

THE PLANNING GROUP

A Wealth Management Firm

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Big Picture¹⁰

Jobs are what we need to get the economy going. We can't begin to fix what's wrong with our economy without creating good jobs.

So what role should government play in creating jobs? The data suggests that small businesses are a wash, and big business is actually a net drag on job creation. It does show government has seen job growth, but we all know where the money comes from to pay their employees.

Statistics show that new jobs come from new businesses (those businesses that started within the last 10 years). Of course some of those businesses become Google or Facebook, while others are the local dry cleaner or bagel shop. In essence, these startups are the source of new jobs.

Unfortunately, funding sources for such entrepreneur businesses has lessened to a great extent over the last three years.

The Markets⁶

This Europe problem just won't go away and it's keeping the financial markets on edge.

Despite an October 27 agreement that strengthened the bailout of Greece, the "Greek Tragedy" continues as the country's government is a mess, Prime Minister George Papandreou is reportedly stepping down and the populace is protesting. And, with each day of delay, Greece is running out of money and European leaders are running out of patience.

Meanwhile, across the Ionian Sea from Greece, Italy is quickly becoming the next problem. Its 10-year government bond yield rose to a euro-era record of 6.4 percent last Friday. *The Wall Street Journal* says, "The 6% mark on the 10-year bond is seen as crucial because a breach of that level in the past has portended a sharp rise in bond yields of other fiscally frail countries."

When bond yields rise dramatically, it increases a country's borrowing costs and suggests investors are losing faith in that country's ability to pay its bills.

Even though Greece is grabbing most of the headlines, Italy is much more crucial to world markets than Greece because Italy's government bond market is the third largest in the eurozone behind Germany and France. If Italy goes the way of Greece, that would elevate the European crisis to a whole new level.

Ultimately, there's just too much debt in the worldwide monetary system. Until it gets cut to a manageable level, the markets may behave erratically.

Data as of 11/4/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-2.5%	-0.4%	2.2%	7.6%	-1.9%	1.3%
DJ Global ex US (Foreign Stocks)	-4.7%	-12.4%	-12.1%	8.1%	-3.1%	5.5%
10-year Treasury Note (Yield Only)	2.1%	N/A	2.5%	3.8%	4.7%	4.3%
Gold (per ounce)	0.5%	24.0%	26.7%	33.1%	22.8%	20.2%
DJ-UBS Commodity Index	-0.9%	-8.0%	-1.8%	2.8%	-2.6%	5.3%
DJ Equity All REIT TR Index	-2.0%	5.7%	4.3%	15.1%	-0.6%	10.7%

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.

ONE OF THE CORE BELIEFS OF MODERN INVESTING TURNED OUT TO BE not so true. Investors have long believed in "stocks for the long run" and that stocks outperform bonds over a long period of time. Well, we need to re-evaluate that old truism.

New data shows that for the 30 years ending September 30, 2011, long-term government bonds *outperformed* stocks. During that period, bonds rose by 11.5 percent a year on average, *beating* the 10.8 percent increase in the S&P 500, according to Jim Bianco, president of Bianco Research in Chicago, as reported by Bloomberg. That's the first time bonds beat stocks over a 30-year period since the Civil War!

Here's some long-term historical data on how stocks and bonds have performed relative to each other:

Period	# of Years	Winner
1803 – 1857	54	Bonds
1803 – 1871	68	Tie
1857 – 1929	72	Stocks
1929 – 1949	20	Bonds
1932 – 2000	68	Stocks
1981 – 2011	30	Bonds

Sources: Bloomberg, October 31, 2011; Index Universe; Ibbotson SBBI

Is this an argument for dumping stocks and just owning bonds? No. The recent outperformance of bonds over stocks was partially a function of the starting point and the "lost decade" for stocks. Specifically, in 1981, long-term government bonds yielded in the 13 to 15 percent range while, last Friday, the yield was down to 3.1 percent, according to

data from Yahoo! Finance. As the yield drops, the price of the bond rises, thus, giving investors a capital gain on top of the interest return.

With yields so low now, you won't get the same capital gain boost from bonds that we experienced over the past 30 years. In fact, Professor Jeremy Siegel, author of *Stocks for the Long Run*, says, "It's absolutely mathematically impossible for bonds to get any kind of returns like this going forward."

Bonds also benefitted from the "lost decade" in stocks as stocks experienced two bear markets in the past 11 years.

This historical data does two things for us:

1. It suggests that there are no "absolutes" when it comes to investing, except, perhaps, that there are no absolutes. Key takeaway – be flexible.
2. It suggests that there is a time and a place for each asset class and placing each asset class within historical context is important. Key takeaway – know history.

Oh, we should add a third key takeaway from this data – be a continuous learner!

Additional Thoughts On The Economy ^{7&9}

Despite corporations having strong profits, cash, and healthy balance sheets -- job growth remains weak and unemployment is limping along. Although last week's employment report showed a gain of 80,000 jobs, it was still well below forecasts. The unemployment rate is 9%.

Last week's market was quite volatile with triple digit moves, up or down, in four out of the five days, seemingly based on whatever the latest news was out of Greece. Stocks tumbled on news of a referendum vote, and then advanced when it was canceled. The Greek prime minister survived a confidence vote late Friday evening, but has agreed to resign in an effort to establish a coalition.

Is Greece going to vote? One could argue that Greece should have a referendum. There is no question they have years of financial suffering ahead of them, so put it to the people to decide one way or the other.

U.S. Treasury bond yields dropped sharply last week as cash flows made their flight to quality here in the U.S. At Wednesday's news conference, the Fed indicated it was lowering its growth targets and anticipating a longer period of high unemployment.

The report from the Congressional Super Committee and how they plan to squeeze \$1.2 trillion in government spending cuts over the next 10 years. If the committee can't come up with an agreeable plan by November 23, then automatic cuts are supposed to kick in.

Financial Facts ⁷

The average debt of college seniors who graduated in 2010 with college loans is

\$25,250.

Chuckle For The Day

Why isn't there mouse-flavored cat food?

Additional Thoughts⁸

"I'm interested in the way in which the past affects the present and I think that if we understand a good deal more about history, we automatically understand a great more about contemporary life." ~ *Toni Morrison, Nobel Prize and Pulitzer Prize-winning American novelist, editor, and professor*

"The reality of life is that your perceptions -- right or wrong -- influence everything else you do." ~ *Roger Birkman*

"There are no menial jobs, only menial attitudes." ~ *William John Bennett*

"Pursuing your passion is fulfilling and leads to financial freedom." ~ *Robert G. Allen*

"Life has no limitations, except the ones you make." ~ *Les Brown*

"Your time is limited, so don't waste it living someone else's life. Don't be trapped by dogma - which is living with the results of other people's thinking. Don't let the noise of other's opinions drown out your own inner voice. And most important, have the courage to follow your heart and intuition. They somehow already know what you truly want to become. Everything else is secondary." ~ *Steve Jobs*

Best regards,

Reid Johnson and the Investment Team

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* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Past performance does not guarantee future results.

* 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* 11/7/11 edition.

⁷ The source for the information was derived from Bob LeClair's *Finance & Markets Newsletter* 11/6/11

⁸ Information derived from *The Virtual Advisor* 11/5/11.

⁹ Information derived from *The Kiplinger Letter* 11/4/11 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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