nVEST nSIGHTS

June 30, 2021

IN THIS ISSUE:

nvest WEALTH STRATEGIES

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RUFF & REDDY

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

Our June commentary was titled "Huff & Puff" which likened the story of "Three Little Pigs" and the big bad wolf to the financial markets huffing and puffing for a breather; or to the markets huffing/puffing concern for prospective inflation. Do you recall "Ruff & Reddy"? Ruff and Reddy are housemates and best friends, featuring a smart and steadfast cat (Ruff), and a good-natured and brave (but not overly bright) dog (Reddy). The "best friends" theme allowed emphasis on humor and wit. Hanna-Barbera Productions produced this half-hour animated series for NBC Saturday morning children's TV, premiering in December 1957 running for 156 episodes until April 1960. The series is notable as one of the earliest original animated TV programs using limited animation techniques – requiring fewer drawings with less inking and painting to save production costs. Entertainment then was certainly "funny" to watch compared to the current programming format; life seemed simple.

On June 30, the S&P500 produced its 34th new closing high of the year, and rising +15.3% YTD. That's equivalent to most full year returns, but in just 6 months. Stocks are up +38% over the past 12 months as we cross the mid-point of 2021, and the stock market is now 15 months off the March 23, 2020 low. This new bull market run is both longer and more powerful than two other comparable moves (1982 and 2009 lows), advancing +96.5%. That is a fantastic jump compared to an economy that was in lock-down for most of 2020 during much of the early advance.

Why? What's the power behind it? Recall that US monetary and fiscal stimulus grew the money supply at an annualized pace of +25% last year, and cumulatively by near +35% to this point; that's more than the economy can use to finance its growth. The excess is still flowing into financial assets, supporting and boosting prices. Even the prospect of additional fiscal spending (for infrastructure) is deemed encouraging to the financial markets, never mind that its influence will be spread over 5 to 8 years or more.

But under the surface, broader market momentum is softening; 57% of stocks are above their 50-day moving average, compared to the 92% reading in mid-April. Only 8% of Individual stocks made new highs (way down from when the markets were rising fast). June was an "up month" for the S&P500, yet there were more declining (286) stocks than advancing (219); the 4th time for this trait during the current bull market advance. All of these readings reflect a market that's narrower. Investors are wondering if the recent loss of internal momentum poses a problem. The stock market needs a pause - slowing momentum is normal following the robust advance of a new bull market. Keep a close watch on momentum, but the upward *trend* of the market is still strong and intact. Trend is more important at this point. Rotation of leaders is also normal and is underway just now. This can create an unsettling feeling for investors when recent winners are lagging behind those that were soft. The market may be saying (or wondering) if pain from the COVID lockdown is not over.

It's also important to remember that historically the second year of a new bull market is a slower advance, often creating frustration to investors due to pauses and/or a correction despite an economy that seems to be improving. And, 2021 is also the first year of a new administration in the White House. Since 1950, the first year of a new administration produced a positive stock market experience albeit with increased volatility – up/down/up/down. That's because as new policy and legislative ideas are announced, they create uncertainty. Investors attempt to analyze if proposed policy will be implemented, and that creates volatility. These are two reasons (2nd year of a new bull market, and 1st year of a new administration) 2021 should experience some ups and downs (a third reason is discussed below). It could be a little "ruff" during the advancing process near term. Yet, you must be "ready" by staying invested. Getting in and out does not work. Volatility is not fatal; it's just part of investing.

"HOTEL CALIFORNIA" - OUTLOOK, OR LOOKOUT?

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

How do you stop policy (aid) that appears necessary, but also may contribute to the very problem that is trying to be fought (unemployment)? The global financial crisis (2008) was a hinge moment for monetary policy wherein "zero interest rate" (ZIRP) and "quantitative easing" (buying bonds from the financial markets as money was put into troubled banks) were developed and effectively used. During the 2020 COVID economic lockdown, this monetary policy path was again utilized PLUS a more powerful tool of fiscal policy which legitimized deficit spending. This government policy mix poses the possible challenge of long-lasting inflationary pressure. How do governments walk-back from deficit spending which is designed to "aid" the unemployed and struggling small businesses? Strategas recently equated the question to the lyrics of the 1976 song by the Eagles, "Hotel California," "You can check out any time you want, but you can never leave." These words summarize the challenge of current deficit spending. Will abandoning government aid prove more difficult than envisioned?

