

THE PLANNING GROUP

A Wealth Management Firm

Weekly Commentary February 8, 2010

The Markets

Volatility in the financial markets has risen noticeably in the past few weeks as investors remain on edge about a multitude of issues.

A mixed employment report for January, continued budget deficit issues in Portugal, Italy, Ireland, Greece and Spain, monetary tightening in China, and a growing sense that the worldwide economy might be running on government stimulus fumes instead of stable gas all contributed to worldwide jitters, according to the Associated Press. In the U.S., the S&P 500 index dropped for the fourth week in a row and it is now down 7.3% from its January 15 recovery high, according to data from Yahoo! Finance. Foreign stocks, commodities, and gold are also down for the year as shown in the chart below.

The increase in investor anxiety helped send the value of the U.S. dollar up, up, and away. Last week, the dollar reached an eight-month high against the euro and a seven-month high against a trade-weighted basket of six major currencies, according to MarketWatch. The good news about a stronger dollar is that it suggests investors still have faith in the U.S. as a "safe haven" in times of uncertainty.

The global economy is still recovering from the Great Recession and the path to future prosperity will likely be bumpy. With proper seat belts, though, we will do our best to make the trip as smooth as possible.

Data as of 2/5/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.7%	-4.4%	22.8%	-9.7%	-2.4%	-2.9%
DJ Global ex US (Foreign Stocks)	-3.4	-7.6	40.0	-8.9	1.9	0.0
10-year Treasury Note (Yield Only)	3.6	N/A	2.9	4.8	4.1	6.6
Gold (per ounce)	-1.9	-4.2	15.0	17.7	20.6	13.0
DJ-UBS Commodity Index	-1.9	-9.1	13.3	-8.5	-2.3	2.6
DJ Equity All REIT TR Index	-0.3	-5.5	51.4	-16.4	0.6	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 or not available.

CORPORATE AMERICA IS MAKING AN EARNINGS RECOVERY, but the revenue recovery is slow to develop. For 2009, *The Wall Street Journal* projects that the S&P 500 companies will show a sales drop of \$1.1 trillion, or 13% from the prior year. In the fourth quarter of 2009, revenue is expected to total just over \$2 trillion, which would be the same number as the first quarter of 2006. In other words, this Great Recession has set corporate America's revenue back nearly four years.

Interestingly, while revenue is back down to levels from nearly four years ago, total U.S. employment in January 2010 was back down to where it was in April 2000 – that’s nearly a 10-year setback in employment – according to data from the Department of Labor. This indicates that on a comparative basis, corporations have cut employment more dramatically than the decline in revenue. With employment levels back to where they were in early 2000, you can see why corporations are showing solid earnings growth (up 47% so far in Q4 2009 from the year earlier quarter excluding financial companies, according to *The Wall Street Journal*) even though revenue growth is weak (projected to rise just 0.9% in Q4 2009 from the year earlier quarter, according to *The Wall Street Journal*). Corporate America is showing profit gains partly due to the leverage from keeping employment costs low.

The good news is that Corporate America cannot keep employee headcount low indefinitely if revenue starts to rise significantly. Eventually, companies have to hire to support revenue expansion. When this new revenue expansion/hiring cycle starts is anybody’s guess. But, when it does, that could be a positive sign for the financial markets.

On The Economy⁷

There were a number of positive signs last week as far as the economy was concerned.

- The nation's unemployment rate fell 0.3 percentage points to 9.7% in January.
- Personal income rose +0.4% in December, the sixth consecutive monthly gain.
- The national savings rate increased to 4.8% as consumers continued to pay down debt (See the *Financial Fact of the Week*, below).
- Factory orders were up +1.0% in December, much higher than expectations.

So why did the markets pretty much ignore the positive economic news, ending the week lower and further into negative territory for the year? Most likely, concerns involving Greece and some of the other European countries, as well as the announcement of the federal budget figures for the coming fiscal year cast a pall of gloom over the investment community. Despite hopes for a smaller deficit, the administration signaled that we're likely to see even more red ink next year. And, the forecast for the coming ten-year period shows consistent trillion dollar deficits.

If those forecasts are correct, we should expect higher taxes on income, dividends, and capital gains. Couple that with increased constraints on banks and the financial sector, coming crises in Medicaid, Medicare, and Social Security, and it's no surprise that the markets are something less than ebullient at this time.

Additional Thoughts⁸

The American Institute of Certified Public Accountants (AICPA) recently conducted a survey of its Personal Financial Planning Membership Section. These CPAs reported that their clients typically have between \$500,000 and \$5 million in assets. The results also showed:

- 87% said their clients were either spending slightly or significantly less.
- 82% said their clients are taking a wait-and-see attitude toward estate planning due to the uncertainty that Congress may reinstate the tax retroactively for 2010.

- 74% of the CPAs reported that their clients have grown more risk averse in their investment decisions in the past year.
- 62% noted that retirement-age clients are postponing retirement from one to five years.
- 58% reported that expectation of higher future tax rates was a major factor in converting from a traditional IRA to a Roth IRA.
- 54% said they were urging clients to pay the tax due on a Roth IRA conversion in 2010 even though the IRS allows taxes to be paid over three years.

Consumers are repairing their balance sheets at a pretty rapid pace. Installment credit fell by \$1.7 billion in December, following a drop of \$21.8 billion in November. Consumer credit fell in every month but one in 2009.

Weekly Focus – Think About It

“Investors repeatedly jump ship on a good strategy just because it hasn’t worked so well lately, and, almost invariably, abandon it at precisely the wrong time.”

– David Dreman

Best regards,

The Planning Group Investment Team

* The content of this newsletter has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or to participate in any particular investment strategy. We derive information from a variety of sources we consider reliable, but we do not represent that the information is accurate or complete. The opinions and statements herein are subject to significant business, economic and competitive uncertainties and actual results could be materially different, thus there are no guarantees and are subject to change at any time. Financial planning and investment advisory services are offered through The Planning Group of Scottsdale, LLC, a SEC Registered Investment Advisor. Certain securities may be offered through Meridian United Capital, LLC, a registered broker/dealer and FINRA member firm.

⁷ The source for the information for On The Economy was derived from Bob LeClair's *Finance & Markets Newsletter*.

⁸ The source for the information for Additional Thoughts was derived from Bob LeClair's *Finance & Markets Newsletter*.

* 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.

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

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Consult your financial professional before making any investment decision.

* You cannot invest directly in an index.

* Past performance does not guarantee future results.

* This newsletter was partly prepared by PEAK, various commentaries, and our office.

* The Planning Group of Scottsdale, LLC, and Ives Asset Management, Inc are both Registered Investment Advisory firm with the Securities and Exchange Commission

*To unsubscribe from the Weekly Commentary please reply to this e-mail with "Unsubscribe" in the subject line, or write us at:

Scottsdale Office - 8800 N. Gainey Center Drive - Suite 176 - Scottsdale - Arizona - 85258-2122

Sun City West Office - 13912 W. Stardust Blvd. - Suite 119 - Sun City West - Arizona - 85375

Telephone (480) 596-1580 - (888) 596-1580 - Fax (480) 596-2165 - e-mail - kris@theplanninggroup.com
