

# THE PLANNING GROUP

A Wealth Management Firm

## Weekly Commentary June 1, 2010

### The Markets

"Sell in May and go away" is a popular Wall Street adage. It wasn't pretty. The S&P 500 index dropped 8.2% for the month making it the worst May performance since May 1962. Rising tensions in the Korean peninsula, European debt worries, China's property bubble bursting, and the winding down of America's "stimulated" economy conspired to send investors to the sidelines.

Not too surprisingly, as equity prices declined in May, government bond prices rose. This "flight to safety" suggested that diversification between equity and government bonds worked in May.

Data as of 5/28/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.2%	-2.3%	18.5%	-	-1.8%	-2.6%
DJ Global ex US (Foreign Stocks)	1.7	-10.1	11.3	-11.9	1.7	0.7
10-year Treasury Note (Yield Only)	3.3	N/A	3.7	4.9	4.0	6.4
Gold (per ounce)	2.4	9.4	26.1	22.3	23.9	16.0
DJ-UBS Commodity Index	1.6	-9.9	1.8	-9.7	-3.6	1.9
DJ Equity All REIT TR Index	2.2	11.0	59.8	-9.4	2.4	11.0

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.

**OVER THE PAST FEW MONTHS**, we've endured an uncontrolled oil spill in the Gulf, a volcano in Iceland that disrupted air travel in Europe, and an earthquake in Haiti that caused immeasurable suffering. These human disasters have parallels in the financial world that are worth noting.

The ongoing gusher in the Gulf is a manmade disaster that, in the financial world, looks like our country's ongoing manmade gusher of deficit spending. With the fragile Gulf ecosystem drowning in oil, our country is drowning in bills that will eventually come due. Efforts to stop the oil spill have so far failed as have our efforts at reducing our deficits. BP (British Petroleum) says drilling a relief well is the "end game" to stop the leak. What is our country's endgame to stop the ballooning fiscal mess?

The volcano in Iceland disrupted air travel for millions of travelers causing birthdays and weddings to be missed, business meetings to be cancelled, and a few extra days of unexpected expenses. But, eventually, the ash cleared and travelers went on their way. Likewise, the financial markets experience disruptions from time to time that are disappointing to investors. We call these "corrections" and they are usually temporary and not "retirement threatening." They're not fun, but we get through them.

The earthquake in Haiti came without warning and was devastating. More than 200,000 people likely died and many more will feel its effects for years to come. Poor infrastructure and lack of

planning exacerbated the devastation of the quake. Likewise, the economic crisis of 2008-2009 is the financial market equivalent of the Haiti earthquake. Our country's inability to live within its means (poor infrastructure) and prepare for contingencies (poor planning) led us to a market debacle. Like Haiti surviving its calamitous quake, we can survive a market meltdown, and, ideally, learn from it so we are better prepared to withstand the next financial earthquake.

This comparison of nature's disasters to a financial counterpart is not meant to trivialize the pain from the Gulf, the volcano, and the earthquake. Rather, it suggests that we can become better investors by learning the lessons that nature teaches us. The question is, will we learn from nature's lessons?

## **On The Economy<sup>7</sup>**

The month of May was brutal for the markets with the S&P 500 having its 9<sup>th</sup> worst month since 1950. The international events taking place in Europe clearly weighed heavily on the U.S. markets.

Europe is talking about freezing wages for three years as well as other severe austerity programs in an attempt to reduce their deficits such as raising taxes and increasing the average retirement age. Unfortunately, most believe that the labor unions will oppose such measures and it will be quite some time before any recommended proposals are implemented. Although the lower price of the Euro is good news for travelers, it is bad news for American manufacturers as it will slow down the buying of U.S. goods.

## **Additional Thoughts**

At age 65, people face at least a 40% lifetime risk of entering a nursing home at some point in their lifetime and about 10% will have a stay of five years or longer. (Source: AHIP)

Fannie Mae and Freddie Mac have requested an additional \$8.4 billion in an effort to stay afloat (after having had 12 consecutive quarterly losses) and losing \$11.5 billion this past quarter.

The Gulf Oil Spill is looming as the greatest ecological disaster in decades and it is likely to directly affect everyone in the country with thousands of lost jobs in the Gulf seafood and tourist industries.

China is still the #1 holder of U.S. government debt with \$894.8 billion with Japan in second position holding \$768.5 billion and the U.K. holding \$233.5 billion.

Under current law, 529 plan assets can only be invested in securities backed products such as mutual funds. Recently passed House regulation allows FDIC insured bank accounts – it now awaits Senate approval.

## **Weekly Focus – Think About It**

As we took time this past Monday to remember those who gave their lives for our freedom, these words from singer Lee Greenwood express a sentiment that we all feel:

And I'm proud to be an American,  
Where at least I know I'm free.  
And I won't forget the men who died,  
Who gave that right to me.

And I gladly stand up,  
Next to you and defend her still today.

'Cause there ain't no doubt I love this land,  
God bless the USA.

Best regards,

*The Planning Group Investment Team*

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\* Consult your financial professional before making any investment decision. You cannot invest directly in an index. Past performance does not guarantee future results. Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

\* 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. <sup>7</sup>The source for the information for On The Economy was derived from Bob LeClair's *Finance & Markets Newsletter 5/30/10*

\* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

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