The Fed currently desires inflation to run "hot" and maintains that easy money and current fiscal policy is appropriate until the economic conditions are fully reopened and unemployment reaches lows of the last economic advance. Further, the Fed considers inflation transitory – it will temporarily run hotter – but will return to desirable 2-3% levels over time. Looking at the US federal debt stats: interest expense as a percent of debt is near a 25 year low; near the lowest level on record at 3.6% (due to ZIRP); while actual aggregate (total) interest payments (expense) for all government (and businesses) is at/near all-time highs (again, because of ZIRP there is a loading up on debt). A secular shift upward of interest rates due to higher inflation experiences could present challenges to some heavy-debt companies and government. How do you stop policy (aid) that appears so necessary, but is contributing to the problem of excessive debt?

"It could be a little "ruff" during the advancing process near term. Yet, you must be "ready" by staying invested. Getting in and out does not work."

What is the market saying? Is too much liquidity becoming a bad ingredient for the market? The bond market yield curve is flattening with longer yields dropping. That can suggest inflation is unlikely a problem more than a few years out. Further, with interest rates drifting lower, it implies that economic growth peaked and/or starting to slow. There was a quick economic rise as life "reopened" from the lockdown. But, we may be experiencing peak economic data now, even when unemployment is not back to prior cycle lows. Fiscal stimulus is wearing off with trajectory of economic growth slowing despite roughly 7.5 million fewer jobs. Consumer spending (by both high and low income earners) is above pre-COVID levels but beginning to trend slower; spending is shifting to services – restaurants and travel. Where does the next economic growth boost come from? Employment needs to run full; consumer spending would need to tap savings or credit; or more stimulus. The stock market is also forward looking, and is currently highly rotational in part from rich valuations. Last year during lockdown, growth names with a "click" focus did well. As the economy started to reopen, cyclical and value stocks provided strong performance rebounds. Currently with interest rates sliding in prediction of peak data or slower economic conditions, rotation is underway with growth style leading the most recent advance. Thus, as the markets debate peak data - slowing economic conditions, or transitory, sticky or accelerating inflation, and still high valuations on asset classes - expect market volatility due to uncertain future policy ideas (deficits and/or taxes), and from wondering when the Fed will change current easy monetary policy (end QE and ZIRP). Markets are beginning to think about slower economic prospects for 2022; even the Administration is using +1.9% real GDP growth plus higher 3% inflation after 2023. These assumptions will lower investment return expectations and return lofty valuations closer to normal.

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"For investors, checking out of Hotel California is not practical. You may not like what you see, but you can never leave. You can check-out from the financial markets if your emotions push hard enough, you can hold cash because you are worried, but leaving can be very dangerous to your financial health."

A few more words regarding inflation as we recall that money supply is some 35% greater (very fast) than it was pre-COVID and was financed via deficit spending/borrowing. The public is in no mood to carry the burden of huge public debt. Taxes or inflation are two solutions to the debt problem, but with different economic outcomes. New/increased taxes (to pay off debt) will slow economic growth which is needed to create full employment. For this reason, some suggest the US needs inflation to run hot…for decades. Inflation may be the policy prescription that is more easily pursued. Inflation is a "tax" on dormant money, and is not currently levied on savers and bond investors, as long-term (running) inflation is not priced in. Inflation is a "stealthy" tax on investors without an act of Congress. Also, currency debasement (which creates inflation) may be the weapon in the new cold war toolkit for the US with China. Dollar devaluation (because of increasing big debt and deficit spending) versus global currencies makes US export product prices more attractive (cheaper); attacking low labor costs in many foreign markets. This is the reverse playbook to the Cold War with the Soviets where inflation was battled (strengthen US$) to drop the price of oil so Russia couldn't pay military expenditures and their domestic import prices increased (bad for their citizens). Today, government deficits and resulting inflation should keep the US dollar under pressure, allowing US made products to be more attractive for export (hitting on China and other low-wage foreign manufacturers). In a similar way, inflation allows borrowers, like the US, to repay debt with cheaper money. If inflation were 1%, it would take 50 years to bring the ratio of "debt to GDP" down to 80% from its current 110%. At 2% inflation, the "payback window" shrinks to about 20 years; at 3% inflation, the "payback window" whittles down to approximately 10 years.

