

# THE PLANNING GROUP

A Wealth Management Firm

## Weekly Commentary January 11, 2010

### The Markets

So far, so good.

The S&P 500 index rose every day last week and finished with a 2.7% gain. This gain came despite a disappointing jobs report, which showed another 85,000 jobs were lost in December. A survey from MarketWatch expected a *gain* of 15,000 jobs. On the bright side, temporary-help jobs rose by 46,500. This is often a precursor to growth in full-time jobs.

The Holiday shopping season turned out a little better than expected as some store retail sales in December rose 2.8% compared with a year ago, according to the ICSC sales index. Paradoxically, consumer debt fell by a record \$17.5 billion in November and continued a streak of monthly declines that now stretches 10 months. Maybe consumers were paying cash for all their holiday goodies?

This week ushers in a new earnings season and experts project a whopper. Corporate profits are expected to rise 184% in the fourth quarter of 2009 compared to the year-earlier period, according to Thomson Reuters. Of course, numbers can be misleading as the year-ago period included massive write-offs by major banks. By comparison, these banks should show healthy profits in the quarter that just ended as they are enjoying a wide spread between their cost of money and the rate at which they can invest it. If you remove the financial stocks, profits are expected to rise a more benign 8%.

As with every new year, there will be challenges and opportunities. Through diligence and discernment, we will try to minimize the impact of the challenges and maximize the gain from the opportunities.

Data as of 1/8/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	2.7%	2.7%	28.6%	-6.8%	-0.8%	-2.4%
DJ Global ex US (Foreign Stocks)	2.7	2.7	39.8	-4.7	4.5	1.1
10-year Treasury Note (Yield Only)	3.8	N/A	2.4	4.7	4.3	6.6
Gold (per ounce)	2.1	2.1	31.7	22.7	21.8	14.9
DJ-UBS Commodity Index	2.3	2.3	21.7	-3.2	-0.3	4.6
DJ Equity All REIT TR Index	-0.1	-0.1	35.0	-11.8	1.7	10.5

Notes: S&P 500, DJ Global ex US, Gold, DJ-UBS Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT TR Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable or not available.

**DO THE WILD SWINGS WE'VE SEEN IN THE MARKETS** over the past couple years defy explanation? How is it that the S&P 500 index can drop 56% between October 9, 2007 and March 9, 2009 and then turn on a dime and rise 69% over the next 10 months, according to

data from Yahoo! Finance? How can a company like Bank of America decline 94% and then rise 380% – all in less than the 30 months ending December 31, 2009? Or, how about Alcoa dropping 87% then more than tripling during the same period as Bank of America, according to *The Wall Street Journal*?

Aren't the markets supposed to be "efficient" and "rational?"

These massive swings seem to happen with frightening frequency and investors who are unprepared for them will likely pay a heavy price. Benjamin Graham, arguably the "father" of security analysis and author of a classic book by the same name, said the price of a stock reflects two components. The first component, investment value, represents the discounted cash flow of all the company's present and expected future earnings. The second component, speculative value, is driven by sentiment and emotions such as fear and greed.

It is not much of a stretch to suggest that an oscillation between investment value and speculative value may help explain the head-spinning volatility of the past few years. In other words, as markets rise or fall rapidly in short periods, speculative value may take prominence. Conversely, when markets are stable or moderately trending, investment value may take the lead.

Keeping this idea of investment value versus speculative value in mind can help us do a better job of maintaining a disciplined perspective on market volatility. It can help us better understand and potentially profit from the market's periodic "inefficiency" and "irrationality."

## The Markets and Economy<sup>7&8</sup>

Last week's economic data showed no clear path as the economy plods along in its uneven recovery from the Great Recession.

The jobs report was a disappointment. For the year, the U.S. economy lost more than four million jobs.

Housing continued to be a weak sector. Why build when so many foreclosures are coming to market in the coming year, especially when it costs so much less than it would to build?

Consumers continued to retrench their personal finances by cutting consumer credit by \$17.5 billion in November, the largest decrease since 1980. This "deleveraging" process may be good in the long run, but doesn't do much for the current economic recovery.

Factory orders were up +1.1% showing an improvement for the fifth consecutive month.

**We should probably get used to** – some good news, some bad, some in between, as it is likely to be the pattern for 2010 and maybe even longer.

The big question is whether the markets can continue to advance enough to recover from the horrendous drop in 2008? Overall, it would take another year like 2009 for us to get back to about where we were at the beginning of 2008. Here's the math:

Most people were not expecting the recovery we got last year, and nobody is expecting a repeat of 2009. The guesses for 2010 seemed to be coming in somewhere between +5% and +8%. To reach even that modest goal, we'll have to see: (1) consistently strong performance from the corporate sector, and (2) no surprising shocks from housing. We

should get an early read on corporate profits in the next couple of weeks as firms report their earnings for 4Q 2009.

The hoped-for gain in corporate profits is going to have to offset the winding down of government bailout and stimulus programs. If that doesn't happen, the economy will take much longer to recover, job growth may be virtually non-existent, unemployment will remain near 10%, and the stock market will mark time at best.

Mortgage rates dipped a bit last week, but that indicator really doesn't tell us much about the housing any more. As government programs in this area ebb, and a tide of foreclosures and bankruptcies hit the market, 2010 could be even worse than last year for the housing sector.

The U.S. dollar continues to hang around the mid-\$1.40s compared with the Euro (€). Recent strength in the greenback is probably due more to problems in the Euro zone rather than any real improvement in the U.S. economy. The so-called "PIIGS," - Portugal, Ireland, Italy, Greece, and Spain – are all struggling with slow growth, high unemployment, and massive budget deficits.

### **Tidbit**

According to a recent report from MSN Money, bankruptcy filings in the U.S. increased by 32% in 2009. Some 1.4 million individuals and businesses filed for bankruptcy protection last year.

### **Weekly Focus – Think About It**

“The individual investor should act consistently as an investor and not as a speculator.”  
--Benjamin Graham

Sincerely,

*The Planning Group Investment Team*

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<sup>7</sup> The source for the information for On The Economy was derived from Bob LeClair's *Finance & Markets Newsletter* 12/20/09.

<sup>8</sup> In addition, information for Tidbits was derived from *The Virtual Advisor* 12/15/09.

\* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

\* The DJ Global ex US is an unmanaged group of non-U.S. securities designed to reflect the performance of the global equity securities that have readily available prices.

\* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

\* Gold represents the London afternoon gold price fix as reported by the London Bullion Market Association.

- \* The DJ Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
  - \* The DJ Equity All REIT TR Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
  - \* The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.
  - \* The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
  - \* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
  - \* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
  - \* Consult your financial professional before making any investment decision.
  - \* You cannot invest directly in an index.
  - \* Past performance does not guarantee future results.
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Scottsdale Office - 8800 N. Gainey Center Drive - Suite 176 - Scottsdale - Arizona - 85258-2122  
Sun City West Office - 13912 W. Stardust Blvd. - Suite 119 - Sun City West - Arizona - 85375  
Telephone (480) 596-1580 - (888) 596-1580 - Fax (480) 596-2165 - e-mail - kris@theplanninggroup.com

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