THE PLANNING GROUP

A Wealth Management Firm

Weekly Commentary
August 9, 2010

Overview[6]

Despite a disappointing jobs report, stocks still managed to post a gain last week. Strong corporate earnings are helping to keep a floor under the market. Roughly 75% of the companies that have reported second quarter earnings beat Wall Street estimates. Of course, one factor that helped corporate America post strong earnings was keeping a tight rein on employment costs. Unfortunately, what's good for corporate America may not always be good for "employment" America.

Bond yields continued to decline last week as the 2-year Treasury hit a historic record low of 0.50%. The 10-year Treasury yielded 2.82%. Foreign country bonds are sporting low yields, with the 10-year German Bund hitting a record low yield of 2.51%, while the benchmark Japanese 10-year government bond yielded just 1.05%.

Generally low yields suggest either slower economic growth ahead or little to no inflation, or both. Low interest rates are normally good for businesses as it makes their cost of capital lower and makes it easier for them to reinvest for future growth. So far, the low rates appear to have helped stabilize the economy, but resulting robust growth and reinvestment has yet to materialize.

Overall, the mixed economic data is helping keep the market stuck in a broad range.

Data as of 8/6/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.8%	0.6%	11.0%	-8.6%	-1.7%	-2.7%
DJ Global ex US (Foreign Stocks)	2.8%	-0.9%	9.6%	-8.7%	2.5%	1.5%
10-year Treasury Note (Yield Only)	2.8%	N/A	3.8%	4.7%	4.4%	6.0%
Gold (per ounce)	3.3%	9.4%	25.3%	21.6%	22.6%	16.0%
DJ-UBS Commodity Index	0.8%	-2.8%	3.8%	-6.9%	-3.6%	3.0%
DJ Equity All REIT TR Index	1.3%	16.9%	39.8%	-3.6%	2.8%	10.6%

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.

"WE ARE IN A NEW NORMAL WORLD in which the distribution of outcomes is flatter and the tails are fatter," according to a July 2010 Global Perspective report from Richard Clarida of PIMCO. What in the world does that mean?

Clarida's words might sound like mumbo jumbo, but he actually makes a solid case that planning for "extreme" outcomes rather than "average" outcomes might be the appropriate investment strategy in the current climate.

History tells us that the average annualized total return on the S&P 500 between 1926 and 2009 was 9.9% and the standard deviation was 19.2. Standard deviation is a measure of volatility and at 19. 2 (one standard deviation), it means that about 68% of the time, we would expect the S&P 500 annual return to be somewhere between a loss of 9.3% and a gain of 29.1% (19.2%

difference on either side of the 9.9% average return.

At two standard deviations, it means that about 95% of the time, we would expect the S&P 500 to return somewhere between a loss of 28.5% and a gain of 48.3%. At three standard deviations, it means that about 99.7% of the time, we would expect the S&P 500 to return somewhere between a loss of 47.7% and gain of 67.5%.

Clarida is suggesting that in the future, more of the returns in the financial markets will fall in the 2nd or 3rd standard deviation range (the “fat tail”) instead of the 1st standard deviation range (the “hump”). This is another way of suggesting that we should expect more volatility -- both positive and negative -- in the future.

The future could be more volatile due to such things as the unpredictable nature of government regulation and bailouts, sovereign debt levels, high-frequency trading, geopolitical flare-ups, social unrest, high unemployment, and medical or scientific breakthroughs.

Recent events such as the May 6 “Flash Crash,” the 2008 financial crisis, the 2007-2009 bear market, and the 2008 spike and then collapse in oil prices, support Clarida’s idea that we live in volatile times.

So, if we are temporarily living in a “fat tail” world, then it makes sense to plan accordingly. And, that’s what we’re trying to do on your behalf as it is absolutely critical to the success of your retirement investments to manage and reduce risk.

The Economy[7]

With $2.5 trillion sitting on the sidelines, risk-averse savers cannot be very please with interest rates averaging 0.04%. The lower interest rates mean that interest earnings are closer to $1 billion annually compared to $125 billion just three years ago. The yield on 90 day Treasury Bills is 0.14% and 3 year Treasuries are only 0.75%. We do have one of our FDIC insured banking relationships crediting 1.64% on their money market accounts – but it is not like the ‘old’ days.

Even with our savings rate at a multi-year high of 6.4% of disposable income, a recent survey in *BusinessWeek* magazine indicated that 51% of consumers stated they were behind on their savings goals.

The U.S. dollar continued to fall the Euro has regained about half of its loss since the beginning of the year. Although a weaker dollar is helpful to American manufacturers in that it makes their goods cheaper in foreign markets, the flip side is as the value of the dollar drops, the price of oil and other commodities generally increases.

Additional Thoughts[8]

According to Robert Shiller, professor of economics at Yale University and advisor to S&P, the economy continues to provide reason for concern and the possibility of a double-dip recession remains 50/50. The basis of his concern is the path of home prices.

An analysis performed by Towers Watson, "U.S. workers saw the value of their employer-sponsored retirement benefits - as measured by a percentage of pay - decline by 19% over a 10-year period.

Government deficit spending to maintain consumption “can be compared to flushing money down an economic toilet” quoted by PIMCO’s chief, Bill Gross.

Weekly Focus – Think About It

“Take calculated risks. That is quite different from being rash.”
-- General George S. Patton

Best regards,

The Planning Group Investment Team

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* You cannot invest directly in an index. 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.

[6] The source for the information for *The Overview* was derived from Peak’s *Weekly Commentary 8*/9/10
[7] The source for the information for *The Economy* and *Tidbit* was derived from Bob LeClair's *Finance & Markets Newsletter* 7/31/10
[8] Information for *Additional Thoughts* was derived from *The Virtual Advisor 7/31/10.*
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

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