

THE PLANNING GROUP

A Wealth Management Firm

Weekly Commentary March 1, 2010

The Markets

Three months ago, on December 1, 2009, the S&P 500 closed at 1,108. Last week it closed at 1,104. After three months, the net movement in the stock market was just 4 points. Hmm. What does that tell us about investing? Here are a few thoughts that come to mind.

First, there is a lot of noise out there. What may seem like big news on the day it comes out (e.g., new U.S. home sales plunged in January 2010 to the lowest level on record dating back to 1963, according to the Department of Commerce), may actually just be one piece of information that briefly affects the markets and then is quickly forgotten.

Second, investing is a game of patience. As the past three-month stretch shows, the stock market can stay flat for a long period. Okay, three months is not exactly "a long period," but there are historical precedents for the stock market staying flat for many years. For example, the closing price of the S&P 500 was only 1 point different on November 29, 1968 and August 17, 1982, according to MSN. That required nearly 14 years of patience!

Third, your patience may be rewarded. Between August 17, 1982 and March 24, 2000, the S&P 500 rose approximately 1,300%, according to data from Yahoo! Finance. That was nearly an 18-year payoff.

As you may already know, our current three-month flat period in the stock market is just the tip of the iceberg. Turning back the calendar, the S&P 500 closed at 1,105 on March 24, 1998, which is only 1 point higher than it closed at last Friday. This means the U.S. stock market has essentially gone nowhere in nearly 12 years. Ouch.

That may sound ugly but there is an upside. Many stocks pay dividends so, on a reinvested dividends basis, the return may look better over those 12 years. And, of course, there's this thing called *diversification*. Other asset classes such as foreign stocks, bonds, real estate, and others may have provided a positive boost to an investor's portfolio over that period. In summary, tune out the noise, be patient, and diversify.

Data as of 2/26/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.4%	-1.0%	50.3%	-8.7%	-1.7%	-2.0%
DJ Global ex US (Foreign Stocks)	0.3	-4.6	59.2	-8.9	1.8	0.3
10-year Treasury Note (Yield Only)	3.6	N/A	3.0	4.6	4.4	6.4
Gold (per ounce)	-0.4	0.4	18.3	17.4	20.5	14.2
DJ-UBS Commodity Index	-0.7	-3.9	25.4	-8.3	-3.1	3.2
DJ Equity All REIT TR Index	0.8	-0.2	92.5	-14.6	1.7	11.2

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.

IS DEFLATION on the horizon? With all the money being pumped into the worldwide economy and our large state and federal deficits, many investors are preparing for a surge of *inflation* sometime down the road. Logically, that makes sense--but is that what will really happen?

Yes, the U.S. government has tried to pump, prime, and print its way to economic growth, but that has its limits. This money has to find a productive use or else it won't "stimulate." Here are a few things that are blocking our stimulus money from stimulating the economy.

First, banks have excess cash. Bank lending plays an important role in transforming easy money into economic growth. Unfortunately, banks are sitting on nearly \$1 trillion of excess reserves at the Federal Reserve, up from essentially zero in the fall of 2008, according to data from the St. Louis Federal Reserve Bank. This is \$1 trillion above and beyond reserve requirements, which means banks could use that money to lend to businesses and consumers instead of keeping it safe and secure with the Fed.

Second, the unemployment rate is near 10% and jobless claims are remaining stubbornly high. It's hard for consumers to spend when they are out of a job or worried about losing one.

Third, consumers are de-leveraging and paying down debt. By paying off their bills, consumers have less money to spend on goods and services. Less spending may lead to less economic growth.

Fourth, because of the deep recession, the U.S. has substantial excess capacity in its industrial sector. According to the Federal Reserve, capacity utilization was only 72.6% in January, which is well below the 1972-2009 average of 80.6%. With all this slack, there may be little upward pressure on prices because factories have room to add production.

Fifth, a little followed economic indicator from the Dallas Federal Reserve Bank called the Trimmed Mean Inflation Index (TMII) is *declining*. This is an alternative measure of inflation, which adjusts for the month-to-month noise found in more popular inflation measures like CPI. For the 12 months ending December 2009, the TMII (inflation rate) was 1.3%--the lowest rate on record dating back to 1978.

So, while many people are talking about inflation, we also have to consider the possibility that *deflation* could happen first and then be followed by inflation down the road. It may not be a high probability, but it is on our radar and could impact the markets if it comes to fruition.

On The Economy⁷

The Federal Reserve Board announced short term rates would remain near zero due to the weak economy. That is bad news for CD and money market investors with the average 6 month CD at 0.30% and money market rates near zero.

President Obama has just released his proposed budget for the next fiscal year that would create the largest deficit in US history, effectively increasing income taxes on many Americans, and virtually all of our clients.

Clients have never been more nervous. They are nervous about the bloated federal budget and nervous about huge federal deficits as far as the eye can see. Even by Obama's calculations, \$1 trillion next year before falling to \$700 billion. And that's the cash deficit; when calculating the real deficit, including the unfunded liabilities of Social Security and Medicare, the numbers are downright staggering.

In addition, Obama has proposed a cap on the value of charitable deductions for wealthy taxpayers. In effect, wealthy taxpayers will be paying more in taxes while getting less of a tax benefit for gifts to charity.

Weekly Focus – Think About It

"Success is simple. First, you decide what you want specifically; and second, you decide you're willing to pay the price to make it happen, and then pay that price."

--Nelson Bunker Hunt

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* 2/28/2010. *The Smarter, Not Harder Report, Dennis Tubbergen*

* 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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