



## **Dorion-Gray Retirement Planning Weekly Commentary February 6, 2012**

### **Tactically Speaking....**

U.S. stocks finished the week on a strong note following a better-than-expected U.S. nonfarm payroll report. The 243,000 gain in nonfarm payrolls, while within our projection, was nearly twice the consensus forecast. The unemployment rate fell to 8.3% in January as well. The S&P 500 ended up 2.22% with all ten sectors positive. The S&P was led by Financials and Technology up 4.3% and 3.2%, respectively. The lagging sectors were Consumer Staples and Utilities up .9% and .4%, respectively.

While the unemployment numbers may have come under fire from some groups about the only negative we could see in a very positive report is that some of the jobs were aided by warmer than expected weather in much of the country. As we have always stated, as growth increases productivity will start to decrease (as it has been doing over the past year) and then jobs will start to increase as companies can no longer grow based on increased productivity alone.

Personal income and spending data released last week indicated that personal incomes rose modestly in December, but slightly lower consumer spending resulted in a higher savings rate for the month. The ISM Service Index jumped in January to 56.8 from 52.6 in the prior month, exceeding the 53.1 that had been expected. Also, the ISM Manufacturing Index improved in January to 54.1 from 53.1 in the prior month, a solid increase even if it fell below expectations.

Fed Chairman Bernanke testified on the economy to the House Budget Committee, but as usual his comments had little effect, as few were surprised by his continued expectation for a sluggish expansion. Fed policy turned more expansive in the last half of 2011 than at any time in the past decade. It is likely the additional liquidity providing by the Fed is contributing to the recent upward move in stock prices along with the decline in volatility in the stock market.

The sovereign debt issues in Europe along with their overall flat growth problems seem to be fading in the market participants' rear view mirror as our economy continues to improve. It appears a solution to the debt crisis in the Eurozone is close. The ECB and European leaders have been successful in buying time for the European banking system to heal. Austerity and

balanced budget plans have been approved by all the Eurozone countries except Britain and the Czech Republic. France is waiting until after its upcoming presidential election to decide.

The only negative report this past week was the Case-Schiller home price index, which shows house prices close to the lowest level in the past three years. While home prices are still in the process of forming a bottom, the important news is how inventories have come down close to normal levels. This will provide support for housing prices which should begin to increase modestly in the year ahead.

Bottom line: economic numbers this past week lend further support to the view that our pace of economic activity continues to improve.

## **Markets Expectations**

Last Friday, the S&P 500 turned sharply higher, penetrating through the resistance at the 1337.40 level, closing at 1344.90. The current configuration suggests that if the S&P 500 does not move above 1347.40 today, then a 2 to 3 day sideways correctional phase will begin. The downside in this pattern should be limited to the 1332.25/1329.75 levels. The critical level on the downside today is 1337.30. A penetration of this level will confirm a move down to the levels just mentioned. At the time of this writing, the market is holding above this level.

On the upside, if the 1347.40 level is penetrated, it is possible the market will continue higher toward the 1355.60/1357.70 levels. The current configuration of the S&P 500 is signaling a new upside projection of 1431 to 1480. There is a 60% probability that if there is a close above 1370.60 in the next few days then these higher levels will be met. It will take a decline below 1300.30 to negate this. There currently is only a 30% probability for this level to be penetrated.

The intermediate and long term patterns unfolding for the S&P 500 suggest a strong likelihood for the rally that began in November of last year to continue. We could test the 2011 highs on our way to potentially hitting the all-time highs set in 2007. Key levels for the S&P 500 in our long-term price target are 1370 on the upside and 1010 on the downside. Over the intermediate-term, 1158 remains key while 1376 is an important upside level. Overall, we see a high probability for the S&P 500 to move towards the 1511-1576 range and only a 20% chance for the continuation of the 1158-1370 trading range established in 2011.

These projections continue to be possible due to a combination of an easy Fed policy, continued signs of growth combined with relatively strong corporate fundamentals, reasonably priced to-undervalued equity prices and favorable technical data. We see earnings momentum slowing but Merger and Acquisition activity should pick up. Also, we expect an increase in stock buybacks along with higher dividend payouts given the strong health of corporate America.

We will keep you informed.

## **Last Week in the Markets**

For the week, the Dow climbed 1.62 percent to close at 12,862.23. The S&P gained 2.22 percent to finish at 1,344.90 and the NASDAQ rose 3.16 percent to end the week at 2,905.66.

<b>Returns Through 02/03/12</b>	<b>1 Week</b>	<b>YTD</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>
Dow Jones Industrials (TR)	1.62	5.46	9.53	20.14	3.11
NASDAQ Composite (PR)	3.16	11.54	5.51	24.21	3.25
S&P 500 (TR)	2.22	7.11	5.09	19.62	0.68
BarCap US Agg Bond (TR)	-0.06	0.45	8.89	7.22	6.59
MSCI EAFE (TR)	2.27	8.36	-8.45	14.54	-3.58

Source: Morningstar.com. \*Past performance is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly. Three- and five-year returns are annualized. The Dow Jones Industrials, MSCI EAFE, BarCap US Agg Bond and S&P, excluding "1 Week" returns, are based on total return, which is a reflection of return to an investor by reinvesting dividends after the deduction of withholding tax. The NASDAQ is based on price return, which is the capital appreciation of the portfolio, excluding income generated by the assets in the portfolio in the form of interest and dividends. (TR) indicates total return. (PR) indicates price return. MSCI EAFE returns stated in U.S. dollars.

**Enough?** – The maximum Social Security retirement benefit that could be earned by an individual reaching full retirement age in the year 2012 (i.e., at age 66) is \$2,513 a month (source: Social Security Administration, BTN Research).

**Taxes** – A couple filing a joint tax return for 2012 income will reach the highest federal marginal tax rate of 35 percent at \$388,350 of taxable income. Ten years ago (2002), a couple filing jointly reached the highest federal marginal tax rate of 38.6 percent at \$307,050 of taxable income (source: IRS, BTN Research).

**Three Per Year** – Inflation (as measured by the Consumer Price Index) has advanced by 2.9 percent per year over the past 25 years and by 4.1 percent per year over the past 50 years. The Consumer Price Index is a measure of inflation compiled by the U.S. Bureau of Labor Studies (source: Department of Labor, BTN Research).

Best regards,

## **The Dorion-Gray Team**

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800-244-9373

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\* 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.

\* Commentary prepared by Dorion-Gray with information from various sources including market strategist R. Kendall, The Hudson Institute, EWI, Hedgeye Risk Management, Securities America, Inc., and ClassicPrinciples.com, JP Morgan Asset Management, and First Trust.

\* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Technical analysis is provided based on our opinion of the overall prevailing market conditions but is not guaranteed and is subject to change without notice.

\* The ISM Index is a monthly index released by the Institute of Supply Management which tracks the amount of manufacturing activity that occurred in the previous month. If the index has a value below 50, due to a decrease in activity, it tends to indicate an economic recession, especially if the trend continues over several months. A value substantially above 50 likely indicates a time of economic growth. The values for the index can be between 0 and 100.

\* Past performance does not guarantee future results.

\* You cannot invest directly in an index.

\* Consult your financial professional before making any investment decision.