nVEST nSIGHTS

June 30, 2020

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nvest
WEALTH STRATEGIES

Delivering financial peace of mind.

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65 DAYS… NOW WHAT?

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

June 23 marked 65 trading days (3 calendar months) off the March 23 low. The S&P500 gained +36.3% over that stretch; a recovery that in itself suggests the bear market is over. Yet, it is challenging to find any bear market associated with a recession that lasted only four weeks. [From the low on March 23 thru June 30, the S&P logged an advance of +39.3%.] That gain ranks third best in history, only barely trailing the initial surge off the 2009 financial crisis lows (+38.8%; the start of the now deceased nearly 11-year Bull market), and the 1982 low (+38.7%). That's good company. More important is the encouragement it should provide to investors who maintained discipline to avoid powerful emotions of worry and remain invested. The S&P500 jumped +20.5% during the 2Q (best in 20 years). Many market players now expect a pause in the near term - particularly due to usual sideways summer seasonality and also the uncertainties of the upcoming November Presidential election. History shows *weak* forward returns are likely in the short-run; but strongly supportive of very attractive forward returns over the next +6 and +12 month intervals. [Please see "Offense Still on the Field."]

Following what is arguably the fastest and steepest decline into technical recession ever, we took action to reposition client portfolios early in 2Q for expectations of economic recovery. Tactical adjustments within stock allocations included boosting exposure to funds concentrating on small- and mid-size companies that emphasize quality financial-managed businesses (Active fund/portfolio management). This is because smaller- and mid-size companies usually perform faster, rise more than large company stocks in the early innings of economic recovery. Also, foreign stocks are generally rebounding faster than domestic; likely attributable to their cheaper valuations and earlier "walk-back" strategies from COVID-19. Additionally, tactical adjustments within bond allocations included use of well-defined bond strategies with emphasis on higher quality balance-sheet businesses. These tactical adjustments show early strong performance in client portfolios. We anticipate they will continue to accrue attractive portfolio benefits.

It is critical to maintain a long term investment focus. It is amazing looking back, that the market always climbs a wall of worry; there are always market risks on the horizon. Yet history reveals that the market rises longer and more than it falls. Inevitably, those who too closely watch/listen to the "bad news bears" succumb to wrong investment action and/or disconnect from their time horizon. Often, such emotion reactions destroy investment capital and slow a portfolio's ability to recover. It is critical to pursue an investment process that is disciplined, proven, and repeatable. In managing client portfolios, we continually pursue these portfolio management traits, and also find them in successful no-load mutual funds and ETF we utilize. History proves staying invested works well.

OFFENSE STILL ON THE FIELD

It seems like an eternity ago when life seemed normal. Unexpected levels of uncertainty were our collective experiences during the 1st half of 2020. The coronavirus wrecking ball was terrible, leaving heartbreak, economic ruin and social disruption in its wake on a scale not recently experienced. The government-mandated economic lock-downs, to a near-subsistence crawl, created chaotic volatility in the capital markets. When you add the "merchants of bad" – journalists, politicians, and self-appointed experts – to set the narrative, it's easy to create and flame outsized risk of fear. Unfortunately, "bad" news carries more power to influence our attitudes than "good."

Catch your breath. It is probably safe to say that the US recession of 2Q is over. If so, it is also likely the shortest deep recession in history. The initial trajectory for economic stats should now remain upward from very low, depressed levels. Recovery is underway; appearing as a "V" at first, yet it is now likely entering a slower phase. It is reasonable to expect recovery to get fully back to 2019 economic and employment levels in a socially-distanced world will be difficult. Severe damage to employment will take time to fix; and its lingering effect is unstable economically and politically. Lockdown is somewhat easy. But reopen does not mean an easy return to normal. There will continue to be a "push and pull" between reopen and virus cases. Until schools are able to reopen (not in part or staggered schedules), economic/employment recovery will be limited. Unfortunately, a rise in new COVID-19 cases will also slow re-opening plans and the near-term pace of economic recovery. At some near future point, both medical (treatment and vaccine) along with the math of COVID (when more than half of the population is exposed) will reflect a slowing trend of exposures. Then, full re-open should be achievable and economic/employment growth will become more stable.

