

# THE PLANNING GROUP

A Wealth Management Firm

## Weekly Commentary June 7, 2010

### The Markets

Despite the blaring headlines of late, the U.S. stock market has been stuck in a broad trading range since last September.

It's easy to get caught up in the daily gyrations of the stock market's ups and downs, but when viewed through a longer-term lens, the S&P 500 index has been pinballing between a range of about 1,040 and 1,217. The low end of the range was established in mid-September of last year and the high end of the range was reached in late April of this year, according to data from Yahoo! Finance. Last Friday, the index closed at 1,065, which is near the low end of the range.

Range-bound markets are not unusual and with the big rise we've had since March 2009, some consolidation of those gains is par for the course. Going forward, the market can do one of three things. It can continue to bounce around the range, it can breakout of the range to the upside, or it can breakdown. Of course, nobody knows until after the fact which scenario will occur, but regardless of the next direction, we continue to do all we can to help you reach your goals and objectives.

Data as of 6/4/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year	
Standard & Poor's 500 (Domestic Stocks)	-2.3%	-4.5%	13.3%	-	11.6%	-2.3%	-3.2%
DJ Global ex US (Foreign Stocks)	-1.2	-11.2	6.7	-12.9	1.4	-0.1	
10-year Treasury Note (Yield Only)	3.2	N/A	3.7	4.9	4.0	6.1	
Gold (per ounce)	-0.3	9.0	24.0	21.5	23.1	15.6	
DJ-UBS Commodity Index	-2.7	-12.3	-4.7	-11.4	-4.7	1.6	
DJ Equity All REIT TR Index	-6.0	4.3	38.7	-12.1	0.8	10.3	

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.

**HOW OFTEN SHOULD WE EXPECT THE STOCK MARKET** to experience declines of at least 5%? When training for athletic events coaches are fond of saying, "No pain, no gain." Likewise, investors should expect to endure the "pain" of market declines in order to benefit from the "gain" of bull markets. But, in order to withstand these market declines, it's helpful to know how much pain is "normal."

The chart below shows more than 100 years of the frequency of various declines in the Dow Jones Industrial Average. Although past performance is no guarantee of future results, the chart should give you some historical perspective:

## A History of Declines (1900 - December 2009)

Type of Decline	Average Frequency <sup>(1)</sup>	Average Length <sup>(2)</sup>
- 5% or more	About 3 times a year	48 days
- 10% or more	About once a year	115 days
- 15% or more	About once every 2 years	217 days
- 20% or more	About once every 3 1/2 years	338 days

Source: Capital Research and Management Company

(1) Assumes 50% recovery rate

(2) Measures market high to market low

As of last week, the Dow was in the "-10% or more" category, according to CNNMoney.com. This was the first decline of 10% or more since March 2009, according to Barron's. Looking at the chart above, the current decline puts us right in line with the historical frequency of such declines.

We realize that market declines are not enjoyable even if they are in line with historical frequency. However, knowing where we stand within the context of history can help us make clearer and less emotional decisions as it relates to investment strategy.

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

Although first appearances for the May unemployment report appeared acceptable, a sour after taste remained. A record number of 46% of those unemployed have been out of work for more than six months, and one could argue that their 'old' job is gone for good. That represents 4.3% of the labor force. The employment report on Economy.com suggests that it will be 2013 before we return to our pre-recession peak.

In the past, a recovery from a recession usually took 6 to 18 months - for the current 'Great Recession', it is projected that it will take 3 to 5 years.

With the huge inflows of foreign capital to the U.S., interest rates are likely to stay low. Why are foreigners investing in our low interest rates? It is a flight to quality, as there are not many other places to invest.

### Additional Thoughts

Of the top Fortune 1000 companies surveyed, 620 stated they do not expect to restore their payroll to pre-recession levels for at least three years.

In the next 12 months, over 8 million homes could default, not because people cannot afford their mortgage, but because their home is worth less than their mortgage.

### Closing Thought

Never argue with an idiot. He'll bring you down to his level, then beat you with experience.

### Weekly Focus – Think About It

"The trend is your friend except at the end where it bends."

--Ed Seykota

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 6/7/10*

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

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