nVEST nSIGHTS

September 30, 2019

IN THIS ISSUE:

nvest WEALTH STRATEGIES

Delivering financial peace of mind.

10268 Sawmill Parkway
Powell, Ohio 43065
614.389.4646

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

SEPTEMBER CRAZY

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

September began with widespread fear of recession before quickly evolving to the next perceived threat – Iran/Saudi Oil; and the month ended with impeachment talk dominating the headlines. [At this writing in early October, soft economic conditions are again weighing on the markets.] Oh, don't forget the continuing "new cold war" saga of Chinese trade, and Brexit. Yet, through it all, through all the noisy news, the S&P500 concluded the month of September and quarter higher than where it started (+1.9% and +1.7%, respectively). At September 30, the US stock market rested just -1.6% below its July 26 all-time high. Either the market is ignorant (crazy) or resilient in light of it all. It's probably a bit of both – crazy and resilient as it heads into the last quarter of 2019 and this decade; 4th quarter is often the best of the year (we're not anticipating a 4Q2018 repeat).

Stocks enter the 4Q with their biggest YTD gains in more than two decades. It's also difficult to believe this Bull market started 127 months ago (more than 10 years) on 3/9/2009, and it could advance further before peaking. Both the stock market and US economic expansion are the longest running in US history. So how can one make that statement, "it could advance further before peaking?" It is good to review or keep watch various key fundamentals. *First*, economic growth is slowing but will likely muddle-through; it is neither slowing too much nor growing at its historical 3% pace. Tariffs are affecting business plans and will continue to sap economic growth prospects if unresolved. The US economic growth outlook provides the backdrop for the future stock market path. A slowdown in the economy would be a bigger threat to the US President's re-election than impeachment.

Second, speculation/euphoria (sentiment) is not excessive. Only 37% of the investing public expects the market to advance. No one believes in this Bull run; it was/is only a rally. Even net inflows of money into stock funds and ETFs are negative over the past decade; with money moving instead into low yielding bonds. This entire Bull market is, as written about before, the most unloved advance. Recall, when speculation and euphoria are high (Greenspan's "irrational exuberance") the market top is near. It would be a difficult argument to suggest that euphoria exists today in the public markets. Stocks are not cheap; valuations are not stretched either. *Third*, interest rates are low and declining again; credit spreads are tight and falling. Often at stock market tops, interest rates are rising and credit spreads are widening (meaning risk of default is rising). High interest rates kill economic growth and subsequently the stock market (because earnings will decline). If the slowing in the US economy is not over, then the cuts to interest rates by the Fed are not over either. *Fourth*, there is no evidence with new issues (of stock) to suggest a "new era" thinking is occurring. In the 1990s, the new issuance of tech was fast and furious, which included high valuations. There are not all sorts of new issues coming today at ridiculous pricing, from a hot sector.

Did you know? The year-over-year percent change in US mortgage rates is down roughly -22%. Sharp declines in mortgage rates are boosting home building stocks, and also stimulative to the overall economy and stock market. A lot of businesses experience a boost in sales/profits when housing starts are rising.

The above "keys" present a "contrarian" perspective (not consensus thinking) about the usual experience at stock market tops. Expect in the near-term that the market will (over) react to economic data, while upcoming company earnings news should "steady the boat." Or stated differently, between now (economic data) and then (China trade deal) is a slowing economic expansion that worries investors. They/we should carefully monitor the investment landscape to see if policy mistakes exasperate business, consumer and investor confidence. The existence of various "contrarian" keys should allow one to believe this Bull market could advance further before peaking. Maybe that's why the stock market appears September crazy and resilient.

BIG FAT YIELDS

Here we go again. Interest rates are on the decline following 7 consecutive rate increases that started mid-2017 and ended early 2019. The Fed cut interest rates 2 times this year because lingering tariff discussions with China are hindering global and US economic growth. Trade talks are scheduled to resume in October after breaking down in August. The Fed still has time to get it right. Recall, the US Treasury yield curve was inverted in August, with short rates higher than longer rates. That always signals a policy mistake that if not resolved, results in an economic contraction (and bad news for the stock market).

