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MAKING A DIFFERENCE

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Glenn Woody
Certified Financial Planner



The Start of 2012

We take advantage of a large number of market and economy commentaries by fund managers and institutional investment companies. Here is a compilation of the consensus of those recent comments.

2012 is starting with stocks even more attractively priced than a year ago, earnings and dividends are higher and interest rates are lower, yet stock prices (in the U. S.) are mostly unchanged. There are two reasons for the favorable valuation of stocks:

- 1) Fear that the European financial crisis will spill over to the U. S.,
- 2) The disappointing pace of the United States' (and the world's) economic recovery.

With regard to Europe, many have recommended that the European Central Bank should guarantee deposits. While that has not happened, the ECB has provided a large lifeline of liquidity to the banks that has calmed the markets. Greek bondholders are ready to accept large discounts and interest rates in peripheral countries have declined. It is likely that the ECB will continue to provide the necessary liquidity to stem a crisis, but a recession in Europe is a given. With all of this already largely priced into the markets, many think Euro-

pean stocks are attractive.

Many believe 2012 is a "make or break" year for Europe, that the European Union will either dissolve in a crisis or that the situation will begin to be resolved slowly. A crisis would likely develop in the short-term (this year). A strengthening and favorable resolution will likely take several years.

In the U. S., economic growth may be a pleasant surprise this year. Most economists expect a GDP growth rate of about 2%. There are favorable signs not only on the jobs front but also in the depressed housing sector. With record low interest rates, the cost of owning is lower than the cost of renting, a situation that historically has led to increased housing activity.

A stronger economy and low interest rates provide a good climate for the dividend investor. Many are aware that the current 15% tax rate on dividends expires at the end of 2012 and will revert to the tax rate on ordinary income.

However, neither party is advocating a return to ordinary income tax rates on stock dividends. Obama has always set a maximum rate of 20% on dividend income which is still far lower than the rate on ordinary income and on bond interest.

So, consensus is that 2012 has the chance of being good to investors.

Caddy Quips

These should give you a chuckle, even if you are not a golfer:

Golfer: "Think I'm going to drown myself in the lake."

Caddy: "Think you can keep your head down that long?"

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Golfer: "I'd move heaven and earth to break 100 on this course."

Caddy: "Try heaven, you've already moved most of the earth."

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Golfer: "Do you think my game is improving?"

Caddy: "Yes sir, you miss the ball much closer now."

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Golfer: "Do you think I can get there with a 5 iron?"

Caddy: "Eventually."

Golfer: "You've got to be the worst caddy in the world."

Caddy: "I don't think so sir. That would be too much of a coincidence."

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Golfer: "Please stop checking your watch all the time. It's too much of a distraction."

Caddy: "It's not a watch - it's a compass."

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Golfer: "How do you like my game?"

Caddy: "Very good sir, but personally, I prefer golf."

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Golfer: "Do you think it's a sin to play on Sunday?"

Caddy: "The way you play, sir, it's a sin on any day."

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Golfer: "This is the worst course I've ever played on."

Caddy: "This isn't the golf course. We left that an hour ago."

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Golfer: "That can't be my ball, it's too old."

Caddy: "It's been a long time since we teed off, sir."

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### **Calls Into the Pro Shop**

"My husband just called from the 15th tee. How many more holes until he finishes 18?"

"How much do you charge for a bucket of large balls?"

"We don't have any large balls, just the normal size."

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Economic Highlights

February 2012

Positive:

- The Consumer Price Index was unchanged in December. Over the last twelve months, the index has increased 3.0%. The Producer Price Index declined 0.1% in December. The index increased 4.8% in 2011 after rising 3.8% in 2010.
- The Consumer Confidence Index in January and was 75.0 compared to 69.9 in December and 74.2 in January, 2011. Confidence continued to improve in January due to positive news about potential job gains.
- The Leading Economic Index increased 0.4% in December. The Coincident Economic Index increased 0.3% in December and the Lagging Economic Index also increased 0.3% in December.
- Nonfarm payroll employment rose by 200,000 in December, and the unemployment rate, at 8.5%, continued to trend down.
- Real gross domestic product increased at an annual rate of 2.8% in the fourth quarter of 2011. In the third quarter, real GDP increased 1.8%.
- Retail and food service sales for December increased 0.1% from the previous month.
- Construction spending during November was 1.2% above October and 0.5% above November, 2010.
- Total business sales for November were up 0.3% from the prior month.
- Personal income increased 0.1% in November. Real disposable income decreased less than 0.1% in November, in contrast to an increase of 0.3% in October.

Mixed/Cautious:

- Privately-owned housing starts in December were 4.1% below the November level.
- Sales of new single-family houses in December were 2.2% below the November level.
- The international trade balance in goods and services decreased in November, as imports increased and exports decreased.
- The home ownership rate in the third quarter 2011 (66.3%) was lower than the third quarter 2010 (66.9%). The home ownership rates in the Midwest and South were lower than the corresponding third quarter 2010 rates.

Informational:

- Growth, small caps and international led the way in December compared to their respective counterparts.

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.

The Federal Reserve

The Open Market Committee of the Federal Reserve (the Fed) ended its two-day meeting on January 25, with a statement which the U. S. market liked a lot.

The statement issued, by Chairman Ben Bernanke following the meeting, indicated that they expect to keep interest rates low (near zero) at least until late 2014. Previous statements had indicated their keeping rates low for an extended period, but defined the original period as until "mid 2013".

The Fed said the economy continued to expand at a moderate pace and noted the recent improvement in overall labor conditions, though unemployment remains "elevated".

This news sent the Dow Jones Industrial Average to its highest level since May 10, 2011. The trading session had started with the Dow falling as much as 96 points but it shot higher after the Fed's announcement. One does not make an investing career out of such a strong reversal in a one-day market. But, the significance is that it is another indication that our markets are hungry for good news and react nicely whenever some is discovered.

The Fed's move sent the dollar tumbling against other major currencies, pushing commodity prices up and sending Treasury yields sharply lower (and prices higher).

The pattern of a weak market in the early part of the trading day but finishing stronger has become familiar in the recent days, chipping away at early losses.

The Fed meets eight times a year and meets next on March 13.

The Europe Effect

The major U.S. indices were up nicely in January, with the NASDAQ leading the way. Most international markets were actually stronger than the domestic ones.

All markets have been depressed in recent months primarily over concern with the European situation. The negative effect of that has seemingly worn off some in addition to glimmer of light at the end of that tunnel.

Here are the results:

Dow Jones 30 Industrials

January	+ 2.98 %
Last 3 months	+ 5.67 %
Last 12 Months	+ 6.23 %

Standard & Poor's 500 Index

January	+ 4.29 %
Last 3 months	+ 4.71 %
Last 12 Months	+ 2.02 %

NASDAQ Composite

January	+ 8.02 %
Last 3 months	+ 4.84 %
Last 12 Months	+ 4.22 %

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