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The US and other global governments took extraordinary "shock and awe" action (fiscal and monetary) to calm and stabilize turbulent times. At present, the "offense" (Fed and global monetary & fiscal policy stimulus) is still on the field. It is reasonable to expect some continued monetary and fiscal stimulus will be utilized to boost economic and employment recovery; fiscal policy (social programs) are more effective than monetary (low interest rates) in providing near-term cushion.

"Severe damage to employment will take time to fix; and its lingering effect is unstable economically and politically. Lockdown is somewhat easy. But reopen does not mean easy return to normal."

One significant challenge from the Great Lockdown is fallout – supply chains were damaged or altered with some production returning to the USA; unemployment will lag the economy; China/US relations and trade are percolating again; China/Hong Kong tensions are high; and then there is the noise of November elections. There still remains the unknown of when and how government stimulus will be phased out? The Great Lockdown is over, but the fallout is likely complex and possibly long-lasting.

Presently, the economy and financial markets appear to be diverging. There are stark differences between economic GDP and the S&P500. Economic recovery lags the stock market. Or said differently, the stock market leads the economy with a forward view. For this reason, it is normal for multiples (valuation) on stocks to surge near lows in economic growth causing them to look wildly expensive (see chart on page 4). The result is valuations become somewhat meaningless in the early stages of recovery. Yet, valuation differences between asset types or styles reveal areas with better (cheaper) prices. Given the amount of Fed monetary support/stimulus, the only rule appears to be that there are no rules at the moment [other than perhaps the phrase "don't fight the Fed"]. Still, "caveat emptor" – let the buyer beware – remains an important principle for investors too. Be careful; do your homework; understand high-leverage, high debt investments. This market environment, including the approaching November elections, present an inflection point for Active investment management (not passive, own it all). Quality and marketability are always important components for successful long-term investment success.

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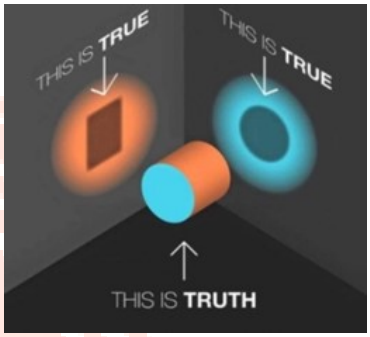
"In the short run the economy and financial markets are diverging… it is normal for multiples (valuation) on stocks to surge near lows in economic growth causing them to look wildly expensive."

TRUE VS. TRUE? AND TRUTH!



If a blue light is shown at one end of a solid cylinder, a blue circle (with a dark center) is displayed on the surface beyond it. The observer understands the blue circle is a "true" representation. At the same time, if a yellow light is projected on the side of the same solid cylinder whose length is equal to its diameter, a yellow square box appears on the surface beyond it; an observer would claim the yellow square box is a "true" representation. Which perspective is "true"; or is one perspective more "true" than the other? How something appears is a matter of perspective. Often, both perspectives are equally "true" depending on the viewing angle. The real "truth" centers with the character of the solid cylinder - it creates the shadow images when light is shown upon it from one angle or another.

Let's shift to look at the world of economics, financial markets, and political responses: what historical perspective can be gained from the Great Depression and recent government policy responses relative to COVID-19? How do they influence current/future market and economic events? Where to from here?

