

THE PLANNING GROUP

A Wealth Management Firm

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The Markets

According to the Mid-Session Review submitted by the White House last week, “the economy is still struggling; too many Americans are still out of work; and the Nation’s long-term fiscal trajectory is unsustainable, threatening future prosperity”.

Here are a few of the projections and supplemental updates the annual budget contained:

- A projected federal deficit of \$2.9 trillion over the next two fiscal years.
- Gross Domestic Product projected to grow 3.2% this year, 3.6% in 2011, and 4.2% in 2012.
- Unemployment projected to average 9.7% this year, 9.0% in 2011, and 8.1% in 2012. It is projected to stay above 6% until 2015.
- The consumer price index projected to rise 1.6% this year, 1.3% next year, and 1.8% in 2012.
- The 10-year Treasury projected to yield on average 3.5% in 2010, 4.0% in 2011, and 4.6% in 2012.

Projections like this are, of course, notoriously difficult to get right. So much can happen in a short period and throw off the best laid plans. But, looking at the projections at least gives us a place to start. Overall, the projections are a mixed bag. The deficit numbers are problematic. The GDP growth projection is good if we can hit it. The unemployment numbers are painful. The inflation outlook is stable and the Treasury yield is favorable for business growth.

If the above numbers come to fruition, then we would likely avoid a double-dip recession and the economy would probably “muddle along.” So far, corporate America is doing its part by showing really solid earnings for the second quarter. Companies such as Caterpillar, 3M, AT&T, and UPS notched solid quarters and suggest there is underlying strength in the economy. In fact, of the 175 companies in the S&P 500 that have already reported their second quarter earnings, a whopping 78% have beaten analysts’ estimates, while only 12% missed. Buoyed by good earnings and relief over the European bank stress tests, the S&P 500 rose a solid 3.6% last week.

Given all the volatility we’ve had over the past 2½ years, “muddle along” might not be so bad!

Data as of 7/23/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	3.6%	-1.1%	12.6%	-10.6%	-2.1%	-2.8%
DJ Global ex US (Foreign Stocks)	1.9%	-4.8%	10.1%	-11.9%	2.2%	0.8%
10-year Treasury Note (Yield Only)	3.0%	N/A	3.7%	5.0%	4.3%	6.0%
Gold (per ounce)	0.1%	7.8%	25.3%	20.4%	22.9%	15.6%
DJ-UBS Commodity Index	1.8%	-6.7%	5.5%	-8.6%	-3.6%	2.7%
DJ Equity All REIT TR Index	6.3%	13.5%	56.1%	-6.1%	0.9%	10.5%

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.

WHETHER AN INVESTOR LEANS BULLISH OR BEARISH, there is ample data to support either view. This situation may explain why Fed Chairman Ben Bernanke told Congress last week that the economic outlook was “unusually uncertain.” For the glass half full version, here are several supporting points courtesy of economist David Rosenberg as reported by *Financial Times*:

- Congress extended jobless benefits, which is one form of stimulus.
- Some Democrats are now in favor of delaying tax hikes.
- China is having some success slowing its property bubble without bursting it.
- Confidence is growing that the emerging markets may keep world growth positive even if more mature countries slow down.
- Eurozone debt and money markets have settled down after the problems with Greece sparked default fears.
- The European bank stress tests contained no major surprises and added clarity to the soundness of the banking system.
- Consumer credit delinquency rates in the U.S. are improving.
- Mortgage delinquencies in California, one of the hardest hit real estate markets, are at a three-year low.
- The BP oil spill is coming under control and is no longer each day's top headline.
- The passage of the financial regulation bill removed one more cloud of uncertainty.
- Corporate America is reporting solid earnings for the second quarter and their future outlook has been, on balance, positive.
- Fed Chairman Ben Bernanke indicated he'll keep using monetary policy to stimulate the economy and he'll get even more aggressive if need be.

So, yes, there are reasons why the markets and the economy could do okay in the months to come. But, in this “unusually uncertain” time, it still makes sense to be “on guard.”

The Economy⁷

Officially, the ‘Great Recession’ is over - although it does not seem like it, and probably won't feel like it for a while.

Interest rates on longer term Treasuries edged up a bit while T-bills held at close to a 0% rate. Bernanke's testimony to Congress left little doubt that interest rates would stay low for some time to come. Bernanke also stated that the Federal Reserve's forecast for unemployment would only fall to 7%-7.5% by 2012. Mortgage rates edged down a bit lower primarily due to the on-going weakness of the housing data.

A long drawn out ‘more-of-the-same’ is what is likely in store for us.

Tidbits⁸

Most states are wrestling with major budget shortfalls, and there is no light at the end of the tunnel for them. The tax revenue is lagging due to too many people who are jobless, and the social services have increased for the same reason. States have no choice but to slash spending, and 1/3 of the states have increased sales taxes, and 1/4 have increased income taxes.

Weekly Focus – Think About It

“Even if I knew that tomorrow the world would go to pieces, I would still plant my apple tree.”
--Martin Luther King, Jr.

Best regards,

The Planning Group Investment Team

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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. ⁷The source for the information for On The Economy was derived from Bob LeClair's *Finance & Markets Newsletter 7/25/10*. ⁸Information for Tidbits was derived from *The Kiplinger Letter 7/23/10*.

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

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