So far, the strength of the US consumer (comprises 70% of the US economy) is containing recession concerns while manufacturing is weak via tariffs. The Fed should cut rates further; inflation is not rising because wages usually rise when unemployment is at (historical) lows. The key takeaway – global economic and market sentiment remains guarded/weak; and 16 central banks recently eased monetary policy and likely will do more to boost slow economic growth.

"the existence of various 'contrarian' keys should allow one to believe this Bull market could advance further before peaking. Maybe that's why the stock market appears September crazy and resilient."

Back to declining low interest rates… the 10-year US Treasury is presently yielding around 1.675% (highest yield for developed country bonds). That rate is lower from the end of 2Q when it was 2%, and -1% lower than at last year-end. Savers do not like low interest rates as income is reduced and all asset returns are muted. When rates are low, many savers/investors attempt to stretch for yield via owning longer maturities, lower quality, and/or owning more stock-like bonds. The prospect for lower yields is occurring again. With yields this low, 2% represents the "Big Fat Yield" that is inadequate for savers. Despite low yields, bonds should be used to provide risk-reducing diversification benefits in portfolios. But bonds are expensive because yields are low and money flows into them is large. Be careful investing in bond world.

PS: Bond yields this low do not choke economic growth; but a byproduct is that it allows high-debt companies to "live" longer than normal; and risk taking occurs when/where it should not. Investors must be careful reaching for yield.

nvest
WEALTH STRATEGIES

LOSERS WIN; WINNERS LOSE

Since Labor Day, the stock market turned on a dime; a sharp leadership rotation occurred. Nearly every year the stock market undergoes a leadership rotation. Losers win, and YTD winners lose. The durability of the new leadership rotation is uncertain, in doubt as former "winners" pause but often reassert their leadership profile. Looking at the FAANG stocks – high flying growth stocks that advanced the overall market in 2019, including since the start of the current Bull market - are individually and collectively very expensive. Other areas of the stock market are "inexpensive" on a comparative and actual basis. In fact, the valuation differences are/were abnormally wide. In September, value outperformed growth, and small outperformed large. Whether "youth" continues to mature is unknown. Will the "losers win; winners lose" rotation continue; can they mature in age? We invest client portfolios in both value and growth, large, mid, and small size stocks. We diversify exposures by style and size for this exact reason – one cannot time when the rotation occurs or for how long. We periodically adjust the tactical exposure to value/growth or large/mid/small, even domestic/foreign because of widening valuation differences. Today, valuation differences are wide in many asset class areas. Leadership can change from month, to season; but we are particularly interested to observe if the recent rotation toward value might just be starting as the economic cycle matures.

"So far, the strength of the US consumer is containing recession concerns while manufacturing is weak via tariffs."

The same is true with bonds. At this juncture, our preference is for simple straight bonds; bond that act like bonds; not "go-anywhere" "own-anything" bonds. Be keenly aware of the bonds owned. Now is not the time to consume risk, stock-like risk, in bond allocations. If policy mistakes were to occur, own bonds that will protect and not exasperate a portfolio drawdown.

In both the bond and stock allocations of client portfolios, we strive to manage risk via allocation to areas with attractive valuations. We recognize many noise factors could create unwanted volatility in the short run. Keep in mind, the current tactical mix is intentionally directed toward risk reduction by owning better valuation (value style) and less risky stock/bond funds, but still in-keeping with portfolio asset-mix objectives. Careful means prudent – when investment objectives are established correctly, time in the market can be an investor's best ally.

