

# THE PLANNING GROUP

A Wealth Management Firm

## Weekly Commentary Report September 26, 2011

### Big Picture<sup>10</sup>

I found Bob Kendall's comments interesting this morning and have provided an excerpt for your reading.

*"As a new week begins, all we are hearing from the Europeans is more rhetoric. Last Friday, there were rumors that there was a bailout for 16 European banks and the market was able to find some support.*

*It appears that the European politicians think if they meet and have group photos that it shows unity and that they're doing something about the crisis. The markets are not buying into the posturing of the politicians. It's even more interesting that TurboTax Tim Geithner is hanging out at the meetings and pointing fingers at the Europeans, telling them to get a plan, when we don't have a plan of our own.*

*The European politicians make the Democrats and Republicans look like best friends. We're not talking about ideology differences; we are talking about sovereign borders and cultural differences. This is serious stuff and is not likely to be resolved anytime soon, if ever.*

*It appears that the European politicians maybe are coming around to believe that there is no solution. There is an emerging story that they are preparing for an orderly default of Greece. They are talking about putting a firewall around Greece to protect other portions of the periphery from being affected. I'm not sure that orderly and default belongs in the same sentence, but this is what they're saying.*

*Somehow they believe that there is a way to unwind a country's debt. They're talking about haircuts on bonds, forgiving indebtedness, all sorts of talk which results in losses to the bondholders. This will most likely cause even more destruction of confidence by market participants should they take this route.*

*Just as it was in the 2008 crisis, it primarily was a crisis of confidence. We are seeing this again, only this time the numbers are much greater and the stakes much larger.*

*My expectations are that we will continue to see additional posturing by the regulators, ECB and other politicians to try to convince market participants that they have a solution. The reality will be that there is no quick fix."*

## The Markets<sup>6</sup>

The Federal Reserve did “The Twist,” but the financial markets ended up in “A Knot.”

In a much anticipated action dubbed “Operation Twist,” the Federal Reserve announced last week it would reshuffle its balance sheet by selling \$400 billion of shorter-term Treasury securities and use the proceeds to buy longer-term securities. The Fed said it hopes the action will lower longer-term interest rates and, “contribute to a broad easing in financial market conditions that will provide additional stimulus to support the economic recovery.”

So far, as it relates to interest rates, the Fed’s action has worked. Unfortunately, the stock market failed to respond positively to the Fed’s announcement as the S&P 500 index lost 6.4 percent for the week. The market’s drop, though, went beyond disappointment in the Fed’s action. The following also contributed to the market’s red ink:

- Intensified fears of a Greek default.
- Rising concern of a world-wide financial crisis, with sovereign debt at the epicenter.
- Growing signs of sluggish economic growth in China, which had been one of the few countries immune to economic turmoil.
- A 13 percent drop in the price of copper on Thursday and Friday of last week, which is concerning because the price of copper is often viewed as a proxy for worldwide industrial growth.

Sources: *Wall Street Journal*, MarketWatch, Bloomberg

With the market’s blood pressure rising, it reminds us of what flight attendants often say, “Ladies and gentlemen, the Captain has turned on the fasten seat belt sign. We are now crossing into a zone of turbulence. Please return to your seats and keep your seat belts fastened.”

Likewise, as your “Financial Captain,” we know there will be market volatility along the way, but as always, we’re focused on trying to help you arrive safely at your financial destination.

Data as of 9/23/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-6.5%	-9.6%	-1.1%	-1.5%	-3.0%	1.3%
DJ Global ex US (Foreign Stocks)	-8.2%	-20.3%	-13.0%	-4.4%	-3.7%	5.2%
10-year Treasury Note (Yield Only)	1.8%	N/A	2.6%	3.8%	4.6%	4.7%
Gold (per ounce)	-5.9%	19.8%	30.9%	23.4%	23.6%	19.3%
DJ-UBS Commodity Index	-9.1%	-11.9%	3.3%	-7.3%	-1.9%	4.3%
DJ Equity All REIT TR Index	-8.8%	-5.2%	3.7%	-0.9%	-2.0%	9.9%

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.

## **Additional Thoughts On The Economy**<sup>7&9</sup>

With Operation Twist, as part of the Federal Reserve's new mix, interest rates dropped to almost all time historic lows. The 10 year treasury yield was down to 1.72%, while the 30 year treasury dropped below 3% to 2.85%. Although low rates are great for those looking for mortgages or to borrow money, they wreak havoc on pension plans and retirees striving for income. And although lower rates generally encourage consumers to spend and businesses to borrow, the Great Recession of 2008-2009 changed the fundamental rules of the game.

On Thursday, FedEx announced that due to the weakening global trade, they were cutting capacity and trimmed their earnings forecast - mainly due to slowing sales of consumer electronics made in Asia. "The consumer just doesn't have an appetite for spending more."

Unfortunately, with fiscal policy and government spending stuck in political gridlock, things will probably languish until a clearer path to follow is spelled out.

## **Financial Facts**<sup>7</sup>

With the federal government's fiscal year ending September 30<sup>th</sup>, the budget deficit is expected to be \$1.3 trillion.

Even if the NASDAQ composite index doubled in value from today, it would still fall short of its high back in 2000.

## **Chuckle For The Day**

Only in America .... do we buy hot dogs in packages of ten and buns in packages of eight.

## **Additional Thoughts**<sup>8</sup>

"Do you know the only thing that gives me pleasure? It's to see my dividends coming in."  
~ *John D. Rockefeller*

There are only 3 colors, 10 digits, and 7 notes; its what we do with them that's important." ~  
*Ruth Ross*

"Time = Life. Therefore, waste your time and waste of your life, or master your time and master your life." ~ *Alan Lakein*

"It's simply a matter of doing what you do best and not worrying about what the other fellow is going to do." ~ *John R. Amos*

"My philosophy of life is that if we make up our mind what we are going to make of our lives, then work hard toward that goal, we never lose -- somehow we win out." ~ *Ronald Reagan*

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.

<sup>6</sup> The source for the information was derived from Peak's *Weekly Commentary* 9/26/11 edition.

<sup>7</sup> The source for the information was derived from Bob LeClair's *Finance & Markets Newsletter* 9/25/11

<sup>8</sup> Information derived from *The Virtual Advisor* 9/24/11.

<sup>9</sup> Information derived from *The Kiplinger Letter* 9/22/11 edition.

<sup>10</sup> 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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