



# PLANNING STRATEGIES INC

A Registered Investment Advisor



## 2011

### My Magic 8 Ball Says...

I love this time of year. It's the one time, when we get to slow down, look back, and review the course of events that brought us to this point. More importantly, it's the time of opportunity. A time when we can look forward, a time of hope, and a time of optimism (bet you didn't see that coming). Of course I'd love it even more if I were at our winter headquarters in south Florida. But I guess that is going to have to wait until more of you move there, or we pick up some more clients that live there already. A guy can hope.

This is the time for reflection, of where you've been, and where you are heading. At the risk of sounding callous or political, let me give you my thoughts on the past couple of years. It has been a great two years! The markets have proven that America is a resilient bastion of democracy and free markets. As measured by the S&P 500, the markets were up 21.6% in 2009 and another 11.2% in 2010. I wish every year could be like these last two years. Those returns are also pretty good numbers for "during these hard economic times". If I hear those words one more time, or some pundit\expert calling for the continuation of the "great recession", I'm going to scream. How has the media managed to miss the indisputable fact, the "great recession" ended almost two years ago? Many of you have heard me saying that 10% unemployment is bad if you happen to be one of the 10%, but why doesn't anyone

talk about the 90% that is employed? We currently have extremely tame inflation numbers, good market returns, and slow, but steady economic growth. What's wrong with that picture? Why the rush to full employment and inflation? The returns for 2009 and 2010 are almost scary close to 2003 and 2004 numbers. Does anyone remember 2005 and 2006?

Sure we have some issues with the size and debt of our governments, but I think we are going to work through the problems, just like we always have. Businesses have been waiting for some signs of stability from the federal government, and the American public wants the entire governmental system, from the feds right down to our municipalities, to realize the depth of their spendthrift ways. Individuals, especially those that live off the immense generosity of the government, are going to get hurt in the process of restoring fiscal sanity, but I think\hope the politicians are finally getting the point. Strong, positive steps must be taken to control the train-wreck spending. Our economy will ultimately be stronger if they only acknowledge these immutable facts. There are certainly signs of hope emerging. However, government is but one component of our economy. The American economic juggernaut will continue to thrive. We are still the freest, and most successful

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economy on the planet. I see no imminent signs that will change.

So, what does 2011 have in store for us? Well, it should come as no surprise to those of you who have heard me before, but it is my opinion that 2011 should be another good year for our economy and the markets in general. A cursory examination of the general economic cycles of the last 50 to 100 years strongly suggests that after two years of recovery from a recession, the economy should begin to pick up a head of steam. The general psyche of most people has been somewhere on a spectrum of fear to extreme caution. It is my contention that the generally cautious outlook of the general population is still in existence today. We may have avoided the collapse of civilization, but mankind is still subject to falling into a general malaise with periods of anarchy. However, as reality takes hold, and people begin to shed their pessimistic outlook of the future, the gray clouds should begin to part, and the silver linings will lift all spirits. Businesses are sitting on historical levels of cash, awaiting deployment into future growth. When that happens, I am looking for a rapid acceleration of economic activity. We are already seeing the signs that it is beginning to happen. In a way though, that is somewhat troubling, as it also indicates the beginning of the trend that always leads to the next downturn. But it is way too early to fret about that at this time. Bring on the good times, and let's continue to make hay!

We would like to thank all of our clients, for the trust and confidence you have placed upon us. Rest assured we hold that trust as our sacred mission. The success of your goals and family weigh heavy upon us, but we relish the opportunity to assist you in their completion. Our business has continued to evolve and grow, and the future holds new and exciting challenges. With you, we see a brighter and prosperous future.

Happy New Year!

***Semper Fidelis***

*I predict future happiness for Americans if they can prevent the government from wasting the labors of the people, under the pretense of taking care of them.*

*The democracy will cease to exist when you take away from those who are willing to work and give to those who would not.*

*Thomas Jefferson*

## **What lies ahead in 2011?**

**By Scott Smith**

I have just finished reading Steve's article for this quarters' newsletter (you probably have too), and I thought I would take the opportunity to "piggy back" a bit on his sentiment but in a slightly more technical manner. During our reviews in December and so far in January, the topics naturally turn to the markets ahead of us and how we will navigate what comes. Anyone that has been with us for any length of time knows that the strategies that worked in the past twelve months will not necessarily work going forward and I believe that is the situation we now face. I believe that there are some very specific changes coming that we will need to address, and as a prelude to our future discussions I will attempt to outline them here.

There have been some markets in recent history where making money has been easier than others. During the tech boom of the late 90's and the recovery years following 2002, double digit returns were the norm. Markets go down, markets go up, and you ride the cycles. The past two years, have not been so easy. 2009 was packed full of opportunities, but you needed the intestinal fortitude to take advantage of them and following what had just happened in 2008 few people were eager to

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jump back in with reckless abandon. 2010 saw eight months of virtual stagnation, with the markets rattling around between support and resistance levels, and it was not until the final quarter that most indexes made their gains, so that created an environment where being smart and being yield hungry was essential.

Throughout all of these markets, we have always found ways to navigate through, and I know we will again. Unfortunately, I do not think that 2011 will be a year to put our collective feet up and coast...I believe the year ahead will be a bit volatile, which means active management is going to be very important. I share my business partners overall optimism of the markets ahead, but I also see some specific issues that we will need watch carefully.

On the positive horizon, interest rates are still low, inflation rates are low, dividends are holding strong, the tax environment has some certainty now at least for two years (five would have been better), earnings have been strong, banks and business have cash on hand to deploy and with the 2012 elections already in sight, Washington is finally getting around to that pesky job creation thingy they have ignored for two years. So...we are heading into a climate with a lot of opportunity and reason for optimism.

There are, however, other influences to be aware of. Housing markets are still not healthy and there is great inventory out there that will have to come down before prices once again stabilize and head back in the right direction. Municipal bonds are facing a great deal of pressure due to

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deteriorating State and local finances and some pessimistic analysts actually warn of another "crisis" like default rate across the nation. Europe's sovereign debt problems are far from over, and China started raising its interest rates at the end of 2010, which will have a ripple affect across the global markets. Add to these the always constant threats of terrorist attacks, war in the Middle East and our crazy little buddy in North Korea, and you have a laundry list of boogie men that can test even the most optimistic investor.

But, risk factors are always part of the equation. If we wait for a time when there are no risk factors to list we would never leave the house let alone invest our money. It has also been my experience that the real problems we must deal with are rarely on the list of hypothetical situations we foresee, but instead they usually come out of nowhere. Taking everything into consideration, I believe that the opportunities and advantages outweigh the negatives going into 2011. I believe our economy, our Nation and our people will create a prosperous 2011 for our markets, and I look forward to meeting with you all in the first quarter to discuss our strategies. And as these issues come into greater focus as the year unfolds, we will improvise, adapt and overcome! See you all soon.