

# THE PLANNING GROUP

A Wealth Management Firm

## Weekly Commentary Report January 9, 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*:

*"As this week begins, the Germans and French are meeting to discuss job growth. While market participants continue to be nervous over the finances in Europe, this is likely not to be the big story at this time. The real news everyone will be paying attention to will be the U.S. earnings season that begins this week. It will be all about corporate profits and U.S. economics for the next several weeks in my opinion."*

*"It is clear that the Europeans have made a pact and have a substantial amount of money to deal with any type of bank failures that could occur at this time. While there could be a catastrophic event, there is little there to back up anything that goes on at this time. I think as you watch the weeks unfold it will not be about Europe anymore, it will be about United States and the US dollar."*

*"The dollar continues to make advances as it closed at the 13 month high on Friday. I'm expecting at least another 10 to 15% appreciation in the US dollar is likely over the next several months. This would suggest that the Eurodollar will move down. This is likely to keep the gold and silver markets in a general downtrend, which they have formed over the last 6 to 8 weeks."*

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

*"The problems in Europe have not gone away, nor have there been any actions taken that would result in lasting improvement. We had thought that the ECB, EFSF/ESM and other government-sponsored funding/stabilization mechanisms could potentially kick the can down the road for a little longer, but it looks as though any and all so-called solutions are only providing very short-term relief -- with each successive window of relief getting shorter. We believe we are edging closer to a watershed event and our guess is that it will be Greece's exit from the EU or a declaration of default."*

*We continue to completely avoid direct exposure to Europe. With this month's model update (enacted on January 3rd), we have reduced our equity allocations overall and continue to remain focused, by and large, on U.S. holdings. The U.S. has clearly benefited from the world's search for safe haven. Our accounts now have small underweight positions in Emerging markets and Japan, though both remain under intense scrutiny. We have increased our fixed income and cash allocations in defense."*

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

Which stock characteristic most impacted the S&P 500's performance in 2011?

To answer that question, Bespoke Investment Group performed a decile analysis and concluded that having a high dividend yield was the most important factor affecting stock prices in 2011.

In their analysis, they discovered that the three deciles with the highest dividend yield were the only ones to experience a positive return for the year. In fact, while the S&P 500 index was unchanged for the year, the top three highest-yielding deciles rose 10.4 percent, 6.4 percent, and 8.7 percent, respectively. The remaining seven deciles all experienced a loss for the year.

Now, it won't always turn out that the highest dividend yielding stocks are the best performers. Some years, investors will be more adventurous and bid up the riskier stocks that tend to pay low or no dividends.

Will the tide turn in 2012 and see the outperformance of the low or no dividend stocks? A lot will depend on how the economy shakes out.

Based on last week's unemployment report, it looks like we ended 2011 with some economic momentum. The U.S. economy added 200,000 jobs in December and the unemployment rate dropped to 8.5 percent, the lowest in almost three years, according to BusinessWeek.

This week marks the beginning of another quarterly earnings season so the next 30 days or so should give us a good indication of the strength of the underlying economy.

Data as of 1/6/12	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.6%	1.6%	0.5%	11.0%	-2.0%	0.9%
DJ Global ex US (Foreign Stocks)	0.2%	0.2%	-16.1%	7.7%	-4.9%	4.3%
10-year Treasury Note (Yield Only)	2.0%	N/A	3.4%	2.5%	4.7%	5.1%
Gold (per ounce)	2.7%	2.7%	18.1%	24.0%	21.5%	19.2%
DJ-UBS Commodity Index	1.3%	1.3%	-10.3%	4.9%	-1.9%	4.4%
DJ Equity All REIT TR Index	-0.2%	-0.2%	7.8%	20.8%	-1.2%	10.1%

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.

**WERE THE "NIFTY-FIFTY" REALLY THAT NIFTY?** Back in the early 1970s, pundits fawned over some of the era's fastest growing, industry-leading companies who seemed to defy the sluggish overall economy. Dubbed the Nifty-Fifty, these glamour stocks were well-known "one-decision" stocks that institutional investors clamored to own. So, how well did these stocks do over the last 40 years? Were they truly "one-decision" stocks?

While there was no official list of the Nifty-Fifty, two competing lists of 50 stocks are commonly cited, according to a research report titled, “The Nifty-Fifty Re-Revisited,” by Jeff Fesenmaier and Gary Smith of Pomona College. For today’s purpose, we’ll look at the 24 stocks that made both lists and were dubbed the “Terrific 24” by Fesenmaier and Smith.