DOING DILIGENCE

"I would just as soon expect a farmer to prosper in his business who contented himself with sowing his fields and never looking at them until the harvest, as to expect a believer to gain much holiness who has not been diligent about his Bible reading, about his prayers, and about the use of his Sundays," (quote from Dr. J. C. Ryle, 1816-1900, Bishop of Liverpool). Believing the Bible or not, it does provide important thoughts about Diligence that are applicable to all aspects of life. Diligence is steady, earnest, and energetic effort; often behavior associated with a work ethic. We know from experience that success in any quest requires being diligent – "giving all diligence." Success does not accrue to being idle through life; no autopilot. It is intense effort; doing with purpose.

ANNOUNCEMENTS:

- Early October - 4Q 2019 fees collected. 3Q performance reporting delivered
- October 14 - Columbus Day; stock market open, but banks closed
- November 11 - Veteran's Day; stock market open, but banks closed
- November 28 - Thanksgiving Day
- December 25 - Christmas Day
- Our ADV Part 2A & B as required by the SEC & Ohio (and other states) is available to you anytime upon request.

Consider your successes – in music, mathematics, art, sports, and career. Enjoying a beautiful yard or flower beds - to be admired for their beauty requires a diligent daily effort. No effort results in weeds and other lurking dangers. Idle hands make for disappointments in time. Funny: a grandmother was asked on her birthday by her grandson how old she was. She responded that she was 49 and holding. Her grandson then asked, "How old would you be if you let go?" We cannot cease being diligent and find success.

One who follows a constant effort, being diligent and persistence in their undertakings will achieve marvelous success. As we begin the investment process for clients, we spend time doing diligence – looking at investment fund ideas (studying performance results in up/down markets, understanding the repeatable investment process, and how risk is managed). Diligence is ongoing; it does not end when an investment fund idea is made. Doing diligence requires ongoing monitoring that the investment process continues. Due diligence also involves continually monitoring the economic landscape and backdrop which influences tactical strategy - increasing risk or dialing it down. History also shares that long-term investment growth and success accrues to being in the market – doing diligence; being diligent.

Likewise, if a goal is growing your savings for a lifetime, we know it does not just happen. Not too often does one "fall into money" or win the lottery. Warren Buffett's success develops from being diligent, doing over and over again, the saving of small amounts, and investing for many years and seasons (not selling often which incurs paying taxes that destroy savings). Amazing how long it seems to take to build meaningful savings, while a chunky withdrawal occurs quickly to diminish those efforts. Doing diligence requires discipline and persistence of effort while keeping a keen eye on the goal.

TRANSITIONING FROM A "SAVER" TO A "SPENDER" IN RETIREMENT

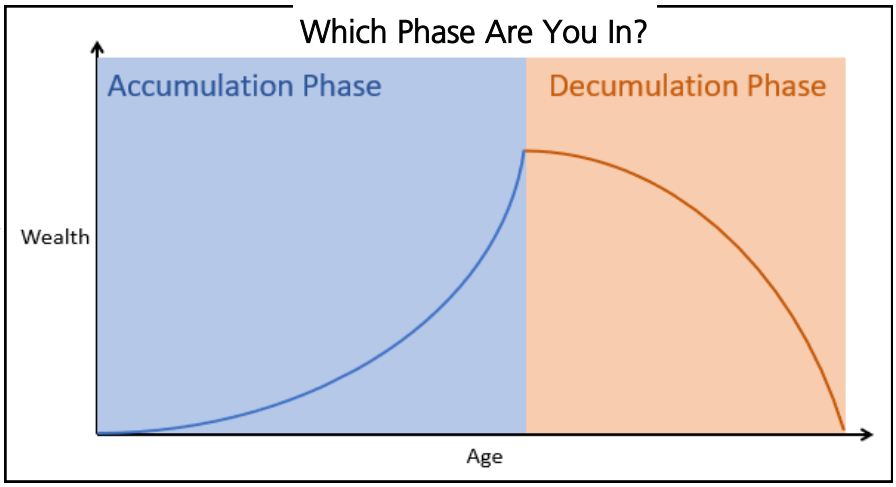
By Jordan Acer, CFP, CIMA & Steve Henderly, CFA - Nvest Wealth Strategies

I carefully saved for most of my life… now you are telling me that I need to spend my retirement nest egg?

