

# THE PLANNING GROUP

A Wealth Management Firm

## Weekly Commentary Report January 3, 2012

### Big Picture<sup>10, 11, 12</sup>

Since VPM is one of our core models, I thought I would provide some of Bob Kendall's comments from his Monday *Weekly Report*, (which was pulled together Sunday night).

*"As we begin 2012 little has changed from the last quarter of 2011. Already, we have an announcement of a new economic summit by key European leaders to talk about austerity across the Euro zone. It appears that we will continue the dialogue but the markets are beginning to shrug off the extreme thoughts of failure of Europe for now."*

*"Like all years, this year is starting off on an optimistic note. It'll be several weeks before we will be able to establish any sort of outlook. There is a seasonal tendency for the market to trade higher between December 15 and January 7."*

*"As we take a brief look back on last year, we saw extreme volatility as the European crisis unfolded from quarter to quarter and month-to-month. While last year started on an optimistic note and was up over 8% by April, by early August we saw the market closed down over 11% for the year. A combination of effects of higher oil prices, social unrest in northern Africa, and the European debt crisis kept the market under pressure. There were plenty of other events to keep track of as the S&P rating agency downgraded the US from AAA to AA+. This had little effect on the US bond market as the European crisis pointed out that we were still the best of the worst."*

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

*"In a year fraught with peril, the S&P 500 ended 2011 at 1,257.60. That is almost exactly where the index closed for 2010; 1,257.64. In other words, the only investor who wasn't affected by last year's gyrations was Rip Van Winkle, but only if he stayed asleep."*

*"The reality is that world markets, both equity and fixed income, have reacted and reset to account for the known risks in the system. Correspondingly, analysts have been revising earnings down for months. Currently, however, our work indicates that U.S. stocks are still attractive and that emerging markets also offer opportunity. Conversely, our work further dictates that we continue to avoid Europe and Japan."*

### The Year in Review<sup>6</sup>

"Much Ado About Nothing" is one of Shakespeare's famous comedies and, surprisingly, the title succinctly summarizes the U.S. stock market in 2011.

There was “much ado” during 2011 as we experienced one of the most volatile years on record. For example, regarding the S&P 500 index stocks, Bloomberg said, “Individual stocks were more volatile than in 2009 and 2010, with 55 losing more than 30 percent this year compared with a total of 13 in the prior two.”

On top of that, “Stocks swung at a daily rate of twice the 50-year average after the S&P 500 reached a three-year high in April.” After hitting that high in April, the S&P 500 then plunged 19 percent over the next five months. Continuing the whiplash, the market staged a remarkable comeback and that’s where the “about nothing” comes in to play.

By the time the final trades were placed on December 30, the S&P 500 ended the year exactly where it started – and we mean exactly! It started the year at 1,257.6 and it ended the year at 1,257.6. Yet, during that time, it moved up or down a total of 3,240 points when you sum the absolute daily changes on a closing basis, according to The Chart Store via Ritholtz.com. So, after all the volatility, after all the worrying, the market ended the year right where it began. Whew!

Despite the year ending flat, here are 10 newsworthy items that hit the headlines.

- 1. Europe reached crisis mode.** Several European countries experienced severe budget problems including Greece and Italy while the dithering of European politicians kept markets on edge. The three main causes of the crisis were 1) excessive government spending leading to 2) excessive government debt coupled with 3) slow economic growth.  
Source: Anthony Sanders, Professor of Real Estate Finance at George Mason University, December 15, 2011
- 2. Interest rates continued to fall.** The 10-year Treasury ended the year yielding below 2 percent and the 30-year yielded below 3 percent. On a total return basis, the 30-year Treasury jumped 35 percent in 2011, *which is higher than every stock in the Dow Jones Industrial Average!*  
Sources: *The Wall Street Journal*; *Barron's*
- 3. The Middle East rose in protest.** Mass protests swept the Middle East, governments were overthrown, and the political landscape was dramatically reshaped. The reverberations will last for years.  
Source: *The Economist*
- 4. Apple and Steve Jobs were everywhere.** Apple was 90 days away from bankruptcy in the late 1990s, but through the magic of Steve Jobs, the company briefly became the world’s most valuable company in 2011 – surpassing Exxon! The iPhone was the #1 most searched term on Yahoo! for the year. And, yes, Steve Jobs passed away from cancer at the much too young age of 56.  
Sources: Bloomberg; Yahoo! News
- 5. Japan was rocked with a massive earthquake and tsunami.** The devastating power of Mother Nature claimed more than 15,000 lives, shocked financial

markets, and disrupted business around the world. The pain and scars of this tragedy will remain for many years.

Source: Bloomberg

6. **The U.S. credit rating got “dinged.”** In August, Standard & Poor’s downgraded the AAA credit rating of the United States due to political bickering and unsustainable budget deficits. The stock market promptly fell yet, surprisingly, interest rates ended the year at extremely low levels.