Some of the household names on the Terrific 24 list include: McDonald’s, Walt Disney, Avon, Johnson and Johnson, and Coca-Cola. These companies are still doing well. However, some other household names on the Terrific 24 list performed poorly. Consider the following:

**Xerox:** It’s still around, but is a shadow of its former self and trades for about \$8 per share.

**MGIC Investment Corp:** It went through various corporate restructurings throughout the years, but is still around as a private mortgage insurer. However, it got battered in the mortgage insurance meltdown of recent years and trades for about \$4 per share.

**Polaroid:** The inventor of instant film couldn’t make the transition to a new world and filed for bankruptcy in 2001.

**Eastman Kodak:** Perhaps the saddest story of the bunch, Kodak has struggled for years to make the transition to a digital world and is now rumored to have filed for bankruptcy as early as this month, according to Reuters. Its stock sold for less than 50 cents per share last week. Ironically, Kodak invented the digital camera in 1975, but was never able to capitalize on it.

With 40 years of history, here are three key lessons we can learn from the Nifty-Fifty story:

1. Some “glamour” stocks do remain glamorous for many years, e.g, McDonald’s, Walt Disney, and Coca-Cola (although each had its “rough periods” over the past 40 years).
2. Promoting “one-decision” stocks is more of a headline-grabbing marketing strategy than a sound investment strategy.
3. Even the “best” stocks can fall to zero so it’s important to have a sell discipline.

As the British statesman and philosopher Edmund Burke said, “Those who don’t know history are destined to repeat it.”

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

Numerous investors have abandoned the stock markets for safer, hopefully less volatile securities such as money-market funds, even though their yields were near zero. These funds total close to \$3 trillion on the sidelines. Perhaps they are waiting for reassurances they wouldn’t see a repeat of 2008 and the unusual volatile markets we have been experiencing.

John Hussman is a sharp money manager and I thought you might appreciate his New Year's wish.

*"Happy New Year. We enter 2012 with a great deal of hope, but our hopes are not for more bailouts, or money printing, or any of the myriad policies that investors seem to hope will save bad investments and sustain elevated valuations. Instead, our hope is that in 2012, the market will finally "clear," in the sense that bad debt around the world will be recognized as bad and restructured; that overleveraged financials will be taken into receivership instead of forcing austerity on every corner of the global economy in order to make them flush again; that rates of return will rise enough to compensate and encourage saving – and high enough to encourage borrowers and other users of capital to allocate the funds productively. Of course, in order to restructure bad debt, someone has to accept a loss. In order for rates of return to rise, valuations must decline. In short, our hope is for events that will unchain the global economy from an irresponsible past and open the gates toward a prosperous future. Maybe that is too hopeful, but we are not entirely convinced that bailouts and 'big bazooka' will be as easily procured in the year ahead as a confused public has allowed in recent years."*

John P. Hussman, Ph.D.

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

The number of mortgages underwater in the U.S. has gone from 23% in 2010 to 28% in 2011 – source Zillow.

## Chuckle For The Day

Change is inevitable, except from a vending machine.

## Additional Thoughts

*"The supreme purpose of history is a better world." ~ Herbert Hoover, U.S. President*

*"When I got cut from the varsity team as a sophomore in high school, I learned something. I knew I never wanted to feel that bad again. I never wanted to have that taste in my mouth, that hole in my stomach. So I set a goal of becoming a starter on the varsity." ~ Michael Jordan.*

*"Success is to be measured not so much by the position that one has reached in life, as by the obstacles that one has overcome while trying to succeed." ~ Booker T. Washington*

*"If you have a penny and I have a penny and we exchange pennies, you still have one cent and I still have one cent. But if you have an idea and I have an idea and we exchange ideas, you now have two ideas and I now have two ideas." ~ Anonymous*

*"If you are patient in one moment of anger, you will escape 100 days of sorrow." ~ Chinese proverb.*

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* 1/9/12 edition.

<sup>7</sup> The source for the information was derived from Bob LeClair's *Finance & Markets Newsletter* 1/8/12

<sup>10</sup> Information derived from John Mauldin as noted in this weekend's *FrontLine Thoughts* 1/7/12.

<sup>11</sup> Information derived from *Day Hagan Asset Management* 1/9/12

<sup>12</sup> Information derived from Bob Kendall as noted in his weekend's *Weekly Commentary* 1/9/12

<sup>13</sup> Information derived from Wasmer & Schroeder as noted in this week's *Bond Market Weekly* 1/9/12

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

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