One of the most difficult transitions many individuals will face in financial life is moving from being a "person at work" (the accumulation phase where you are saving and building wealth) into someone now living off their "money at work" (the "decumulation" phase). A recent study by BlackRock Retirement Institute found that "instead of actively and systematically decumulating assets, retirees display a tendency across all wealth levels to retain assets and not spend down their initial principal." The study also found that, "More than one third of current retirees actually grew their assets - leaving considerable potential consumption on the table."

Decumulation is not simply an issue of knowing the numbers and the math behind your LIVING LIFE retirement plan; it also involves a change of mindset. We find most clients, regardless of how disciplined they were during their working years to build and grow savings, share similar questions and fears:

- *Did I save enough?*
- *Will I outlive my money?*
- *Am I taking enough risk (or too much risk) in my portfolio?*
- *What happens if the economy or stock market "crashes"?*



Capitalizing on these concerns, the insurance industry might submit the "best" solution is converting a significant portion of one's savings into an annuity. The allure of a fixed annual income stream paid over your life might reduce the anxiety of outliving your assets. But we also know that annuities are not magic bullets, and the same income stream (or better) can be replicated via ownership of traditional investments; plus, they retain a higher probability that assets will be passed on to one's heirs and estate. An annuity is generally not the answer.

Thankfully, those who engage with us in our LIVING LIFE financial planning process achieve a strong grasp on how their accumulated wealth can provide for their financial future. They feel more equipped and confident to answer their most important questions, and even facilitate discussion to dream "bigger" about wealth beyond their lifetime. Our goal is to deliver financial peace of mind and we believe that can be achieved through education and proper planning.

You saved all of your life for a "time" in the future; recognize that at some point the future will be "now". Let us help you build a pathway towards retirement spending and give you confidence in your long-term plan, including with the unfamiliar - or initially emotionally uncomfortable - transition into the "living off your money" decumulation phase.

