

THE PLANNING GROUP

A Wealth Management Firm

Weekly Commentary June 14, 2010

An update

Many of you receiving our Weekly Commentary are clients of our investment management services. I wanted to give you a quick update on our managers, as it will be another 4 weeks before you receive our quarterly newsletter and your performance report.

- All of our managers have been making defensive moves over the last month to 3 months.
- DPS is now 100% cash within its Growth Model (although they monitor a large number of 401k and variable annuities for our clients that each have their own individual modeling).
- Even DPS's bond Income Model is 33% cash.
- VPM, which has been making defensive moves since February, is now 63% cash with only 12 of 39 stock positions still remaining.
- The four managers we utilize within the EquisCapital platform have been adeptly moving to their defensive positions over the last few months.
- F2 has moved out of 4 of their 11 sectors, and has trimmed some of their remaining positions to cash as well.

As a sidebar, nobody knows if the markets are going to continue their downward pressure, or move sideways for a while, or perhaps even start to work its way back up - but our tactical manager's styles are structured to error on protecting the downside, even if they end up missing part of the upside.

As you know from the educational pieces we have sent out, it is critical for investors to reduce the volatility within their investments - as in many cases (especially for those who are retired and making withdrawals, you can actually earn a lower return, yet have more income and more money left over at the end of the journey if the volatility within your portfolio is lower.

Please do not misinterpret that we are complacent to earn a lower return or not strive to beat our respective benchmarks - as we are not. But it is important to recognize that doing all we can to minimize volatility and risk is of overriding importance.

New Investment Program⁶

Please note that a new investment program is available called IPE (Insured Private Equity). The underlying holdings will include at least 3 different private equity investments (new start-up companies and micro stocks). These types of investments are characteristically considered very high risk with the potential to take off like a rocket, or perhaps end up worthless, or somewhere in between.

The uniqueness of the IPE program is that we have placed a wrapper around the investment that provides a guaranteed return of principal, even if all of the underlying investments go bust. Please contact our office for obtaining more information and a PPM. Please ask for Scott.

This program is not for everyone, but given that we normally have at least a portion of a client's portfolio earmarked for some type of private equity investment, you may find you have some interest.

The Markets

Which country is the most attractive market for investors?

Perhaps Brazil? Russia? India? China? Collectively, those four are known as the "BRIC" countries and for a number of years, many investors have pointed to them as economic stars. However, in a global quarterly poll of investors and analysts, "Almost four of 10 respondents picked the U.S. as the market presenting the best opportunities in the year ahead." That placed the U.S. #1 on the list followed by Brazil, China, and India.

It does raise an interesting observation, which is... there are countries with good economics and countries with good investment opportunities - and they are not always the same. For example, in the first quarter of 2010, Brazil, India, and China's economies (GDP – Gross Domestic Product) expanded at an annual rate of 9.0%, 8.6%, and 11.9%, respectively. That's huge.

By contrast, the U.S. economy expanded at a relatively modest 3.0% in the first quarter. On the surface, you might think that the three countries with the highest economic growth rates would also present the most attractive investment opportunities. Possibly yes, but the latest survey from Bloomberg put the good ol' USA in the #1 spot.

Why would these investors and analysts put a slower-growing U.S. ahead of fast-growing Brazil, India, and China? There could be numerous reasons, but a simple takeaway is this--in the short-term, good economics does not always translate into good investment opportunities. For example, if the fast economic growth in Brazil, India, and China was already "priced into" their financial markets, then the near-term outlook for stock prices might be muted. Conversely, if the modest growth in the U.S. helped drive our stock prices down to a relatively low level, then we might be in the best position to experience a bounce from this "oversold" condition.

This is a long-winded way of saying short-term market movements might not reflect current economic realities.

Data as of 6/11/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	2.5%	-2.1%	15.4%	-10.2%	-1.9%	-2.8%
DJ Global ex US (Foreign Stocks)	1.0%	-10.3%	6.1%	-11.9%	1.7%	0.0%
10-year Treasury Note (Yield Only)	3.2%	N/A	3.9%	5.1%	4.1%	6.1%
Gold (per ounce)	1.4%	10.5%	28.8%	23.3%	23.2%	15.7%
DJ-UBS Commodity Index	2.5%	-10.2%	-4.6%	-10.1%	-4.1%	1.9%
DJ Equity All REIT TR Index	7.8%	12.5%	58.9%	-8.1%	1.9%	10.9%

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.