Source: Bloomberg

7. **Gold kept its luster.** Despite weakness at the end of the year, gold prices finished the year in positive territory for the 11<sup>th</sup> consecutive year. In times of uncertainty, investors have shown a preference for the yellow metal.

Source: *The Economic Times*

8. **Foreign stock markets took it on the chin.** Unchanged in the U.S. looks good compared to China, which fell 22 percent; Hong Kong, down 20 percent; Brazil, down 18 percent; Germany, down 14.7 percent; and Britain, down 5.6 percent. There’s no place like home!

Sources: Associated Press via Yahoo! News; Bloomberg

9. **Burgers and banks were bookends.** The best performing stock in the Dow Jones Industrial Average in 2011 was McDonald’s, which rose 31 percent. At the other extreme, Bank of America was the worst performer dropping 58 percent. Looks like a lot of people ordered an extra fry with that Big Mac.

Source: Associated Press via Yahoo! News

10. **“Planking” became a worldwide phenomenon.** Traced back to a 20-something Australian, planking involves lying face down on the ground with your arms at your side. The “trick” is to do it in unusual places or atop peculiar objects. The unrelated “fitness” version of planking also made headlines in 2011 when a 71-year-old Wisconsinite named Betty Lou Sweeney set a new Guinness World Record by holding an abdominal plank for an incredible 36 minutes and 58 seconds. What’s even more incredible is in 2009 she was “severely overweight and nearly died from complications from an infection that went septic and shut down her kidneys.” Two years later and 100 pounds lighter, she set the world record. Yes, there’s hope for all of us!

Source: Yahoo! News

<b>Data as of 12/31/11</b>	<b>1-Week</b>	<b>Y-T-D</b>	<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>
Standard & Poor's 500 (Domestic Stocks)	-0.6%	0.0%	0.0%	11.7%	-2.4%	0.9%
DJ Global ex US (Foreign Stocks)	0.3%	-16.7%	-16.7%	8.8%	-5.2%	4.5%
10-year Treasury Note (Yield Only)	1.9%	N/A	3.3%	2.2%	4.7%	5.0%
Gold (per ounce)	-2.1%	11.6%	11.6%	22.1%	19.9%	19.0%
DJ-UBS Commodity Index	-0.4%	-13.4%	-13.4%	6.3%	-3.3%	4.7%
DJ Equity All REIT TR Index	-0.3%	7.5%	7.5%	20.8%	-1.4%	10.2%

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.

## **Additional Thoughts On The Markets**<sup>7, 10, 13</sup>

The markets ended the week and the year 2011 with a whimper, not a bang. The Dow Jones Industrials ended the week [-0.62% and up 5.53% for the year. The S & P 500 was down 0.61% for the week and essentially flat -0.01%], while the NASDAQ Composite was -0.52% for the week and down 1.80% for the year.

Interest rates on treasuries fell over the year. Mortgage rates were unchanged for the week, but down almost a full point since the start of 2011. The U.S. dollar was stronger and despite all of our problems, will likely continue to do so as long as Europe continues their problems.

Oil finished the year just under \$100 a barrel, although most analysts believe the price will rise over the next few months.

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

The food stamp program stands at 46 million recipients today having grown from 26 million 5 years ago.

According to the U.S. Census Bureau, 50 million Americans live in poverty, the highest level since record keeping began 52 years ago.

## **Chuckle For The Day**

The Rev. Billy Graham tells us of a time early in his career when he arrived in the small town to preach a sermon. Wanting to mail a letter, he asked a young boy where the post office was. After the boy told him, Dr. Graham thanked him and said, "If you'll come down to the Baptist church this evening, you can hear me telling everyone how to get to heaven." To which the boy stated, "I don't think I'll be there, you don't even know your way to the post office."

## **Additional Thoughts**

"The bad news is time flies. The good news is you're the pilot."

*~ Michael Altshuler, speaker, entrepreneur*

"If at first you do succeed, try something harder." ~ *Ann Landers*

"As long as you're going to think anyway, you might as well think big." ~ *Donald Trump*

"We didn't inherit the Earth from our parents. We're borrowing it from our children." ~ *Chief Seattle*

"100 years from now, it will not matter what kind of car I drove, what kind of house I lived in, how much money I had in my bank account, nor what my clothes look like. But 100 years from now the world may be a little better because I was important in the life of a child."

## Happy New Year!

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.

<sup>6</sup> The source for the information was derived from Peak's *Weekly Commentary* 1/3/12 edition.

<sup>7</sup> The source for the information was derived from Bob LeClair's *Finance & Markets Newsletter* 1/2/12

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

<sup>11</sup> Information derived from *Day Hagan Asset Management* 1/3/12

<sup>12</sup> Information derived from Bob Kendall as noted in his weekend's *Weekly Commentary* 1/3/12

<sup>13</sup> Information derived from Wasmer & Schroeder as noted in this week's *Bond Market Weekly* 1/3/12

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

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