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MAKING A DIFFERENCE

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Glenn Woody
Certified Financial Planner

Welcome to 2012

There has been a great deal written and spoken about how slowly this economic recovery is developing. The slow pace of recovery has been often described as “frustrating” and “agonizing”. Some have even said this recovery is “dysfunctional”.

The slow recovery is often blamed on the continued sad state of the housing market and the unemployment situation.

However, there has been some interesting research attempting to put the current unemployment developments and the pace of this economic recovery into perspective, when compared to a longer-term view.

The research shows since the mid-1980's, the character and speed of U. S. economic recoveries have been significantly altered by a watershed decline in the growth of the U. S. labor force. For the third recovery in a row, the current economic cycle, like both the 1991 and 2001 recoveries, has been a “slow starter” with the revival in real GDP growth, job creation, and confidence all muted compared to pre-1985 economic recoveries.

That comparative research has shown that the slow pace of jobs recovery is really on par with those two most recent economic recoveries, as agoniz-

ing as it may seem.

And, even with our current housing malaise thrown in, this recovery is not developing any slower than the 1991 and 2001 recoveries.

Prior to the mid-1980's, once the economic recovery began, both the unemployment rate and consumer confidence would improve almost immediately. However, beginning with the 1991 recovery and now for the third recovery in a row, the unemployment rate and confidence have actually worsened in the first two years. For the last 25 years, significantly delayed recoveries in job creation and confidence have become the norm. Thus, panicky attitudes as to whether a recovery is working and is sustainable have also become commonplace.

If the current recovery continues to mimic the last two recoveries, 2012 could prove to be a pivotal year. During both the 1991 and the 2001 recoveries, year three was not a year in which real GDP growth surged, but in both cases it was the year in which cultural mindsets among leaders, businesses, consumers and investors finally accepted the economic recovery was improving and was sustainable. After two years of intense debate and major worries, year three proved to be the year when most finally agreed the recovery was for real.

We shall see whether 2012 follows that pattern.

Some Housekeeping

With the prior year now behind us, attention begins to turn to the task of gathering the data necessary for completing your tax returns for 2011.

Timing-wise, the schedule calls for Schwab to get the investment-related 2011 data to you by mid-February.

Schwab will send the official 1099 reports initially by mid-February. However, they expect to have some corrections to their early data that will result in some number of corrected 1099's to be sent later.

The 1099 has always reported dividends, interest and capital gains initiated by the mutual funds themselves. Unlike past years, the Schwab 1099 will now also include the cost basis information regarding realized gains and losses. That means we will not be sending you our Gain/Loss reports as we have in the past.

However, if you and your tax preparer feel the need for some advance numbers by which to figure your fourth quarter estimated tax payment, due by January 15, call us to request the reports which we can generate and send directly to you either by mail or email.

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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 California Department of Corporations.

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 also 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 Form 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 Form ADV Part II.** All you need to do is ask.

**There have been no material changes in our registration information.**

You may access Part I on the web at [http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd\\_OrgSearch.aspx](http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_OrgSearch.aspx). Our SEC file # is 801-18321.

Part II is now attached to Part I on the internet under Part 2 brochures in the left-hand menu.

# Market Highlights

## January 2012

### Positive:

- The Index of Consumer Sentiment rose to 69.9 in December, up from 64.1 in November.
- The Consumer Price Index was unchanged in November after decreasing 0.1% in October. The Producer Price Index advanced 0.3% in November.
- The Leading Economic Index increased 0.5% in November following a 0.9% increase in October and a 0.1% increase in September.
- Privately owned housing starts in November were 9.3% above October and 24.3% above November, 2010.
- Sales of new single-family houses in November were 1.6% above October, and 9.8% above November, 2010.
- Sales of existing homes increased 4.0% in November and were 12.2% above November, 2010.
- Retail and food services sales for November increased 0.2% from the previous month and 6.7% above November, 2010.
- New orders for manufactured durable goods in November were 3.8% above October. This increase, up four of the last five months, followed a slight October increase.
- Personal income increased 0.1%, and disposable personal income decreased 0.1% in November.
- Economic activity in the manufacturing sector expanded in November for the 28th consecutive month, and the overall economy grew for the 30th consecutive month.
- Real gross domestic product, the output of goods and services produced by labor and property in the United States, increased at an annual rate of 1.8% in the third quarter of 2011.

### Mixed/Cautious:

- Industrial production decreased 0.2% in November after having advanced 0.7% in October.
- Construction spending in October was 0.8% above September and 0.4% below October, 2010.

### Informational:

- Value stocks outpaced growth and domestic performed better than international in December

## 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 Major Indexes

**T**he past twelve months in the markets included the good, the bad and the indifferent. The Dow was up, the NASDAQ was down and the S&P was flat.

The S&P actually declined 0.04 points, or 0.0028% for the year, the smallest annual move in either direction since 1947. The Dow rose 5.53% which included the largest quarterly percentage increase since 2003.

The major stock indexes significantly underperformed U. S. Treasury bonds. The largest gainer was the U. S. 30-year Treasury, which chalked up a 35% gain, the result of the "flight to quality" from the European financial crisis. The 10-year Treasury note gained 17% with the yield finishing below 2% for the first time since at least 1977.

It is interesting that the Dow Jones 30 Industrial average beat the Standard & Poors 500 index so handily when each is thought by many to be a good measure of the entire market. It did so by including less financials and more of things that did well.

The Dow is no longer an actual average of the prices of the thirty stocks of which it is composed. And, it is no longer actually industrial in make-up. For that matter, it is no longer controlled by Dow Jones. It is now majority owned by CME Group. But, don't expect a name change to "Formerly Dow Jones, Not-Entirely Industrial Non-Average" any time soon.

The S&P is a closer measure of the entire market, but it consists of some 500 of the largest companies measured by market capitalization. So, the small-caps don't get included.

### Another Year Behind Us

**D**ecember, of course, completed the full 2011 year, with mixed results in the major equity averages. It was a year of unusually strong volatility. The S&P had over 100 trading days in which the change for the day was triple digit.

The last quarter posted strong positive returns reflecting the large gains in October which nearly offset the large losses we had in September. Since it is common to dwell more on losses than gains, many will be surprised to see the positive results for the year.

Here are the results:

#### Dow Jones 30 Industrials

|                |           |
|----------------|-----------|
| December       | + 1.43 %  |
| Last 3 months  | + 11.96 % |
| Last 12 Months | + 5.53 %  |

#### Standard & Poor's 500 Index

|                |           |
|----------------|-----------|
| December       | + 0.88 %  |
| Last 3 months  | + 11.23 % |
| Last 12 Months | + 0 %     |

#### NASDAQ Composite

|                |          |
|----------------|----------|
| December       | -0.57 %  |
| Last 3 months  | + 7.87 % |
| Last 12 Months | -1.81 %  |

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