

THE PLANNING GROUP

A Wealth Management Firm

Weekly Commentary Report January 30, 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*:

"It appears that a minor high has been placed into the markets and I expect that there will be a consolidation for the following several weeks before a resumption of the uptrend will occur.

While generally strong earnings didn't really generate a lot of upside in the broad market, there was plenty of volatility and some individual issues. Market participants took their close from speculation about Greece dealing with its creditors and coming up with a compromise. Like all things in Europe, the discussion is still ongoing and no decisions have been made. The talk on the street is that they are very close to a compromise with their investors.

On Wednesday, market participants were disappointed with pending home sales numbers for December as they showed a 3.5% drop. But the highlight of the session was news from the Federal Reserve open market committee that they would continue to leave the target rate for the fed funds at 0.00% to 0.25%.

More housing news showed that new home sales for December declined 2.2% to a seasonally adjusted rate of 307,000 units. This is a long ways from the 1.4 million units in 2006. The housing market continues to be a drag on just about everything. To make things even worse, there was a decline in the average median home price to \$210,300 or a 12.8% decline."

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

"This market can still be described as a "cyclical bull market" within a "secular bear market." In other words, valuation and earnings along with modest improvements in the global financial outlook support limited upside potential in the equity markets over the intermediate-term (up to 1 year).

Bottom Line: We are glad we are tactical in our approach.

In March 2000, the S&P 500 hit a high of 1,553. Now, almost 12 years later the index stands at just 1,316. The U.S. economy is growing, albeit modestly. We are now looking for job growth to confirm.

Nevertheless, structural forces including lack of demand, decreasing use of leverage, large

debt overhangs and modest economic growth all point to a longer-term sideways market until the excess can be worked down to levels commensurate with secular lows (several years in duration)."

The Markets⁶

At its most basic level, a trade takes place when a buyer is willing to buy at a certain price and a seller is willing to sell at that price. Both parties could be smart, experienced, and looking at the same data, yet somehow one party thinks it's a good price to buy and the other thinks it's a good price to sell.

Last week, several news items represented good examples of how investors could look at the same data and draw different conclusions. Consider these:

1. Gross domestic product rose at a 2.8 percent pace in the October through December period.

Bullish investors say that's up from 1.8 percent the previous quarter and the fastest pace in a year and a half.

Bearish investors say it's less than the 3.0 percent growth expected by economists and most of the growth was due to inventory accumulation.

Source: MarketWatch

2. The International Monetary Fund (IMF) cut its forecast for global economic growth in 2012 and 2013.

Bullish investors say fears are overblown as private-sector economic activity in the 17-nation euro zone showed small, but unexpected, growth in January and durable-goods orders were up a strong 3.0 percent in December in the U.S. – the third straight increase.

Bearish investors say just heed the IMF's warning, "Global growth prospects dimmed and risks sharply escalated during the fourth quarter of 2011, as the euro-area crisis entered a perilous new phase."

Source: MarketWatch

3. Spanish and Italian bond yields dropped dramatically lately.

Bullish investors say the drop in yields and the strong demand in January's bond auctions suggest the euro zone crisis is easing.

Bearish investors say the Portuguese bond market is now imploding, the Greek restructuring could fall apart, and the European Central Bank's December offer of unlimited three-year loans to banks has simply delayed the inevitable day of reckoning.

Source: *The Wall Street Journal*

It's differences of opinion like this that make markets. Thanks to the free market, there always seems to be a buyer for every seller – at a price.

Like Joni Mitchell who sang, “I’ve looked at life from both sides now,” we look at the markets from both the bullish and bearish sides and, ultimately, make decisions which we think will best position you to meet your long-term goals and objectives.

Data as of 1/27/12	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.1%	4.7%	3.1%	15.9%	-1.5%	1.5%
DJ Global ex US (Foreign Stocks)	1.9%	7.4%	-12.2%	14.5%	-3.8%	5.5%
10-year Treasury Note (Yield Only)	1.9%	N/A	3.4%	2.5%	4.9%	5.1%
Gold (per ounce)	4.4%	9.6%	29.3%	24.4%	21.8%	20.0%
DJ-UBS Commodity Index	3.8%	4.2%	-8.1%	9.9%	-1.8%	5.2%
DJ Equity All REIT TR Index	3.0%	6.8%	10.3%	29.7%	-1.5%	10.9%

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.

WHAT WORRIES AMERICANS THE MOST about the national economy? Here's the top 10 answers and the percentage who said it, according to an early January Gallup survey.

