THE PLANNING GROUP

A Wealth Management Firm

Weekly Commentary
January 25, 2010

We apologize if you are receiving a duplicate copy of this commentary report. We received notice that a few of our recipients did not receive it this week therefore we wanted to send it out to again to be sure everyone had an opportunity to read it. We are sorry for any inconvenience. Thank you.

The Markets

Sometimes earnings move the markets. Sometimes politics does the trick. Last week, both were in play and the result was not pretty.

On the earnings front, some high-profile companies such as Google, American Express, and Advanced Micro Devices reported earnings that failed to excite investors and this negatively impacted the market. General Electric and McDonalds, on the other hand, issued rather upbeat earnings reports and investors responded favorably. Mentioning these companies is for illustrative purposes only and not intended as buy or sell recommendations.

Politically speaking, it was a week to remember. Investors became agitated when the administration announced plans to limit the size and scope of trading activities by big banks. Historically, this has generally been a profitable activity for banks and has added liquidity to the markets, according to CNBC. Proponents of the administration's policy say it may help prevent future financial crises while critics say it is an unnecessary government intrusion in free markets. Adding more uncertainty, two U.S. Senators said they would not support Ben Bernanke for a second term as chairman of the Federal Reserve and there were rumblings that Treasury Secretary Tim Geithner may be on his way out. According to some market observers, the stock market would not react well if either Bernanke or Geithner suddenly became jobless.

These news items helped send the S&P 500 index to a weekly loss of 3.9%. While we may be out of the heat of the financial crisis that engulfed us in the fall of 2008, last week's action shows that risks remain and we always have to remain vigilant.

Data as of 1/22/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-3.9%	-2.1%	31.2%	-8.5%	-1.3%	-2.5%
DJ Global ex US (Foreign Stocks)	-3.9	-1.1	54.3	-6.4	3.7	0.8
10-year Treasury Note (Yield Only)	3.6	N/A	2.6	4.8	4.1	6.7
Gold (per ounce)	-3.9	-1.8	26.0	19.3	20.5	14.2
DJ-UBS Commodity Index	-2.3	-3.1	22.3	-5.8	-1.8	3.3
DJ Equity All REIT TR Index	-4.4	-4.5	47.6	-14.7	0.8	10.2

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.

WHAT ARE SOME OF THE MAJOR MARKET RISKS that investors should be monitoring right now? After the dramatic bull run over the past 10 months, it would not be surprising to see a correction in the markets. This correction could be caused by a wide variety of reasons, but here are three broad categories that bear watching, according to a January 23, 2010 *New York Times* article.

First, corporate earnings could disappoint investors. Thomson Financial expects earnings from the S&P 500 companies to rise 28% in 2010. If earnings come in shy of expectations, or if corporations offer tepid outlooks when they announce their Q4 2009 earnings, investors could get nervous and lighten up on equities.

Second, market valuation is not necessarily cheap anymore. Last March, the price-to-earnings ratio for the S&P 500 index companies was 13.3, according to the 10-year averaged earnings method as calculated by Yale economist Robert J. Shiller. Now, the ratio is about 20.0, which is above the long-term average of around 16.0. Accordingly, we may not be able to count on an "expansion" of the P/E ratio for further stock market gains.

Third, as we saw last week, government policy can impact the financial markets. This is a wildcard because it is difficult to predict what will come out of Washington – or other countries – that could influence the markets. Because of the financial crisis, government is heavily involved in the financial markets and the economy so this policy risk is probably bigger than normal.

Of course, some other event could occur out of the blue and affect the markets either positively or negatively, too. Nonetheless, it is helpful to identify some of the more likely risks and keep them top of mind so we can be responsive as appropriate.

On The Economy[7]

It's likely that foreclosures will be at a record level in 2010, adding to the supply of available properties.

Initial jobless claims bounced higher last week – rising to 482,000 from 440,000 the week before. Until that number falls to about 200,000, we're not likely to see much improvement in the nation's unemployment rate.

Core PPI, which measures wholesale prices excluding food and energy, was flat in December, and up only +0.9% for the past year. Inflation just isn't on the radar screen.

President Obama announced a series of taxes and restrictions on the country's largest banks and other financial institutions. While the intent was to recover the bailout funds, banks claimed that it would do great damage to their profitability and ability to make loans. Their stocks tanked during the week, dragging the general market along with them.

The election of Scott Brown in Massachusetts to take the U.S. Senate seat of the late Ted Kennedy was a real surprise last week, and will surely change the political landscape.

An Additional Thought[8]

"What rate of return do you think you can earn annually from your investments over the next ten years, after subtracting expenses, taxes, and inflation?"

A recent article in *The Wall Street Journal* entitled, "*Why Many Investors Keep Fooling Themselves"* discussed the rate of return that people expected from their investments in

the coming years. Jason Zweig, the author, concluded that many of us – including professional money managers - are far too optimistic, at least when compared with actual historic returns.

For example, he reported that one recent survey of financial advisors asked what they thought they could earn from investing after deducting inflation, expenses, and taxes – what Zweig labeled a "net-net-net" return. The average answer: about 6% annually over the next ten years.

Now, that number may not sound overly optimistic, but let's take a closer look. While lower these days, inflation has averaged about 3.5% in the U. S. economy over the last 40 years. Expenses and taxes, according to Zweig, normally take another 1% to 2% each. All told, these "costs" reduce your investment returns by 5% to 7% a year.

So, in order to triple net out a 6% return, you'd have to earn somewhere in the range of 11% to 13% every year into the future. Ibbotson Associates, which calculates returns on the market each year, reports that U.S. stocks have averaged about 9.8% annually, and that their "net-net-net" return is less than 4%.

Also, assuming that some part of your portfolio is invested in bonds or fixed income funds, those asset classes generally have earned less than common stocks. Zweig concludes that your total portfolio return after the deductions is "likely to be more like 2%."

Think about that – two percent! Plug that number into your long-term financial projections and see what it gets you. My guess is that it will show a lot of you that your current financial plans have challenges.

Weekly Focus – Think About It

"We have always known that heedless self-interest was bad morals; we know now that it is bad economics."
-- Franklin D. Roosevelt (Second inaugural address, January 20, 1937)

Best regards,

The Planning Group Investment Team

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[7] The source for the information for On The Economy was derived from Bob LeClair's *Finance & Markets Newsletter*.

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* 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.

* 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.

* This newsletter was partly prepared by PEAK, various commentaries, and our office.

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