

THE PLANNING GROUP

A Wealth Management Firm

Weekly Commentary August 2, 2010

Portfolio Overview

July was an interesting month. After a market correction of -16% (from April 26th to July 2nd) the markets then bounced back 7.7% by the end of July. Over the last four months, the volatility in the market had risen well over 100%. All of our tactical managers made major moves during this timeframe. Many of them moved to a 60% to 100% cash position during the downturn. Today, most of the managers are 75% to 100% fully invested (although the sectors of the market they have invested has changed).

Last weekend (7/25) both of our tactical monitors moved us out of gold (where we had held positions for quite some time). So except for clients requesting their positions to be “strategic” (buy and hold), all of our clients were out of gold as of Monday morning locking in a respectable profit since we initially entered the position. Although we realize our moves cannot always be 100% spot on, gold was down 2% shortly after we had moved out, although it has been inching back.

I should point out that we do not try to out-think things, as we maintain the discipline of following the suggested moves. I remind myself of a phrase – “If you want to find data that supports your positioning - you will”. As discussed within the commentary, we feel the markets will continue to be challenging for some time to come (perhaps the next even the next 2 to 7 years). The question that is being debated among most pundits, is it likely to be a struggling bull market, or one that has more bearish overtones?

I will take this opportunity to remind our clients that our primary investment objective is to minimize risk. I’m not suggesting that we aren’t concerned about the rate of return – we are – but managing risk has a higher priority. Our typical portfolio has had about 40% to 60% less risk than a comparable strategic portfolio as a result of involving our tactical and absolute return managers. Generally speaking, our returns have been better than the strategic (buy and hold) portfolios, - although we are obligated to provide the caveat that future performance is not indicative of past performance.

Tidbit⁷

Average market returns. The article in the New York Times this weekend was titled *Why Average Is Not Normal*. It acknowledged the S&P 500’s average return from 1926 – 2009 was about 10%. What was interesting is there were only 7 years out of the 84 years where the returns fell even close to the average (8% to 12% range) – that’s barely 8% of the time. Over 51% of the time is was greater than 12%, and 30% of the time is was less than 0%.

There are a number of underlying messages, but the main one is that you do not have the luxury of basing the success of your current retirement on ‘average’ returns, and you certainly do not have an 85 year time horizon to work within. So managing risk should be a high priority.

The Markets

Consumers are becoming more frugal and that may turn out to be a good thing. One cause of

The Great Recession was the cumulative effect of consumers spending more money than they could afford. Eventually, they got tapped out, business slowed down, and massive layoffs ensued.

The personal savings rate (saving as a percentage of disposable personal income) rose to 6.2% in the second quarter - that's up from 5.5% in the first quarter. In the heyday of conspicuous consumption back in 2007, the savings rate was a paltry 2.1%. Higher savings is a double-edged sword: On the positive side, it means consumers are acting more responsibly and, by beefing up savings, they are setting the stage for future sustainable economic growth. The downside to this thriftiness is slower economic growth in the short term.

| Data as of 7/30/10 | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|-----------------------------------------|--------|-------|--------|--------|--------|---------|
| Standard & Poor's 500 (Domestic Stocks) | -0.1% | -1.2% | 11.6% | -9.2% | -2.3% | -2.6% |
| DJ Global ex US (Foreign Stocks) | 1.3% | -3.6% | 9.8% | -9.9% | 2.1% | 1.3% |
| 10-year Treasury Note (Yield Only) | 2.9% | N/A | 3.6% | 4.8% | 4.3% | 6.0% |
| Gold (per ounce) | -1.8% | 5.9% | 25.4% | 20.9% | 22.1% | 15.5% |
| DJ-UBS Commodity Index | 3.3% | -3.5% | 8.1% | -7.8% | -3.6% | 3.1% |
| DJ Equity All REIT TR Index | 1.8% | 15.5% | 52.4% | -3.4% | 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.

The Economy⁷

The Commerce Department's report on the GDP (Gross Domestic Product) showed a (weaker than expected) gain of 2.4%. But this is against an expected 4% number which would be more normal this far into the recovery.

- Lenders are accelerating foreclosures after the worst housing crash since the Great Depression. Foreclosures will likely top 1 million this year.
- Mortgage delinquencies are rising as the unemployment level stays persistently high. Until we see a rise in employment (now not projected until 2012) it is hard to get too enthusiastic as we muddle through the recovery process.
- Corporations are sitting on \$1 trillion of corporate cash that isn't being used to buy other companies, expand plant and equipment, or hire new workers.
- Consumer spending is abnormally weak compared to what it should be after a recession.
- The debate surrounding the upcoming political elections will likely not improve things much.
- At best economically, we are trading water with the prospects of only slow growth ahead.
- Recovery from the 'Great Recession' is likely going to be slow and at times a frustrating process.

Additional Thoughts⁸

Taxes. Even the Democrats are now suggesting that extending the Bush tax cuts probably makes sense (as in not raising taxes sooner). The concern is a bout of deflation stemming from a lack of demand. Inflation, which had been running over 4% prior to the recession, fell to as low as a minus 2% (mid-2009) rising back to 3% by the end of the year, and now sits closer to 1%.

If the economy were to tip into a (second) recession with inflation so low, the results could be toxic. There is not much the government can do given they have used most of the 'tricks' in their bag. Our deficits are dangerously high, and a further recession would mean tax collections fall even further. But most pundits feel that "absent a policy mistake", we will not have a double dip recession.

Weekly Focus – Think About It

Here's a list of the happiest countries in the world, according to a recently released Gallup Poll based on data collected between 2005 and 2009. Survey participants were asked to rate their overall satisfaction with their lives and how they had felt the previous day (to gauge their happiness in daily activities).

| <u>Rating</u> | <u>Country</u> |
|---------------|----------------|
| 1 | Denmark |
| 2 | Finland |
| 3 | Norway |
| 4 | Sweden |
| 5 | Netherlands |
| 14 | United States |
| 17 | United Kingdom |
| 44 | France |
| 81 | Japan |
| 125 | China |

Does this list surprise you?

Best regards,

The Planning Group Investment Team

* The content of this newsletter has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or to participate in any particular investment strategy. We derive information from a variety of sources we consider reliable, but we do not represent that the information is accurate or complete. The opinions and statements herein are subject to significant business, economic and competitive uncertainties and actual results could be materially different, thus there are no guarantees and are subject to change at any time. Financial planning and investment advisory services are offered through The Planning Group of Scottsdale, LLC, and Ives Asset Management, Inc., both firms are SEC Registered Investment Advisor and . Certain securities may be offered through Meridian United Capital, LLC, a registered broker/dealer and FINRA member firm.

* 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. ⁷The source for the information for *The Economy* and *Tidbit* was derived from Bob LeClair's *Finance & Markets Newsletter* 7/31/10 ⁸Information for *Additional Thoughts* was derived from John Mauldin's *Front Line Thoughts* 7/31/10.

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

*To unsubscribe from the Weekly Commentary please reply to this e-mail with "Unsubscribe" in the subject line, or write us at:

Scottsdale Office - 8800 N. Gainey Center Drive - Suite 176 - Scottsdale - Arizona - 85258-2122
Sun City West Office - 13912 W. Stardust Blvd. - Suite 119 - Sun City West - Arizona - 85375
Telephone (480) 596-1580 - (888) 596-1580 - Fax (480) 596-2165 - e-mail - kris@theplanninggroup.com