

THE PLANNING GROUP

A Wealth Management Firm

Weekly Commentary Report January 23, 2012

Big Picture^{10, 11, 12}

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

As we begin this week, you'll notice that you're not hearing a lot about the Greece situation as most market participants have already resolved themselves that it's likely that Greece will leave the EU. They're continuing negotiations about reorganizing their debt but they really are a back page story. You may have noticed that you don't hear the word contagion anymore.

Because of the commitments made by the ECB and other economic facilities that have been set up just in case something fails, no one's thinking about it any longer. It doesn't mean there's not any risk. It just means that it's out of the headlines. With market participants, out of sight is out of mind. This is why we're continuing to see the markets unfold and more orthodox patterns.

In the past several months, we've seen very erratic, emotional patterns unfolding with no predictability, heights in volatility, and lots of risk. Now, we've seen the opposite. Market participants are looking at the pure economics of earnings and the economic releases that are coming out week to week. This sets the tone for a more stable environment and the likelihood of a continuation of the trend that has been evolving over the last 5 to 6 weeks.

While there could be a breaking story which will add concerns about risk, it is unlikely to be a story at this time that will come out that will represent real risk. In hindsight, that's what we know about last quarter; perceived risk felt real, therefore market participants acted as if it were. Going forward, it appears that the markets have found stability in pure economic research. Analyst projections are back into the mainline thought of the markets participants.

Looking back on last week, the markets were closed on Monday and as we began trading on Tuesday, market participants were encouraged by the news of the strong GDP out of China. They also showed strong retail sales which set for an early bid in our markets.

There was focus briefly on the International Monetary Fund moving to expand its lending capacity as folks saw that as more of a backstop to some of the potential risk in the international financial markets.

Earnings were in focus on Thursday as there were several upside surprises keeping the underlying market sentiment positive. As we finished off the week, the S&P managed to rally into the close to print a positive number for the session and therefore a moderate gain for the week. We have seen higher prices every day last week.

I thought I would add some additional comments from another of our money managers, Day Hagan from their weekend *Weekly Update*:

Standard & Poor's sovereign debt downgrades at the beginning of the week have unleashed investors' pent-up demand for the time-being. Clearly, "Investors sold the rumor and bought the news." Our conclusion is partially predicated on benchmark 10-year government note yields, as they have declined rather substantially for Italy, France, Spain and Belgium over the past week and month.

The Markets⁶

We're only three weeks into the New Year and already some very interesting trends have developed in the markets. Consider these four:

1. **The worst performing stocks in 2011 have been the best performing in 2012.** Bespoke Investment Group did an analysis and discovered that the 50 **worst** performing stocks in the S&P 500 in 2011 were up a whopping 11.2 percent YTD 2012 as of last Wednesday. By contrast, the 50 **best** performing stocks in 2011 were up only 2.1 percent so far in 2012. What a difference a "turn of the calendar" makes!
2. **U.S. Treasury securities are off to their worst start in nine years.** With improvements in the employment situation, housing sales hitting an 11-month high and a reprieve in the European debt problem, investors have less need for conservative treasuries and a bigger appetite for riskier stocks, according to Bloomberg and CNBC. At the moment, investors seem to be saying, "risk on."
3. **U.S. stocks rose for the third consecutive week and are near a six-month high.** Despite a decidedly mixed start to the 4th quarter earnings season, stocks have roared out of the gate this year and are now up 20 percent from the October 2011 low, according to Reuters. Of course, too much euphoria could lead to disappointment later.
4. **The CBOE Volatility Index (VIX) declined nearly 22 percent in the first three weeks of this year.** The big decline in the VIX suggests investors are less fearful about near-term market volatility, according to CNBC. In fact, the VIX is down to a seven-month low, according to Reuters. While the markets may be calm now, we're not complacent.

Trends come and go in the market, but one thing that stays constant is our diligence in helping you reach your goals.