For investors, checking out of Hotel California is not practical. You may not like what you see, but you can never leave. You can check-out from the financial markets if your emotions push hard enough, you can hold cash because you are worried, but leaving can be very dangerous to your financial health. Bonds do not provide investors relief from inflation. Sticky inflation requires investors to own short duration equities. That is, own stocks with histories of growing dividends

ANNOUNCEMENTS:

- Early July - 3Q 2021 fees collected and performance reports sent.
- July 5 - Independence Day (observed)
- September 6 - Labor Day; banks & markets 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.

where cash flows are returned to investors (not bond alternatives like high yield stocks). Anticipate that investment returns will be lower, muted by the level of inflation and/or taxes (investor's two enemies). It is proven that owning a diversified mix of different styles of mutual funds/ETFs buffers portfolios over the long cycle of investing, thereby providing attractive long term returns that aid personal financial goals and plans.

TRADING PLACES

We swapped *Diamond Hill Small Cap* (DHSCX) Fund into *American Century Small Cap Value* (ASVIX) in retirement accounts and *SPDR S&P600 SmallCap Value ETF* (SLYV) in taxable personal accounts in June. DHSCX was utilized in client accounts for 15+ years. The fund and company pursue a disciplined investment process that worked well. Value-style funds were out-of-favor (over the past 12 years) and some management changes generated lower trailing performance results when compared to peers. It is always difficult to swap funds and it creates meaningful capital gains in personal accounts. Proposed capital gain tax increases were also a factor in making the swap at this time; the ETF will provide better tax control if/as tax rules change.

Your quarterly investment report includes several performance reports, one being "Asset Class Performance Summary." This page provides insight into how the portfolio performed during different time intervals (ie: quarter, YTD, 12 months) for cash, bonds, stocks, and the portfolio as a whole. One interval included is the "New Bull Market", starting March 23, 2020 to June 30. Interesting how similar are the last 15 months returns compared to the "Last 5 Years" number (as applicable). Performance is fully about when you start counting. Do not interpret the similarities in numbers to suggest that timing the market is a good idea, or that it works. Timing the market does not work; is impossible to employ; and it definitely will cause long term returns to be small and unrewarding. Many studies show that missing a few early days of a new bull market, or any market rally, is very costly. Time (an investor's key ally) rewards all investors for retaining a long-term focus. It's also very helpful to pursue a disciplined investment process that time proves works. Good news – investing is rewarding as evidenced by time in the market!

IS YOUR BEACHBODY READY FOR SUMMER?

Jordan Acer, CFP & Steve Henderly, CFA | Nvest Wealth Strategies, Inc.

Meme stocks, Real-Estate, Initial Public Offering (IPOs), Special Purpose Acquisition Company (SPACs), Bitcoin, and Precious Metals - what do all of these share in common? Each is an example of an investment or asset currently receiving lots of "buzz" and client curiosity. While we do not typically follow these items intimately and prefer the diversification and liquidity of traditional mutual funds, bonds, and ETFs, we do not necessarily have anything against a client owning other assets when the exposure is properly managed. We do encourage anyone exploring ideas that are receiving intense attention from the media or "peers" to proceed with caution as the waters are often dangerous. If we were lifeguards at the beach, we would hang the yellow flag on the chair, "proceed with caution."

Pause and take a deep breath. Do not act on emotion or "FOMO" (Fear of Missing Out). It is important to first consider reasons to own any investment. Ask yourself, does the investment help me meet my financial goals? Am I fully aware of the risks associated with owning a *concentrated* position in one stock or sector? Am I being compensated adequately for the risks and/or relative illiquidity I will assume? Trying to understand why one feels an impulse to buy something before doing so, is most important. "Story stocks" or investments "everyone is buying", should require a keen understanding of the hype before investing.