The Great Lockdown is much different than the Great Depression. With hindsight, the recession that started in 1929 was marked by *incorrect* hyperactivity by government. At various times during the Great Depression, the US made grave policy mistakes – it raised tariffs through the passage of Smoot-Hawley (1930); tightened monetary policy dramatically (1931); instituted price controls (1934); raised marginal income tax rates and introduced a tax on undistributed corporate profits (1935); increased reserve requirements on banks (1936); and introduced a huge array of regulations on businesses. And while the New Deal introduced protections for labor and oversight of financial markets, and was accompanied by impressive public works initiatives. Author and columnist Amity Shlaes argues in her "The Forgotten Man" that government policies did more to lengthen economic misery than to relieve it. All these actions were well-intentioned attempts to help those who were suffering. Interesting, with hindsight being a perfect 20/20, capital (money) "went on strike" due to not knowing how and/or when the rules on it might change.

ANNOUNCEMENTS:

- Early July - 3Q 2020 fees collected. 2Q performance reporting delivered
- July 3 - Independence Day (obs.); markets & banks closed
- July 15 - Revised deadline to file personal income taxes and make IRA contributions for the 2019 tax year remains April 15. Related, individuals over age 70.5/72 *not* required to receive distributions (RMD) in 2020.
- September 7 - Labor Day; markets and banks closed
- September 30 - Last day of 3Q
- Our ADV Part 2A & B as required by the SEC & Ohio (and other states) is available to you anytime upon request.

After falling 90% from 1929 to 1932, the market rallied 372% from 1933 to 1936. But the tax increases knocked the market down again in 1937-38 with a fresh -50% decline. In the end, the Dow Jones index did not surpass its 1929 high until 1954. Wow; that's a real travesty for savers! Government policy actions influenced "life" for years.

Fast-forward to the Great Lockdown of 2020. Many government policy actions were taken from the 2008 "financial market bubble" playbook to provide aid during this health crisis – revert to zero/no interest rate easy money policy and massive securities purchases to stabilize (backstop) financial markets; and provide huge fiscal policy spending for social program support. Like it or not, given the ballooning deficits (Federal and state), higher future taxes may be considered to make any recovery in the economy "fair" via social engineering. In addition, government involvement in personal and corporate lives (because economic/financial support was huge during the virus) is very likely, and could pose a dangerous future mix for savers/investors of any size. Did we learn from the 1920s? "Experience is simply the name we give our mistakes" – Oscar Wilde.

Did you know? Data since 1928 shows the incumbent party winning the Presidential election 87% of the time IF the S&P500 is positive over the 3 months leading up to the election; conversely that party loses when returns are negative. Another data study indicates that usually an incumbent President does *not* win re-election when a recession occurs within two years before election (Calvin Coolidge was the exception). Both of these opposing factoids are presently "true" experiences. What will be the "truth" in 2020? Government policy actions (current and future in particular) dealing with COVID-19 and the Great Lockdown could create long-term influence/effects on many aspects of life in America.

Stay alert, but stay invested. Investing a portfolio for "tomorrow" should involve adapting and evolving with government policies – meaning, some investments will take favor over others.

A FOCUSED FINANCIAL LIFE: NEW TOOL TO AID FINANCIAL FITNESS

1) Set financial goals; 2) Understand where your money is going; 3) Manage your debt; 4) Put your finances on autopilot; 5) Maintain a steady lifestyle; 6) Invest wisely; 7) Obtain knowledge and advice.

At Nvest, our primary goal we strive to achieve with each client is "delivering financial peace of mind." We believe this goal is best achieved through regular communication; a prudent, time-tested approach to investment management; and via a strong and detailed understanding of how your accumulated assets form the big picture, "financing" you through each stage of your life. In these respects, we are excited to introduce and make available to clients a new tool we call the LIVING LIFE client portal.

This client portal provides you with a single login so you can see your personal "balance sheet" and net worth in real-time via its aggregation technology to pull current account balance information from almost any bank or financial institution with online access. Few clients utilize a system to efficiently track everything relating to their financial life in one spot. Those that do, usually utilize a manual process that can be time consuming with the information quickly becoming stale. Allowing the LIVING LIFE client portal to be your data aggregator to keep all your important information in one spot will be helpful for you as well as your spouse or loved ones if/as needed over the years. And, to the extent you enable sharing the basic balance details with us, it also aids our efforts to provide big-picture financial planning advice and help you make wise financial decisions.

