

THE PLANNING GROUP

A Wealth Management Firm

Weekly Commentary Report October 24, 2011

Big Picture¹⁰

Because VPM is one of our core investment models, I thought I would provide some of Bob Kendall's comments from his Monday *Weekly Report*,

Another weekend has passed and still no decisions. It appears that Europe remains in a deadlock as everybody is still waiting for their final decision on how they're going to bail out the system. However, it would appear based upon market action that the markets are beginning to look beyond the European crises. It appears market participants are beginning to focus on economic activity in individual economies across the planet.

For example, about 70% of the earnings have been better than expected so far and the market is continuing to see a strong underlying bid. The market appears to be looking beyond Europe. In fact, many traders are starting to get the attitude that it will be fixed and are not worried about it any longer. Maybe that seems somewhat naïve, but that's what the market pricing is telling you. There's always the possibility that a new news story could arrive and change everything, but for now risk is going on and that's it.

From a VPM standpoint, the bullish percent is only 18%. The new stock buys that are being issued from the system are the stocks that have high potential to move up in spite of the market. Since VPM has been in existence, there's only been one period that I witnessed in which there were less than 10% of the stocks long in the system - which was the fourth quarter of 2008.

The normal characteristic of VPM is that many of the stocks will start to find bottoms before the market indices do. This is a classic rotation process that occurs during bottoming cycles. We are still a ways off from getting the indexes or many mutual funds to purchase, but these individual stocks that are being purchased all have a high probability of appreciating. All signals that come out of VPM are based upon the same basic principles which are centered in the patterns and the statistical probabilities for appreciation.

The Markets⁶

"Good news is good and bad news is bad, but a lack of bad news can be good, at least for investors," so wrote Vito Racanelli in the current issue of *Barron's*.

Since the recent October 3rd low, the S&P 500 index has risen 12.6% on the back of "a lack of bad news," according to data from Yahoo! Finance.

Here's what we could classify as a lack of bad news in the past few weeks:

- Corporate earnings are coming in okay so far this quarter as 75% of the 118 companies that reported earnings have beaten estimates, according to financial data provider FactSet.
- Economic news has generally supported the idea that the economy, while soft, is not collapsing.
- European leaders, after months of tough talk, but little action, may finally be on the verge of taking “comprehensive” action to quell (at least temporarily) the sovereign debt crisis, according to Phil Orlando, chief equity market strategist at Federated Investors.

Whether this “lack of bad news” turns into good news or bad news going forward, remains to be seen. Either way, we’ll work hard to profit from it.

Data as of 10/21/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.1%	-1.5%	4.7%	9.0%	-2.1%	1.3%
DJ Global ex US (Foreign Stocks)	-0.3%	-14.0%	-11.1%	8.1%	-3.1%	5.3%
10-year Treasury Note (Yield Only)	2.2%	N/A	2.5%	3.7%	4.8%	4.6%
Gold (per ounce)	-2.1%	16.5%	22.3%	28.6%	23.0%	19.5%
DJ-UBS Commodity Index	-2.2%	-10.7%	0.3%	2.0%	-2.7%	4.8%
DJ Equity All REIT TR Index	3.6%	1.4%	2.3%	14.6%	-1.8%	10.4%

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.

THE WORLD'S POPULATION IS EXPECTED TO HIT 7 BILLION on October 31st.

That's up from 2.5 billion in 1950. To put 7 billion people in perspective, see if you can correctly answer the following question.

If 7 billion people stood shoulder to shoulder, which of the following geographic areas is the smallest that could accommodate them?

- A) Zanzibar (about 650 square miles)
- B) Maui (about 727 square miles)
- C) Rhode Island (about 1,033 square miles)
- D) Sicily (about 9,925 square miles)
- E) Cuba (about 42,845 square miles)
- F) New Zealand (about 103,733 square miles)

The answer... in a moment.

Here are some interesting facts regarding the rate of growth of the world's population. It took...