BENCHMARKING AS OF SEPTEMBER 30, 2019

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

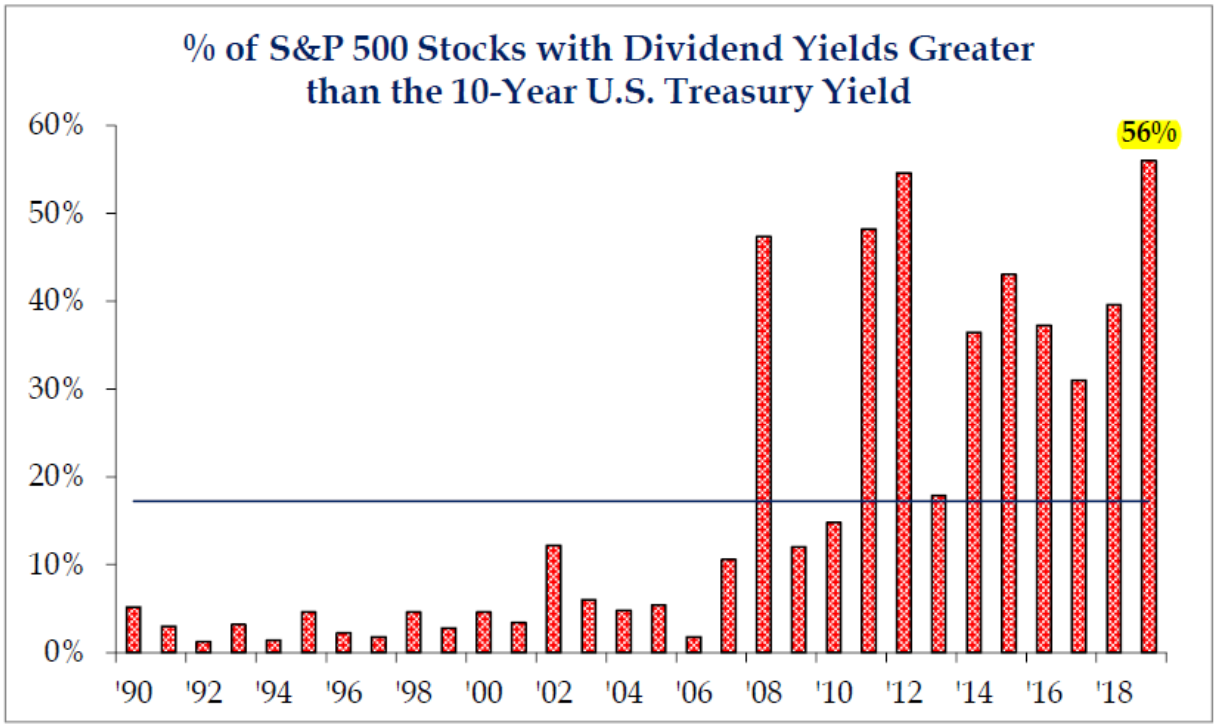
Index Portfolio	Stock/Bond Allocation		Total Return Through 9/30/2019				
			3rd Qtr	YTD	12 Mths	3 Years	5 Years
Capital Preservation	0% / 100%	*Cumulative*	0.8%	3.9%	4.4%	6.3%	9.1%
		Annualized			4.4%	2.1%	1.8%
Income	20% / 80%	*Cumulative*	0.5%	6.4%	3.3%	11.0%	14.9%
		Annualized			3.3%	3.5%	2.8%
Balanced Conservative	35% / 65%	*Cumulative*	0.4%	7.7%	2.8%	13.5%	18.2%
		Annualized			2.8%	4.3%	3.4%
Balanced	50% / 50%	*Cumulative*	0.2%	9.6%	2.2%	17.5%	23.2%
		Annualized			2.2%	5.5%	4.3%
Balanced Growth	65% / 35%	*Cumulative*	0.0%	11.4%	1.3%	21.1%	27.6%
		Annualized			1.3%	6.6%	5.0%
Growth	80% / 20%	*Cumulative*	-0.1%	13.4%	0.6%	25.3%	33.2%
		Annualized			0.6%	7.8%	5.9%
Aggressive Growth	95% / 5%	*Cumulative*	-0.3%	14.6%	-0.1%	27.6%	36.2%
		Annualized			-0.1%	8.5%	6.4%

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.

Big Fat Yields?

With interest rates (yields paid to investors) again pushing historic lows on bonds, investors might again stretch for yield via owning longer maturities and/or issues of riskier companies.

Consider: The low-yield environment makes stocks increasingly attractive; at present roughly 56% of S&P500 companies pay a dividend yield that exceeds US Treasuries.