The second major capability of the LIVING LIFE client portal allows you gain valuable insight in the area of personal budgeting. When one links their credit cards and spending accounts, the spending tracker allows you to see *where* your money is going. This data is hidden from us by default, and provided only to help you gain greater awareness of where your financial resources are flowing. The simple exercise of tracking spending over a period of several months or throughout the year is healthy as a realistic budget, and a comprehensive understanding of your spending is critical to developing ideas about what life might look like at different stages. This tool simplifies that process.

Third, the LIVING LIFE client portal allows you to securely store important family documents. Anything can be stored electronically in the vault - from family pictures, passports, estate planning documents, and insurance policies. This encrypted online storage locker allows you or a loved one to quickly access those important documents at any time. There is also the ability to share documents with us, or they may be kept private by default. If you share some/all with us, we can help validate alignment with your goals – from financial positioning and risk, and to beneficiary/estate planning objectives.

We would love to share more about the LIVING LIFE client portal and provide you with access to this powerful tool. As you should recall, there is no additional cost to clients (whose total managed assets at Schwab are $250,000 or greater) for LIVING LIFE financial planning or other consulting. The time required for initial setup is efficient, and we believe you will find it valuable for many years. We are always looking for better ways to serve our clients, and believe this is a significant enhancement to utilize. Feedback from clients which started using the LIVING LIFE client portal is uniformly positive – great tool!

Please contact us with questions or to request your link to the LIVING LIFE client portal.

BENCHMARKING AS OF JUNE 30, 2020

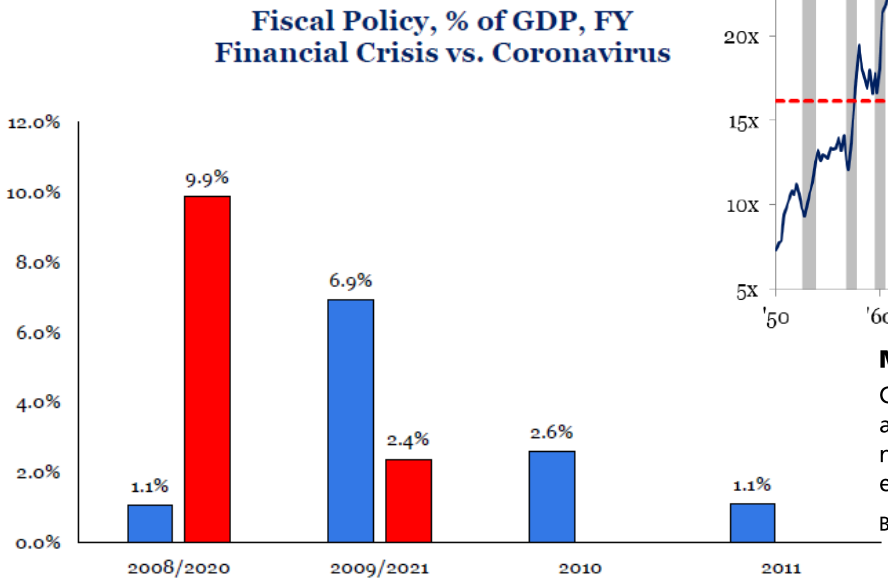
Summary of index portfolio returns compiled by Nvest Wealth Strategies, Inc.