Data as of 1/20/12	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	2.0%	4.6%	2.5%	17.8%	-1.6%	1.6%
DJ Global ex US (Foreign Stocks)	3.9%	5.4%	-12.3%	14.6%	-4.2%	5.3%
10-year Treasury Note (Yield Only)	2.0%	N/A	3.5%	2.4%	4.8%	4.9%
Gold (per ounce)	1.1%	5.0%	22.9%	24.7%	20.9%	19.3%
DJ-UBS Commodity Index	0.5%	0.4%	-12.3%	8.6%	-2.6%	4.8%
DJ Equity All REIT TR Index	2.5%	3.7%	11.2%	32.2%	-1.5%	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.

WHY IS IT THAT CONSERVATIVES TEND TO WATCH FOX NEWS and those with more liberal leanings tend to watch MSNBC? Psychologists would tell us it's because of what they call "confirmation bias." Confirmation bias is the tendency of humans to seek information that confirms an already held belief or opinion and to avoid or discount information that might contradict an existing belief or opinion.

This concept also applies to investing and it's very important to **avoid** it as much as possible.

For example, let's say we're really bullish on the U.S. stock market. If we let confirmation bias cloud our judgment, then during our research, we would tend to read the reports that support our bullish view of the market and let that reinforce our decision to be bullish. By contrast, we would tend to avoid reading the reports that are bearish, or, if we do read them, we would come up with reasons why they were wrong.

When we're under the spell of confirmation bias, it's easy to miss turning points because we're stuck on our current belief or opinion and won't change even when we see contradicting evidence. That, of course, would be bad for your long-term wealth.

How strong is the confirmation bias pull?

A 2009 meta study published by the American Psychological Association reviewed 91 studies in the area of confirmation bias and concluded that **people were nearly two times as likely to seek information which supported their existing view than to seek information which contradicted their current view.** That's a strong pull!

How do we overcome this pull?

Here are two keys that could help:

1. **Acknowledge that confirmation bias exists.** Knowing that it exists helps us try to avoid falling into its trap.
2. **Actively seek contradictory opinions.** This is another way of asking what could go wrong with an investment and then doing our best to ensure we understand the "other side of the coin."

So, in addition to making a "rational" case for an investment, we have to make sure we avoid letting psychological biases get in the way.

Additional Thoughts On The Markets^{7, 10, 13}

Last week's data showed that the economy is continuing to improve, albeit a slow pace of

improvement. Unless we desire to go back to the debt-binged spending, we'll have to accept an era of slower growth, higher unemployment, reduced spending and increased saving.

Last week's data showed that inflation is almost non-existent in the U.S. economy. The CPI showed no change for December, or November. However, many economists and the public in general find it hard to accept the low inflation environment, as commentators keep fanning the flames. This has not resulted in much inflation, let alone any level of runaway inflation.

Financial Facts⁷

"The companies in the S & P 500 Index paid \$240.6 billion in dividends during 2011, up from \$205 billion in 2010. The record payout for dividends was \$247.8 billion in 2008."

Chuckle For The Day

a`larm clock, n. a device for waking up people who don't have small children.

Additional Thoughts

"If you take emotion – would be, could be, should be – out of it, and look at what is, and quantify it, I think you have a big advantage over most human beings."

~ *John W. Henry, trading advisor, principal owner of Boston Red Sox*

"To see what is in front of one's nose requires a constant struggle." ~ *George Orwell.*

"You may have to fight a battle more than once to win it." ~ *Margaret Thatcher.*

"The problems of people's pasts impact them in one of two ways: they experience either a breakdown or a breakthrough." ~ *John Maxwell.*

"The truth of the matter is that you always know the right thing to do. The hard part is doing it." ~ *Gen. H. Norman Schwarzkopf.*

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* 1/23/12 edition.

⁷ The source for the information was derived from Bob LeClair's *Finance & Markets Newsletter* 1/21/12

¹⁰ Information derived from John Mauldin as noted in this weekend's *FrontLine Thoughts* 1/21/12.

¹¹ Information derived from *Day Hagan Asset Management* 1/22/12

¹² Information derived from Bob Kendall as noted in his weekend's *Weekly Commentary* 1/23/12

¹³ Information derived from Wasmer & Schroeder as noted in this week's *Bond Market Weekly* 1/23/12

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

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