Selected Mutual Funds - Total Return Performance Summary

As of September 30, 2019

Bond Funds - Taxable	Style	3rd Qtr	YTD	12 Mths	3 Years	5 Years
Taxable Short-Term Bond Average		*0.8%*	*4.1%*	*4.6%*	*2.1%*	*1.8%*
Taxable Intermediate Bond Average		*2.0%*	*7.9%*	*9.4%*	*2.6%*	*3.0%*
Wells Fargo Ultra Short	AS	0.8%	2.8%	3.1%	1.8%	1.4%
AC Alternatives Market Neutral Value	AS	1.6%	-0.7%	-0.7%	-0.5%	1.1%
Vanguard Short Federal	HS	0.8%	3.7%	5.0%	1.6%	1.6%
American Century Short Duration	HS	0.5%	3.5%	3.9%	2.0%	1.8%
Pioneer Short-Term Income	HS	0.8%	3.9%	4.6%	2.3%	1.9%
PIMCO Low Duration	HS	1.0%	4.2%	4.7%	2.2%	1.8%
Vanguard Short-Term Investment Grade	HS	1.0%	5.1%	5.8%	2.4%	2.4%
American Funds Bond Fund of America	HI	1.5%	7.6%	9.2%	2.6%	3.0%
American Century GNMA Income	HI	1.7%	6.1%	7.9%	2.0%	2.2%
Diamond Hill Corporate Credit	LI	1.5%	10.4%	7.9%	6.3%	6.3%
Miller Convertible	LI	-0.3%	9.5%	1.5%	3.4%	3.6%
Bond Funds - Tax Exempt						
Tax-Free Intermediate Bond Average		*1.4%*	*6.3%*	*7.6%*	*2.6%*	*3.0%*
Vanguard Muni Limited Term	HS	0.6%	3.3%	4.4%	1.8%	1.6%
T. Rowe Price Tax Free S/I	HS	0.4%	3.1%	4.2%	1.4%	1.4%
Vanguard Muni Intermediate Term	HI	1.3%	6.1%	7.9%	2.8%	3.2%
Vanguard Ohio Long-Term	HL	1.9%	7.6%	9.6%	3.6%	4.3%
Stock Funds - Domestic						
S&P 500 Index		*1.7%*	*20.6%*	*4.3%*	*13.4%*	*10.8%*
Equity Fund Average *(Morningstar Mgr Agg US Core EW)*		*-0.0%*	*17.2%*	*-2.1%*	*9.7%*	*7.9%*
Schwab Large Cap Growth	LG	1.2%	22.8%	3.7%	16.1%	12.6%
Parnassus Endeavor	LG	2.4%	21.2%	0.4%	10.5%	11.1%
T.Rowe Price Dividend Growth	LV	2.5%	22.8%	11.6%	14.0%	12.0%
WisdomTree US Quality Dividend Growth	LV	3.9%	19.8%	4.4%	14.3%	11.5%
American Century Equity Income	LV	2.6%	18.4%	9.6%	10.2%	10.0%
Goldman Sachs US Equity Dividend & Premium	LV	2.0%	17.0%	3.1%	9.0%	8.4%
Hennessy Focus	MG	3.9%	28.1%	11.3%	12.0%	10.7%
John Hancock Multifactor Mid-Cap	MB	0.8%	21.4%	2.3%	11.2%	N/A
John Hancock Disciplined Value Mid-Cap	MV	2.1%	22.3%	1.7%	8.1%	8.7%
SPDR S&P600 Small Cap Growth	SG	-1.9%	11.4%	-10.5%	10.3%	10.9%
Neuberger & Berman Genesis	SB	-0.2%	22.1%	2.0%	12.2%	10.5%
Diamond Hill Small-Cap	SV	0.6%	12.5%	-6.5%	4.4%	3.6%
SPDR S&P600 Small Cap Value	SV	1.4%	15.4%	-8.3%	8.1%	8.7%
Stock Funds - International						
Morgan Stanley EAFE Index (Foreign)		*-1.1%*	*12.8%*	*-1.3%*	*6.5%*	*3.3%*
Oakmark International	LV	-0.8%	11.8%	-6.4%	5.7%	2.8%
Schwab Fundamental International Index	LV	-1.4%	9.8%	-4.5%	6.2%	2.5%
John Hancock International Growth	LG	-0.8%	17.2%	0.7%	8.4%	7.6%
Thornburg Developing World	LG	-3.5%	14.8%	7.7%	6.9%	2.2%
Harding Loevner International Small Company	SG	-3.2%	15.1%	-4.4%	7.0%	5.0%
Hennessy Japan	LB	0.3%	9.6%	-5.6%	8.9%	11.0%
Stock Funds - Specialty						
Salient-Forward Select Income (REIT)	MV	4.0%	17.3%	6.8%	2.7%	5.0%
Neuberger Berman Real Estate Securities	MV	9.0%	32.1%	24.9%	10.1%	10.7%

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

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

CALL US WITH QUESTIONS
RE: Schwab Statements or Nvest Reports
RE: Portfolio Management & Strategy
RE: Request Current Disclosure Form ADV Part II

Visit us on the web for weekly updates: www.nvestwealth.com