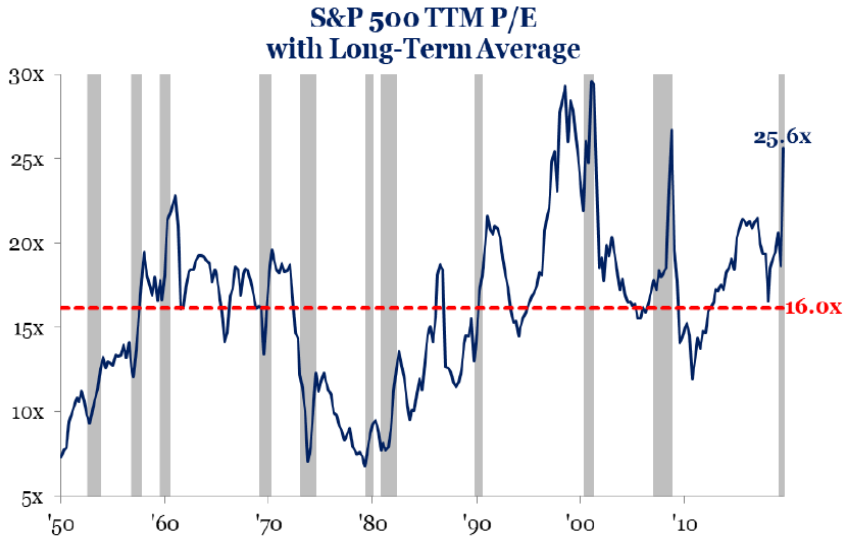
Index Portfolio	Stock/Bond Allocation		Total Return Through 6/30/2020				
			2nd Qtr	YTD	12 Mths	3 Years	5 Years
Capital Preservation	0% / 100%	*Cumulative*	3.5%	1.6%	2.9%	7.7%	10.8%
		Annualized			2.9%	2.5%	2.1%
Income	20% / 80%	*Cumulative*	7.2%	-0.1%	2.4%	9.5%	15.1%
		Annualized			2.4%	3.1%	2.9%
Balanced Conservative	35% / 65%	*Cumulative*	8.9%	-1.0%	2.1%	10.6%	17.4%
		Annualized			2.1%	3.4%	3.3%
Balanced	50% / 50%	*Cumulative*	11.6%	-2.2%	1.9%	12.5%	21.2%
		Annualized			1.9%	4.0%	3.9%
Balanced Growth	65% / 35%	*Cumulative*	14.1%	-3.6%	1.3%	13.5%	24.1%
		Annualized			1.3%	4.3%	4.4%
Growth	80% / 20%	*Cumulative*	16.9%	-4.8%	0.9%	15.4%	28.0%
		Annualized			0.9%	4.9%	5.1%
Aggressive Growth	95% / 5%	*Cumulative*	18.7%	-5.9%	0.4%	15.8%	29.7%
		Annualized			0.4%	5.0%	5.3%

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

Policy Response/Support to COVID-19 Crisis Huge!

During 1Q, the Fed and policymakers reacted forcefully to the economic impact of covid-19; dusting off a number of monetary programs that were created during the Great Financial Crisis (2007-'09). Both fiscal and monetary policy are significantly larger than utilized during that crisis.





Multiples Often Spike Near Lows in Economic Growth

Current valuations (Price/Earnings multiples), approaching 26x, appear high relative to average of 16x. But multiples often spike near lows in economic growth because earnings are depressed at economic low-points.

Both charts from Strategas Research Partners.

