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MAKING A DIFFERENCE

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*A Registered Investment
Advisor
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Glenn Woody
Certified Financial Planner

High Unemployment

The high level of unemployment continues to dominate the negative side of economic discussions. And when one adds in the political rhetoric about how the stimulus package has not brought the rate down "as promised", unemployment is clearly the hot topic.

However, a close look at the historical relationship between the levels of unemployment and the rate of GDP growth and market gains following gives a different picture. Historically, real GDP growth and stock market returns have typically proved the strongest in years following the highest levels of unemployment.

Examination of the data reveals a close and fairly consistent relationship between the current unemployment rate and the subsequent five-year average annualized growth rate in real GDP. Specifically, each time since 1960 when the unemployment rate rose above 7%, a period of healthy renewed GDP growth above 4% followed.

Similarly, since 1948 unemployment rates above 6.6% have produced annualized market returns of over 20%. By comparison, when the unemployment rate was below 6.7%, the stock market produced an annualized return

of only 7%. Rather than representing a deterrent to future investment success, during the postwar era, high rates of labor unemployment have been associated with strong and relatively stable stock market returns.

How can this be? Here are some thoughts:

- **Governmental Policy.** When unemployment is high, political pressures force policy officials to err on the side of over-accommodation.
- **Free Lunch.** Perhaps the closest thing to a "free lunch" in economics is the re-employment of unemployed resources
- **Liquidation Aftermath.** During a weak economy, both households and businesses conserve and build liquidity. Such periods are therefore characterized by increased business profit, by pent-up demands, and by substantial "dry buying powder".
- **Low Inflation.** Higher levels of unemployment tend to keep the downward pressure on inflation regardless of the speed of economic growth.
- **Confidence Building.** As the economy and markets improve, the growing confidence feeds on itself.

Annual ADV Offer/Tax. Info.

As clients all know, we are registered with the Securities and Exchange Commission (SEC) of the U. S. Government as Investment Advisors. It is a requirement to make us legal in what we do, i.e. charging a fee for giving financial and investment advice.

We are similarly registered with the Department of Corporations of the State of California.

Those registrations subject us to the extensive rules, regulations, requirements and restrictions with which they endeavor to protect the public from those in our business who might be less than careful, or even less than honest.

The registration subjects us to on-site examinations by staff members of the SEC, sometimes with a bit of prior notice, sometimes by complete surprise.

The registration process is based on our completing and keeping current a lengthy government document, which comes in two parts. It is called ADV Parts I and II. Part II is designed to be a disclosure document to clients and prospective clients. We are required to give one to each new client, to keep it current, and to offer an updated one to each client at least annually.

While we continually offer it to existing clients, **this is our official offer to send you the latest version of the ADV Part II.** All you need to do is make that request of us in whatever way is easiest for you.

Further, the SEC and the State of California are moving toward making all that available to the general public via the Internet. So far, the SEC has converted the filing of the ADV Part I to the web where it is now available for viewing/printing.

You may access it on the web at http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_OrgSearch.aspx. Our SEC file # is 801-18321.

At some point, both Parts will be available on the web, but for now Part II is available only in hard copy.

Tax Reporting Information

The information related to your investment accounts required to properly file your tax return for 2009 consists of details regarding dividends, interest and distributions made by mutual funds, as well as any gains or losses realized by the sale of shares during the year.

The details of the dividends, interest and distributions will be furnished on Form 1099 sent to account holders by the Custodian no later than 1/31/2010.

Gain/loss details are available in our computer system for all accounts that we actively manage. We will be sending that to you by early February.

Clients who would find it helpful to have this information sooner for planning may request it from us at any time.