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| 1. Jobs/unemployment | 26% |
| 2. National debt/Federal budget deficit | 16% |
| 3. Continuing economic decline/economic instability | 10% |
| 4. Outsourcing of jobs overseas/creating jobs in U.S. | 6% |
| 5. Obama not doing a good job/no plan/lack of leadership | 5% |
| 6. Political bickering/Congress | 4% |
| 7. Healthcare/Medicaid | 3% |
| 8. Corporate corruption/corporations run the government | 3% |
| 9. Housing crisis | 3% |
| 10. The future of our children | 2% |
| 11. Eight other responses also checked in at 2 percent | |

The top two items are not really a surprise, but what's revealing is how low some “important” issues ranked. Taxes, recession, social security, gas prices, education affordability, and the divide between rich and poor (think Occupy Wall Street) all pulled just 2 percent. The stock market and interest rates barely made the list at 1 percent each and ranking 21st and 25th, respectively, out of 26 on the full list.

Interestingly, if we can resolve the two biggest items on the list – the jobs and debt situations – it would most likely also resolve the third item on the list – continuing economic decline.

Do you think the politicians are listening?

(Note: responses total more than 100 percent due to multiple answers.)

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

Long-term Treasury rates slipped lower, perhaps due to the announcement that short-term rates would be kept near zero into 2014. That will obviously be a disappointment for investors in money-market funds who have had to live with no return for the past couple of years.

"Given the Fed announcement, what's likely to happen to the nearly \$3 trillion in money fund investments over the next two years? I have a two-part guess in that regard. First, nothing much will happen until after the election in November. That event is just too big a game-changer, no matter who wins."

"Secondly, after the election, money will move; either further out on the yield curve, or into stocks. Both acts will present investors with considerably more risk than in the "good old days" (about five years ago), when money funds yielded more than five percent."

"In the long-run, stock prices will be driven by U.S. growth and corporate profitability. In the short-run, however, the bickering and uncertainty in Europe will continue to add volatility to U.S. markets. The next key date to focus on is evidently March 20, when Greece will have to refinance a huge amount of maturing debt."

Financial Facts⁷

It was recently reported the Federal Reserve contributed \$76.9 billion in profits to the U.S. Treasury in 2011, with most of the Fed's income coming from interest payments on their investment portfolio.

Chuckle For The Day

As it was heard - My daughters received an adorable airplane set as a gift. Since some assembly, actually a lot of assembly, was required, my husband spent much of the day putting together the plane, the control tower, the runway, the little baggage chute, and arranging the pieces into a teeny tiny air hub. As he finished up, I noticed he was frantically digging around in the box, checking all the packing materials. "You are not going to believe this," he said. "The one piece missing is the luggage."

Additional Thoughts

"To play it safe is not to play." ~ *Robert Altman*

"It's a funny thing about life: if you refuse to accept anything but the best, you very often get it." ~ *W. Somerset Maugha*.

"The difference between greatness and mediocrity is often how an individual views a mistake." ~ *Nelson Boswell*

"Do something every day that you don't want to do; this is the golden rule for acquiring the habit of doing your duty without pain." ~ *Mark Twain*

""From what we get, we can make a living; what we give, however, makes a life." ~ *Arthur Ashe*

Weekly Focus – Just for fun: How to Turn a Watch into a Compass⁶

Let's assume that you are lost in the wilderness, but you have a watch that still works. You can easily find the cardinal points by pointing the hour hand at the sun. Then form an imaginary line directly through the center of the "wedge" that is created between the hour hand and 12 o'clock. This is your south–north line. The height of the sun in the sky and the time of day will then show you which end of the line is north and which is south, remembering that the sun sets in the west and rises in the east. Try this at home first!

~ *Bear Grylls, survivalist, TV host, adapted from his 2008 book, "Man vs. Wild"*

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* 1/30/12 edition.

⁷ The source for the information was derived from Bob LeClair's *Finance & Markets Newsletter* 1/28/12

¹⁰ Information derived from John Mauldin as noted in this weekend's *FrontLine Thoughts* 1/28/12.

¹¹ Information derived from *Day Hagan Asset Management* 1/29/12

¹² Information derived from Bob Kendall as noted in his weekend's *Weekly Commentary* 1/30/12

¹³ Information derived from Wasmer & Schroeder as noted in this week's *Bond Market Weekly* 1/30/12

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

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