- 250,000 years for the world to reach a population of 1 billion (hit in 1804)
- 123 years for the next billion (2 billion in 1927)
- 33 years to reach the next billion (3 billion in 1960)

- 14 years to reach the next billion (4 billion in 1974)
- 13 years to reach the next billion (5 billion in 1987)
- 12 years to reach the next billion (6 billion in 1999)
- 12 years to reach the next billion (7 billion in 2011)

Sources: *The Economist*, United Nations World Population Prospects: The 2000 Revision, Volume III: Analytical Report

For decades, experts have argued over whether or not our planet can handle this growth. What is not up for debate, though, is the fact that a growing population will affect the demand for goods and services. Food, of course, is high on the list.

The World Bank says, "Between 2005 and 2055 agricultural productivity will have to increase by 66% to keep pace with rising population and changing diets."

Getting back to the population/geography question, *The Economist* says The answer is - A) Zanzibar.

Additional Thoughts On The Economy ^{7&9}

For third quarter earnings, three out of four companies so far have beaten analysts' expectations. Apple has sold a huge number of iPhones, iPads, and iPods, yet it was the first time in years that the company's results were lower than projected. One may have to wonder if the bar for Apple may have become impossibly high.

Gasoline prices edged a bit higher, although oil prices remained surprisingly steady despite the deaths of Colonel Qaddafi in Libya and Prince Aziz, who had been the heir apparent to the throne in Saudi Arabia.

It is suggested we should not expect much from the markets for the rest of this year is a modest improvement. Investors don't seem to be very hopeful or optimistic about the future.

Day Hagan Asset Management noted in their *Weekly Update*,

"It has recently come to light that in the worst-case scenario (i.e. reality), "solving" Greece's debt crisis would absorb the entire EFSF Rescue Fund's 400 billion euros. By all accounts, every estimate of Greek tax revenue is overstated, and every estimate of its expenses understated; Greek GDP is collapsing. In all probability, the reality is worse than anyone is willing to confess."

"Bottom Line: Europe is still an "avoid" for us. Anyone buying Europe right now is betting heavily with little or no definitive fundamental knowledge. They are simply gambling. We will wait for a written/ratified agreement before initiating positions."

"Switching gears, did you notice the China chart shown earlier? Down -22.98% over the past year? What is happening in the Middle Kingdom? Wasn't China the growth engine of the world?"

"We note that Ned Davis Research has ratcheted back their probability of recession to 25% from 40%. Furthermore, Credit Suisse has now placed a 30% probability instead of

36%.”

“Media headlines have been touting, for example, that "Two-Thirds of S&P 500 Have Beaten Analyst Estimates". Source: Barron's. We would characterize that as a bit of misdirection ... But the quality of those beats has been called into question:”

“Bottom Line: We are cautious, but are maintaining a moderate allocation to stocks. The equity exposure we have is allocated primarily toward the U.S. We remain underweight fixed income and overweight cash.”

Financial Facts⁷

According to The Wall Street Journal, “median income in the U. S. dropped by 7% from 2000 to 2010, after adjusting for inflation” (the worst 10-year performance since 1967).

Chuckle For The Day

Why is lemon juice made with artificial flavor, and dishwashing liquid made with real lemons?

Additional Thoughts⁸

“The investor of today does not profit from yesterday's growth.” ~ *Warren Buffett*

"The problem is that most people spend their lives looking... but not truly seeing." ~ *Joe Navarro*:

"Remember that when you leave this earth, you can take with you nothing that you have received -- only what you have given: a full heart enriched by honest service, love, sacrifice and courage." ~ *St. Francis of Assisi*

"If, before going to bed every night, you will tear a page from the calendar, and remark, "there goes another day of my life, never to return," you will become time conscious." ~ *A. B. Zu Tavern*

"There is great treasure there behind our skull and this is true about all of us. This little treasure has great, great powers, and I would say we only have learnt a very, very small part of what it can do." ~ *Isaac Bashevis Singer*

Best regards,

Reid Johnson and the 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 was derived from Peak's *Weekly Commentary 10/24/11* edition.

⁷ The source for the information was derived from Bob LeClair's *Finance & Markets Newsletter 10/23/11*

⁸ Information derived from *The Virtual Advisor 10/22/11*.

⁹ Information derived from *The Kiplinger Letter 10/21/11* edition.

¹⁰ Information derived from John Mauldin as noted in this weekend's *FrontLine Thoughts*.

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

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