Selected Mutual Funds - Total Return Performance Summary

As of June 30, 2020

Bond Funds - Taxable	Style	2nd Qtr	YTD	12 Mths	3 Years	5 Years
Taxable Short-Term Bond Average		*3.9%*	*1.7%*	*3.1%*	*2.6%*	*2.2%*
Taxable Intermediate Bond Average		*3.9%*	*5.6%*	*7.9%*	*4.8%*	*3.9%*
Wells Fargo Ultra Short	AS	3.5%	1.1%	2.4%	2.1%	1.7%
Vanguard Short Federal	HS	1.0%	3.5%	4.8%	3.0%	2.2%
American Century Short Duration	HS	3.1%	2.0%	3.0%	2.5%	2.1%
Pioneer Short-Term Income	HS	4.8%	-3.5%	-2.2%	0.8%	1.1%
DoubleLine Low Duration	HS	4.3%	-0.4%	0.9%	2.0%	2.0%
Vanguard Short-Term Investment Grade	HS	4.8%	3.2%	4.9%	3.4%	2.9%
American Funds Bond Fund of America	HI	4.1%	8.0%	10.1%	5.4%	4.4%
American Century GNMA Income	HI	0.8%	3.4%	5.2%	3.5%	2.6%
Diamond Hill Corporate Credit	LI	11.1%	-1.2%	2.5%	4.7%	5.6%
Miller Convertible	LI	15.3%	2.8%	5.5%	4.2%	3.9%
Bond Funds - Tax Exempt						
Tax-Free Intermediate Bond Average		*2.7%*	*1.2%*	*3.1%*	*3.4%*	*3.1%*
Vanguard Muni Limited Term	HS	2.3%	1.7%	2.9%	2.4%	2.0%
T. Rowe Price Tax Free S/I	HS	2.2%	1.7%	2.7%	2.1%	1.8%
Vanguard Muni Intermediate Term	HI	2.6%	3.1%	4.2%	3.8%	3.5%
Vanguard Ohio Long-Term	HL	2.8%	3.4%	5.9%	5.0%	4.7%
Stock Funds - Domestic						
S&P 500 Index		*20.5%*	*-3.1%*	*7.5%*	*10.7%*	*10.7%*
Equity Fund Average *(Morningstar Mgr Agg US Core EW)*		*21.9%*	*-9.8%*	*-2.2%*	*4.4%*	*5.8%*
Schwab Large Cap Growth	LG	27.7%	9.7%	23.1%	18.4%	14.8%
Parnassus Endeavor	LG	23.1%	-7.7%	3.9%	5.0%	8.9%
T.Rowe Price Dividend Growth	LV	15.9%	-5.7%	3.0%	10.1%	10.5%
WisdomTree US Quality Dividend Growth	LV	17.9%	-5.0%	6.7%	9.9%	10.5%
American Century Equity Income	LV	12.2%	-11.9%	-5.3%	3.9%	7.7%
Goldman Sachs US Equity Dividend & Premium	LV	18.9%	-4.2%	4.0%	6.5%	7.5%
Hennessy Focus	MG	29.7%	-9.5%	-1.1%	6.5%	6.5%
John Hancock Multifactor Mid-Cap	MB	24.4%	-9.8%	-2.6%	5.4%	N/A
John Hancock Disciplined Value Mid-Cap	MV	17.8%	-17.7%	-10.8%	-0.4%	3.6%
SPDR S&P600 Small Cap Growth	SG	23.0%	-11.6%	-5.8%	4.0%	6.5%
Neuberger & Berman Genesis	SB	24.8%	-1.4%	4.3%	9.4%	9.3%
Diamond Hill Small-Cap	SV	16.3%	-25.8%	-19.5%	-6.0%	-2.0%
SPDR S&P600 Small Cap Value	SV	20.7%	-24.3%	-17.2%	-3.2%	2.2%
Stock Funds - International						
Morgan Stanley EAFE Index (Foreign)		*14.9%*	*-11.3%*	*-5.1%*	*0.8%*	*2.1%*
Oakmark International	LV	24.4%	-23.0%	-15.2%	-6.5%	-1.3%
Schwab Fundamental International Index	LV	13.4%	-17.5%	-12.2%	-2.1%	0.5%
John Hancock International Growth	LG	19.3%	-2.4%	5.4%	7.1%	6.8%
Thornburg Developing World	LG	21.6%	-8.6%	-0.8%	5.0%	3.6%
Harding Loevner International Small Company	SG	24.2%	-8.5%	-0.3%	2.7%	5.1%
Hennessy Japan	LB	20.7%	1.2%	9.3%	8.9%	10.1%
Stock Funds - Specialty						
Salient-Forward Select Income (REIT)	MV	20.0%	-18.0%	-14.1%	-4.2%	0.1%
Neuberger Berman Real Estate Securities	MV	11.1%	-8.5%	-0.7%	6.2%	7.7%

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