the catalyst for their outperformance? We wonder if a weakening US dollar, AND weaker covid variants cause foreign governments to finally abandon the idea that rolling lockdowns are an effective or appropriate mitigation strategy; keeping their economic recoveries going may occur in 2022.



Selected Funds - Total Return Performance Summary

As of December 31, 2021

Bond Funds - Taxable	Style	4th Qtr	12 Mths	3 Years	5 Years
Taxable Short-Term Bond Average		*-0.5%*	*0.1%*	*3.0%*	*2.4%*
Taxable Intermediate Bond Average		*-0.2%*	*1.5%*	*4.8%*	*3.5%*
Allspring (fka Wells Fargo) Ultra Short	AS	-0.2%	0.2%	2.0%	1.7%
Vanguard Short Federal	HS	-0.6%	-0.6%	2.6%	1.9%
American Century Short Duration	HS	-0.3%	1.0%	3.0%	2.3%
Pioneer Short-Term Income	HS	-0.5%	1.6%	2.3%	2.0%
DoubleLine Low Duration	HS	-0.3%	0.6%	2.3%	2.0%
Vanguard Short-Term Investment Grade	HS	-0.7%	-0.4%	3.4%	2.6%
American Funds Bond Fund of America	HI	0.2%	-1.0%	5.8%	4.0%
American Century GNMA Income	HI	-0.7%	-1.7%	2.7%	1.9%
BrandywineGlobal Corporate Credit (fka Diamond-Hill Corp Cred)	LI	0.7%	4.0%	8.7%	6.7%
Miller Convertible	LI	3.6%	3.9%	11.8%	7.0%
Bond Funds - Tax Exempt					
Tax-Free Intermediate Bond Average		*0.6%*	*1.7%*	*4.3%*	*3.6%*
Vanguard Muni Limited Term	HS	0.6%	1.1%	4.3%	3.7%
T. Rowe Price Tax Free S/I	HS	-0.1%	0.2%	2.4%	2.0%
Vanguard Muni Intermediate Term	HI	0.6%	1.1%	4.3%	3.7%
Vanguard Ohio Long-Term	HL	1.1%	2.1%	5.7%	4.9%
Stock Funds - Domestic					
S&P 500 Index		*11.0%*	*28.7%*	*26.1%*	*18.5%*
Equity Fund Average (Morningstar Mgr Agg US Core EW)		*6.1%*	*22.5%*	*21.5%*	*13.9%*
Schwab Large Cap Growth	LG	10.8%	28.1%	34.4%	25.1%
Parnassus Endeavor	LG	8.8%	31.1%	30.6%	18.2%
T.Rowe Price Dividend Growth	LV	11.4%	26.0%	23.5%	17.3%
WisdomTree US Quality Dividend Growth	LV	12.5%	24.4%	22.4%	17.2%
American Century Equity Income	LV	6.8%	16.8%	13.6%	9.7%
Hennessy Focus	MG	7.4%	31.6%	23.2%	14.9%
John Hancock Multifactor Mid-Cap	MB	8.1%	24.4%	23.4%	15.3%
John Hancock Disciplined Value Mid-Cap	MV	7.6%	26.6%	20.2%	11.2%
SPDR S&P600 Small Cap Growth	SG	6.8%	22.5%	20.9%	14.2%
Neuberger & Berman Genesis	SB	8.4%	18.2%	24.1%	15.6%
American Centry Small Cap Value	SV	6.7%	36.5%	25.5%	12.4%
Diamond Hill Small-Cap (swapped to ASVIX/SLYV in June)	SV	7.7%	32.5%	16.9%	8.5%
SPDR S&P600 Small Cap Value	SV	4.4%	30.7%	18.6%	10.2%
Stock Funds - International					
Morgan Stanley EAFE Index (Foreign)		*2.7%*	*11.3%*	*13.5%*	*9.6%*
Oakmark International	LV	1.0%	9.0%	12.4%	7.1%
Schwab Fundamental International Index	LV	1.4%	14.5%	12.2%	8.4%
John Hancock International Growth	LG	2.2%	9.6%	19.5%	15.3%
Thornburg Developing World	LG	-2.0%	-3.0%	15.4%	12.0%
Harding Loevner International Small Company	SG	2.8%	12.9%	20.1%	13.9%
Hennessy Japan	LB	-4.8%	-3.1%	12.8%	12.1%
Stock Funds - Specialty					
Salient-Forward Select Income (REIT)	MV	2.7%	15.0%	9.6%	4.0%
Neuberger Berman Real Estate Securities	MV	16.3%	41.5%	22.3%	14.1%

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10268 Sawmill Parkway
Powell, Ohio 43065
Phone: 614.389.4646
Email: info@nvestwealth.com

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