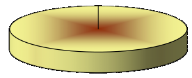
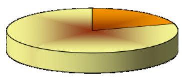
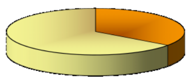
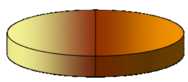
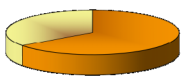
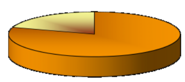
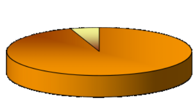
Recently a client shared their interest in participating in the IPO of Beachbody fitness stock. This individual has worked with the company as a private coach for 10+ years, believes in the company's future growth potential, and wanted to participate as the stock went public. As we discussed with them their intent, we were encouraged by their understanding of the company and the investment risks. And they already thoughtfully considered how the stock fit into their investment portfolio and LIVING LIFE financial plan.

Whatever the investment opportunity, we advise clients to keep sight of the big picture "pie". Pre-define guardrails - how much of my net worth do I want exposed to one asset – are critical. For stocks, we typically advise that a single company stock not be more than 5% of your net worth. For items more speculative/uncertain and less linked to economic or business fundamentals (like cryptocurrency, precious metals, or a volatile "meme stock"), limiting position exposure to an amount you'd be comfortable losing (most or all of) is wise. Adding guardrails around certain investments can further assist in the removal of emotion from financial decisions. For our Beachbody client, the IPO was more about desiring to participate in what they believe will be ongoing long-term growth of the company; not viewed as a "get rich quick" idea. This thoughtful approach led to making a right-sized investment for their overall big picture; it will not materially alter their lives should the investment not be rewarded by the market.

Famed investor Warren Buffet is often cited for his quote, "be greedy when others are fearful, and fearful when others are greedy." Our own "famed" investor Bill Henderly often shares his own version worth repeating, "when the parade is going down the street, extra caution is warranted." Let's not get caught in the fanfare of the day, and do your best to be level headed when evaluating investment opportunities. This can be applied to most any investment or asset class – from publicly traded equities to more illiquid opportunities like physical real estate and/or that second home. We will all do well to take the long view, and remove emotion from the investment equation. Think critically before pulling the trigger and buying that next "investment du jour" (even if it has a creative ticker like BODY); doing so is good practice for your financial fitness.

Benchmarking as of June 30, 2021

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

	Index Portfolio	Stock/Bond Allocation		Total Return Through 6/30/2021				
				2nd Qtr	YTD	12 Mths	3 Years	5 Years
	Capital Preservation	0% / 100%	*Cumulative*	0.5%	0.4%	2.4%	9.8%	11.9%
			Annualized			2.4%	3.2%	2.3%
	Income	20% / 80%	*Cumulative*	1.7%	3.2%	10.3%	17.3%	26.5%
			Annualized			10.3%	5.5%	4.8%
	Balanced Conservative	35% / 65%	*Cumulative*	2.3%	4.6%	14.2%	21.2%	34.6%
			Annualized			14.2%	6.6%	6.1%
	Balanced	50% / 50%	*Cumulative*	3.3%	6.6%	20.0%	27.3%	47.5%
			Annualized			20.0%	8.4%	8.1%
	Balanced Growth	65% / 35%	*Cumulative*	4.2%	8.6%	25.8%	32.9%	60.3%
			Annualized			25.8%	10.0%	9.9%
	Growth	80% / 20%	*Cumulative*	5.1%	10.8%	31.9%	39.6%	75.5%
			Annualized			31.9%	11.8%	11.9%
	Aggressive Growth	95% / 5%	*Cumulative*	5.6%	12.2%	35.8%	43.5%	85.2%
			Annualized			35.8%	12.8%	13.1%

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 performance volatility. Past performance is no guarantee of future results.

Market starting to think about 2022

Strong Y/Y earnings growth (easy comparisons to year-ago) is beginning to eat into the street's estimate of what additional earnings growth will look like in 2022. It is worth noting that while forward estimates are by no means weak, they are now softening as the market considers a more normal post-stimulus environment.

