

THE PLANNING GROUP

A Wealth Management Firm

Weekly Commentary Report August 1, 2011

The Markets⁶

“Uncertainty” is an overused, but appropriate word to describe the situation our country finds itself in.

- We have uncertainty in Washington about how our budget issue will get resolved.
- We have uncertainty about the economy as it hasn't fully recovered from the Great Recession.
- We have uncertainty about the value of the dollar as gold prices hit record highs and the dollar remains depressed.
- We have uncertainty about how the war on terrorism will progress.
- We have uncertainty about when the housing market will recover.

Yet, when you think about it, uncertainty is actually the norm. History shows that uncertainty is a fact of life. History also shows that Americans find a way to deal with it and overcome it.

As financial advisors, we can't “control” or “fix” uncertainty. We can, however, account for it. We realize that every investing decision carries with it a certain degree of risk or uncertainty. Knowing that, we do the best job we can to “account” for what could go wrong.

We try to make decisions that consider the best case and worst case scenario. We try to find investments that help balance each other so a possible decline in one investment might be offset by a possible rise in another. We try to look at the big picture and make investments that are commensurate with the risks our clients are willing to incur.

Because of uncertainty, we won't always be right. However, because of our *awareness* of uncertainty, we're always looking for ways to help protect the downside while leaving room for potential upside profit.

Data as of 7/29/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-3.9%	2.8%	17.3%	0.8%	0.2%	0.7%
DJ Global ex US (Foreign Stocks)	-2.1%	0.6%	14.8%	-0.7%	1.1%	5.9%
10-year Treasury Note (Yield Only)	2.8%	N/A	3.0%	4.0%	5.0%	5.1%
Gold (per ounce)	1.7%	15.5%	40.1%	21.1%	20.8%	19.9%
DJ-UBS Commodity Index	-1.5%	0.3%	23.5%	-7.1%	-1.8%	4.7%
DJ Equity All REIT TR Index	-3.7%	11.0%	23.4%	3.8%	2.1%	11.1%

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.

THERE IS A DISCONNECT BETWEEN MIDDLE AMERICA AND CORPORATE AMERICA and that's one reason why the economy remains stuck in neutral.

Unfortunately, Middle America is stagnating. The average American is also feeling glum. Thomson Reuters/University of Michigan reported last week that their index of consumer sentiment for July fell to its lowest level since March 2009 (and recall that March 2009 marked the bottom of the recent bear market.)

Simply put, Middle America is getting squeezed with high unemployment and slow economic growth. On the other hand, Corporate America is thriving. Despite weak economic growth, profits of U.S. corporations are at record levels. Relatively stronger growth in emerging markets coupled with belt tightening, productivity gains, and slimmer payrolls have helped U.S. companies generate these record profits.

Longer term, for our economy to rise above the malaise and corporate profits to remain strong, Middle America needs more jobs which will help boost spending and jumpstart economic growth. Consumer spending is critical because it accounts for about 70 percent of economic activity in the U.S. and until spending starts to accelerate -- it rose only 0.1 percent in the second quarter -- we may find ourselves continuing to "muddle through."

Additional Thoughts On The Economy ^{7&9}

I thought rather than put things into my own words, I would provide some insight directly from John Mauldin's weekly *Thoughts From The Frontline* titled *An Economy at Stall Speed*. I've always felt Mauldin had a pretty good handle on economic matters and interestingly enough, he was invited this past week to visit with 10 Senators in Washington (while in the middle of the deficit debate). His comments reflect on the new and revised numbers on the economy.

"There is no way to spin the GDP report that came out this morning as anything but very bad. It was just last May that the consensus was that second-quarter GDP would be 3.3%. That had been revised down to 2.7%, but the (newly revised) number came in at 1.3%. (In past recessions) Normally, at this time in a recovery we are growing at close to 3 times that number, or 3.6%.

Even worse, the first-quarter number was revised down from 1.9% to an anemic 0.36%. For new readers, note that the first estimate of a quarter's growth is just that, an estimate. There are three monthly revisions that follow, and after a few years it is revised yet again with the aid of hindsight. And the 4th quarter of 2010 was taken down from 3.1% to 2.35%!

If you are looking for something (anything) that can explain the new number, then you could attribute a small portion to the effects from the Japan earthquake and tsunami, as “durable goods” from motor vehicles and parts reduced GDP by about .2%.

And it gets worse. It seems that BEA went back and revised the numbers for the recession. Would it surprise you to learn that the recession was worse than we thought at the time? The peak-to-trough decline was 5.1% instead of 4.1%. That means that in real terms the economy has not yet recovered back to the pre-recession levels. David Rosenberg notes that in his research “going back to 1947 and never before have we seen this dynamic of the level of overall economic activity lower on the second birthday of the recovery than it was at the prior cycle peak. Typically two years into a recovery, real GDP is already 9.5% above the pre-recession high.”

A bit sobering, isn't it?

Another perspective - Bob LeClair's *Finance and Markets Newsletter*

“The slower growth rate means that job gains are likely to fall far short of the monthly increase of 150,000 needed to keep up with population growth and to reduce the current high level of unemployment, 9.2%. Without an increase in jobs and a reduction in unemployment, who can blame consumers for being cautious in their spending? Much of our growth in the past couple of decades has been based on strong gains in housing, an advancing stock market, increased consumer borrowing, and excess government spending. The first three of those factors have been removed or significantly reduced.”

“The debate in Washington is almost surely to result in less government spending, not only at the federal level but also including state and local governments as well. With all of those “drivers” cut back, the economy is likely to mull along at a modest rate for quite some time. Overall, it's hard to see what will push the economy to higher levels of growth. Emerging markets might have been the answer at one time, but slowing growth in countries like China and India make that less likely today.”

Additional Thoughts On The Market⁷

Some potential good news - Despite the ugly news of the anemic, corporate earnings, although waning, will remain relatively strong for the next couple of quarters. We would not be surprised to see a surge in the market through the end of the year perhaps giving us total returns above single digits.

We will rely on the active tactical management of our various managers to navigate these volatile markets. We are estimating that we will continue in this more “secular bear market” for another 3 to 7 (perhaps even 10) years. Investors will need to be careful in how they steer their course through these more treacherous waters.

Financial Facts of the Week⁷

The Wall Street Journal recently reported the typical money market fund has close to 40% of its holdings in securities that mature in seven days or less, totaling \$2.7 trillion.

Additional Thoughts⁸

"Do not let what you cannot do interfere with what you can do."

~ *John Wooden, Ten-time NCAA National Championship Basketball Coach*

"Do what you feel in your heart to be right. You'll be criticized anyway." ~ *Eleanor Roosevelt*

"There are two ways of exerting one's strength; one is pushing down, the others pulling up." ~ *Booker T. Washington*

"The pessimist sees difficulty in every opportunity. The optimist sees the opportunity in every difficulty." ~ *Winston Churchill*

"Losers see thunderstorms, winners see rainbows; losers see icy streets, winners put on their ice skates." ~ *Denis Wheatley*

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 8/1/11* edition.

⁷ The source for the information was derived from Bob LeClair's *Finance & Markets Newsletter 7/31/11*

⁸ Information derived from *The Virtual Advisor 7/29/11*.

⁹ Information derived from the *The Kiplinger Letter 7/29/11* edition.

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

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