DID YOU FEEL WEALTHIER? In the first 3 months of this year the net worth of U.S. households rose by \$1.1 trillion, according to the Federal Reserve. Most of this increase came from rising stock prices. And, if you believe economists, each extra dollar of wealth should generate about 5 cents of spending over time. Dubbed "The Wealth Effect," it suggests that rising stock prices could lead to a virtuous cycle of higher spending, higher corporate earnings, and higher stock prices. That's the good news.

The bad news is that although household net worth was up in the first quarter, it is still down about \$11.4 trillion from its early 2007 peak. And with the roughly 7% slide we've seen in S&P 500 so far in the second quarter, we may see the net worth number drop when the second quarter data is released in a few months.

This net worth data and the stretched balance sheets of many Americans leaves us with a conundrum. On one hand, consumer spending accounts for about 70% of U.S. economic activity. So, if we want robust economic growth, we need consumers to open their wallets and start buying stuff. On the other hand, the pragmatic observer says consumers are already too much in debt and need to curb their spending and build up their savings. This could lead to slower growth.

Essentially, we can keep spending by going deeper in debt and hope we can "leverage" our way to prosperity. Or, we can cut our spending, increase our savings, and gradually build our way back to a sustainable growth rate. Both scenarios would likely cause some pain. The former scenario would likely delay the pain, and is the easier pill to swallow. The latter scenario would likely speed up the pain, but give us a more solid foundation to put our country back on the path to prosperity.

On The Economy⁷

Stocks remained volatile, with the Dow up 2.81% for the week and down 2.08% for the year while the S & P 500 was up 2.51% for the week and down 2.11% for the year.

Long-term Treasury rates were stable this week, but the rate of 90-day T-bills dropped to just 0.07%. The seven-day yield on money market mutual funds is basically zero. That means \$3 trillion dollars is essentially sitting on the sidelines earning nothing due to fear of the marketplace.

Mortgage rates continued to slide downward a bit due to continued weakness in housing and home building market. We are not expecting any boost, and in fact the best one might hope for is for things to just stabilize given foreclosures and bankruptcies are likely to continue to increase through the end of the year.

Surprisingly, oil and gasoline prices have remained somewhat stable, despite the Gulf of Mexico spill. Weak demand in many areas is offsetting the strong demand from China.

Additional Thoughts

One of the looming financial concerns hanging out there is the Social Security deficit. We are experiencing a temporary deficit currently (due to high unemployment and more people retiring than expected). Surpluses are then projected for the next few years, with deficits again from around 2016 and on. The Social Security trust fund is projected to be depleted by 2037, with payments at a 70% of planned benefits based on a pay-as-you-go basis.

There was an interesting recent article in U.S. News & World Report entitled, "12 Ways to Fix Social Security". The article listed a number of options to reduce or eliminate Social Security's projected deficit that had been noted in a Senate Special Committee on Aging report. The report mentions that there is a considerable disagreement among Committee members as to which of these approaches should be implemented. Whether you are retired or close to retiring - which ones would you be inclined to select? (And by the way - none of them is not an option.)

Recommended Solution	% Reduction in SS Deficit
Reduce benefits for new beneficiaries, beginning in 2010, by 3%	18%
Reduce benefits for new beneficiaries, beginning in 2010, by 5%	30%

Increase the Social Security contribution rate from the current level of 6.2% to 7.3%; a worker making \$43,451 in 2010 would face a tax increase of \$478 per year, or \$9.19 per week	100%
Increase the Social Security contribution rate from the current level of 6.2% to 7.2% in 2022, and to 8.2% in 2052	100%
Calculate SS benefits on the highest 38 working years instead of the current 35 years	14%
Calculate SS benefits on the highest 40 working years instead of the current 35 years	23%
Reduce the annual cost of living adjustment (COLA) by 1% each year	78%
Reduce the annual cost of living adjustment (COLA) by ½% each year	40%

Given the political sensitivities, there's no guarantee that any effective action will be taken until it becomes even more of a crisis. The longer the inevitable is postponed, the harsher the remedy.

Weekly Focus – Think About It

"I have learned, as a rule of thumb, never to ask whether you can do something. Say, instead, that you are doing it. Then fasten your seat belt. The most remarkable things follow."

--Julia Cameron

Closing Thought

"America is full of great examples of how one person changed a negative situation or improved a situation. I challenge each of you to think about your family, workplace, and how you might help to advance the public trust in your environment. If you do not, who will?"

~Lt. Gen. Hal Moore

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. ⁶The IPE (Insured Private Equity program is available to accredited investors (\$1,000,000 of net worth or greater). This should not be construed as a solicitation or offer to sell. If you have an interest in investing, please contact our office for a PPM (private placement memorandum) and ask for Scott or Ryan. ⁷The source for the information for On The Economy was derived from Bob LeClair's *Finance & Markets Newsletter 6/13/10*

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

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