Selected Mutual Funds - Total Return Performance Summary

As of June 30, 2021

Bond Funds - Taxable	Style	2nd Qtr	YTD	12 Mths	3 Years	5 Years
Taxable Short-Term Bond Average		*0.6%*	*0.4%*	*2.6%*	*3.4%*	*2.4%*
Taxable Intermediate Bond Average		*1.8%*	*-1.2%*	*0.8%*	*5.3%*	*3.0%*
Wells Fargo Ultra Short	AS	0.2%	0.3%	1.6%	2.3%	1.8%
Vanguard Short Federal	HS	0.2%	0.0%	0.8%	3.3%	1.9%
American Century Short Duration	HS	0.5%	1.0%	3.0%	3.3%	2.4%
Pioneer Short-Term Income	HS	0.7%	1.7%	6.5%	2.7%	2.1%
DoubleLine Low Duration	HS	0.4%	0.7%	3.0%	2.8%	2.5%
Vanguard Short-Term Investment Grade	HS	0.7%	0.2%	2.0%	4.1%	2.7%
American Funds Bond Fund of America	HI	1.7%	-1.4%	1.0%	6.2%	3.5%
American Century GNMA Income	HI	-0.4%	-1.0%	-0.7%	3.4%	1.8%
Diamond Hill Corporate Credit	LI	1.8%	2.6%	13.7%	7.9%	7.6%
Miller Convertible	LI	0.5%	1.9%	18.3%	8.7%	7.8%
Bond Funds - Tax Exempt						
Tax-Free Intermediate Bond Average		*1.5%*	*1.3%*	*4.6%*	*4.5%*	*2.7%*
Vanguard Muni Limited Term	HS	0.4%	0.4%	2.0%	2.9%	1.9%
T. Rowe Price Tax Free S/I	HS	0.5%	0.3%	1.9%	2.7%	1.6%
Vanguard Muni Intermediate Term	HI	1.2%	0.9%	3.8%	4.8%	2.9%
Vanguard Ohio Long-Term	HL	2.0%	1.5%	5.1%	6.1%	3.8%
Stock Funds - Domestic						
S&P 500 Index		*8.6%*	*15.3%*	*40.8%*	*18.7%*	*17.7%*
Equity Fund Average (Morningstar Mgr Agg US Core EW)		*6.2%*	*17.0%*	*49.7%*	*14.6%*	*15.2%*
Schwab Large Cap Growth	LG	12.7%	13.8%	44.4%	25.5%	23.8%
Parnassus Endeavor	LG	8.0%	26.2%	74.3%	23.2%	21.5%
T.Rowe Price Dividend Growth	LV	7.2%	12.5%	36.0%	17.8%	15.7%
WisdomTree US Quality Dividend Growth	LV	5.1%	11.8%	34.0%	16.0%	16.1%
American Century Equity Income	LV	4.6%	9.9%	26.1%	10.2%	9.6%
Hennessy Focus	MG	7.2%	21.5%	41.8%	15.5%	14.3%
John Hancock Multifactor Mid-Cap	MB	5.9%	15.5%	48.8%	15.6%	15.6%
John Hancock Disciplined Value Mid-Cap	MV	5.4%	19.7%	53.5%	12.2%	12.4%
SPDR S&P600 Small Cap Growth	SG	3.7%	16.4%	57.2%	13.1%	16.8%
Neuberger & Berman Genesis	SB	1.7%	8.4%	37.2%	16.1%	16.1%
American Centry Small Cap Value	SV	5.7%	31.6%	82.1%	14.9%	16.6%
Diamond Hill Small-Cap (swapped to ASVIX/SLYV in June)	SV	4.1%	20.7%	61.8%	7.2%	8.8%
SPDR S&P600 Small Cap Value	SV	5.2%	30.5%	76.9%	10.8%	14.4%
Stock Funds - International						
Morgan Stanley EAFE Index (Foreign)		*5.2%*	*8.8%*	*32.4%*	*8.3%*	*10.3%*
Oakmark International	LV	4.3%	13.7%	54.9%	7.1%	12.2%
Schwab Fundamental International Index	LV	4.5%	13.8%	43.4%	7.3%	10.3%
John Hancock International Growth	LG	6.3%	9.9%	37.4%	13.9%	14.4%
Thornburg Developing World	LG	4.3%	5.8%	42.0%	15.3%	13.5%
Harding Loevner International Small Company	SG	8.3%	7.4%	39.1%	11.0%	12.9%
Hennessy Japan	LB	-1.8%	-6.5%	16.0%	8.2%	11.8%
Stock Funds - Specialty						
Salient-Forward Select Income (REIT)	MV	5.0%	10.2%	30.0%	5.6%	4.0%
Neuberger Berman Real Estate Securities	MV	12.2%	21.5%	30.7%	14.3%	9.3%

Nvest Wealth Strategies, Inc. | *Delivering financial peace of mind.*

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