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# Our Privacy Policy

**A**n important part of our registration with the Securities and Exchange Commission as an Investment Advisor is our Privacy Policy to govern our handling of our clients' personal financial information. We are required to furnish that policy to each client annually. Below is your notice of the Privacy Policy for 2010:

Pursuant to Regulation S-P adopted by the Securities and Exchange Commission, it is the policy of Glenn Woody Financial Consultants, Inc. ("Glenn Woody Financial") to keep confidential nonpublic personal information ("*information*") pertaining to each current and former client (i.e., information and records pertaining to personal background, investment objectives, financial situation, investment holdings, account numbers, account balances, etc.) unless Glenn Woody Financial is: (1) previously authorized by the client to disclose *information* to individuals and/or entities not affiliated with Glenn Woody Financial, including, but not limited to the client's other professional advisors and/or service providers (i.e., attorney, accountant, insurance agent, broker-dealer, investment adviser, account custodian, etc.); (2) required to do so by judicial or regulatory process; or (3) otherwise permitted to do so in accordance with the parameters of Regulation S-P. The disclosure of *information* contained in any document completed by the client for processing and/or transmittal by Glenn Woody Financial in order to facilitate the commencement/continuation/termination of a business relationship between the client and a nonaffiliated third party service provider (i.e., broker-dealer, investment adviser, account custodian, insurance company, etc.), including *information* contained in any document completed and/or executed by the client for Glenn Woody Financial (i.e., advisory agreement, client information form, etc.), shall be deemed as having been automatically authorized by the client with respect to the corresponding nonaffiliated third party service provider. Each individual and/or entity affiliated with Glenn Woody Financial is aware of Glenn Woody Financial's *Privacy Policy*, and has acknowledged his/her/its requirement to comply with same. In accordance with Glenn Woody Financial's *Privacy Policy*, each such affiliated individual and/or entity shall have access to *information* to the extent reasonably necessary for Glenn Woody Financial to perform its services for the client, and to comply with applicable regulatory procedures and requirements.

Call us if you have questions.

## FYI: Short-Term Observations

*These comments are offered for your information and thought. They are short-term and tactical in nature. We invest for the long-term, three to five years plus. Don't confuse these short-term observations with what may be the best decisions for the long-run. Some even believe it is confusing, at best, and distracting, at worst, to involve short-term issues in long-term investing.*

### A "Correction" or Worse?

**W**e have been saying for some time now that the markets cannot possibly continue at the same rate and pace as we have seen since the March 9, 2009, low.

The averages were off just a bit in October and then noticeably more in January. That's all well and good, you say, as long as they don't give us a double-dip and test those March 9 lows.

Most market observers discount the possibility of that strong a "correction", but do say a dip of 5-10% from the high would be normal and, in the long run, healthy.

The Fed's Open Market Committee met in late January and, to no one's surprise, left the rates unchanged. When the expectation is for no change, then more attention is paid to the wording of the announcement.

Since the economy is continuing to show signs of improvement, there was speculation that the Fed would change the wording of the announcement to be somewhat less optimistic about rates remaining low rather indefinitely. However, there was no noticeable change in even their language.

So, attention then turned to the President's State of The Union message, the announcement of a strong GDP number for Q4 2009, and continued signs of economic improvement.

The one big negative was in the area of the housing market which, until January had been showing signs of improvement. But, sales and housing starts fell off in the month.

Now we will wait to see if this is a normal correction or the start of something bigger.

### A Negative Month

**T**he major U. S. stock averages were negative in January, for only the second time since the March lows. Still, the quarter remained positive.

As one would expect, the small caps, represented here by the NASDAQ, were more volatile, i.e. up more and down more.

Here are the results:

#### Dow Jones 30 Industrials

|                |           |
|----------------|-----------|
| January        | -3.46 %   |
| Last 3 months  | + 3.64 %  |
| Year to Date   | -3.46 %   |
| Last 12 Months | + 23.54 % |

#### Standard & Poor's 500 Index

|                |           |
|----------------|-----------|
| January        | -3.68 %   |
| Last 3 months  | + 3.66 %  |
| Year to Date   | -3.68 %   |
| Last 12 Months | + 30.02 % |

#### NASDAQ Composite

|                |          |
|----------------|----------|
| January        | -5.38 %  |
| Last 3 months  | + 4.99 % |
| Year to Date   | -5.38 %  |
| Last 12 Months | + 4.99 % |

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