

PLANMARKSM

Weekly Commentary
July 18, 2011

The Markets

Will they or won't they?

Republicans and Democrats are squabbling over raising the federal debt ceiling and jeopardizing a projected August 2 “drop-dead” date for avoiding a default on part of our outstanding debt obligations. Both parties agree that default has to be avoided, but, so far, they’ve been unable to meet in the middle on an agreement. Meanwhile, the economy suffers.

Nobody knows for sure what would happen if our politicians cannot reach an agreement by August 2. There’s no doubt that politicians on both sides of the aisle know they are playing with fire right now. That’s why very few people believe the U.S. will actually default. Instead, we may see a last-minute deal that raises the debt ceiling and sets us up for another bruising battle down the road.

Ultimately, tough decisions have to be made. Our country is deeply in debt and there are no easy ways to solve it. Whether it gets resolved now or later remains to be seen.

Data as of 7/15/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-2.1%	4.7%	23.6%	2.7%	1.3%	0.9%
DJ Global ex US (Foreign Stocks)	-2.3	0.0	17.1	-0.7	2.2	5.8
10-year Treasury Note (Yield Only)	2.9	N/A	3.0	3.8	5.1	5.2
DJ-UBS Commodity Index	2.3	1.3	27.6	-9.8	-1.3	4.8
DJ Equity All REIT TR Index	-2.2	12.1	29.5	8.5	3.1	11.1

Notes: S&P 500, DJ Global ex US, DJ-UBS Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT TR Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable or not available.

SPECIAL REPORT ON CHINA

“If you build it, they will come.”

That seems to be an appropriate description of China’s economic growth model. Just one look at Shanghai’s waterfront or train station is enough to leave visitors believing China’s infrastructure can rival anything in the world.

Here's a June 2011 picture of downtown Shanghai looking across the Huangpu River to the ultra-modern skyscrapers on the other side. That building with the rectangular hole at the top is one of the world's tallest buildings.



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Just 21 years ago, none of the skyscrapers pictured above existed, according to *The Atlantic*.

FIXED INVESTMENT VERSUS CONSUMPTION SPENDING

A significant amount of China's growth over the past 20 years has come from what's called "fixed investment" as opposed to consumption spending. Fixed investment includes tangible things like roads, bridges, trains, buildings, and machinery and accounted for 46% of China's GDP in 2010, according to the *Financial Times*. The June 30 launch of the Beijing to Shanghai high-speed train is a

good example of fixed investment. It cost \$33 billion to build, reaches a top speed of about 200 mph, and connects the two major cities in less than five hours, according to *The Vancouver Sun*.

Fixed investment is good from the standpoint that it equips a country with the tools and resources needed to grow and be productive. However, too much fixed investment can lead to overcapacity and strained budgets.

Rather than continuing to rely on building and infrastructure for its growth, the Chinese government has developed a plan to rebalance its economy from investment and manufacturing towards consumer consumption and services, according to the *Financial Times*. Ironically, this would put China more in line with the U.S., where consumer spending accounts for about 70% of demand in our economy, according to *The Wall Street Journal*. In China, the comparable private consumption number is 34%, according to the *Financial Times*.

One of the knocks on China is that the growth in fixed investment has risen faster than GDP and this could cause problems with too much capacity and too much debt to fund those investments. Should China falter in its effort to rebalance its economy, it could lead to domestic problems that ripple out to the rest of the world.

There's an old saying that when the U.S. sneezes, the rest of the world catches a cold. Given China's strong growth and massive size, we should be concerned about China sneezing, too. How they manage the rebalancing of their economy over the next few years bears close attention.

Weekly Focus – Think About It

“Nature does not hurry, yet everything is accomplished.” --Lao Tzu, Chinese Taoist Philosopher

Best regards,



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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.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Past performance does not guarantee future results.

* You cannot invest directly in an index.

* Consult your financial professional before making any investment decision.