

2010 - Another Year Safely Building Wealth

Another new all-time high in client wealth!

The key to managing portfolios profitably with less risk is understanding the long-term outlook.

Investors need two game plans, one for offense, to grow wealth and one for defense to protect assets.

As the old song popularized by Frank Sinatra in the 1960's goes, "It was a very good year". **Double-digit growth for a second year in a row for the typical Pring Turner client, and importantly, all time high values in your portfolio (adjusted for deposits and withdrawals) is a significant accomplishment.** The past year had considerable challenges, similar to the past eleven years of this wide trading range yet "go-nowhere" stock market. We did have a game plan for the demanding market environment and are very pleased this plan generated your successful results.

Secular Trend Reviewed

In December 2009 we published an article entitled ["Are You Prepared for Another Lost Decade?"](#) wherein we argued year 2000 marked a secular (long-term) peak for U.S. stocks. A secular bear market is formed when a series of business cycles are linked together establishing an extended period (often 20 years) of stock market underperformance. We stated investors should prepare themselves for *another* "Lost Decade". A year later, our extensive studies ([see recent update](#)) of prior secular bear markets suggest we are roughly halfway through this difficult environment.

The eleven year secular bear market in equities remains in force as stocks closed the year considerably below 1999's closing prices. **By comparison, our long-term clients have seen their wealth more than double in that time span. We are especially pleased to report these returns while at the same time portfolio risk has been roughly half the market volatility.** Despite this difficult financial environment, Pring Turner has protected and safely built your wealth.

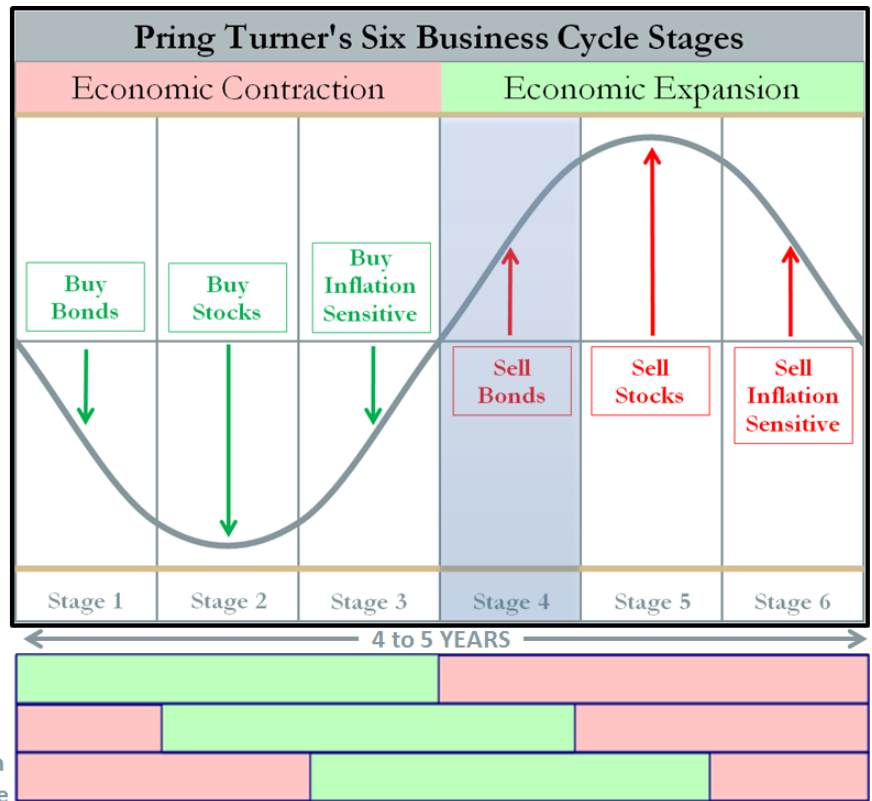
Where Are We Today?

The good news is the U.S. economy is still on a gradual rebound from the 2007-2009 Great Recession. The upswing is slowly gathering strength as we enter 2011. Once again financial markets are moving in a logical and rational sequence with this business cycle. The business recovery that began in June 2009 has progressed to the point where the stock market, interest rates and inflation are all moving up together. **This suggests more stock market appreciation (not withstanding occasional declines), higher interest rates (lower bond prices), and rising raw material prices (inflation climbing).**

Pring Turner tactically adjusts portfolio asset allocation based on our six-stage business cycle analysis...

Our stage work suggests we are in Stage 4, bad for bonds, but good for stocks and inflation sensitive assets.

Business cycle analysis and our models are invaluable tools to anticipate important financial market turning points.



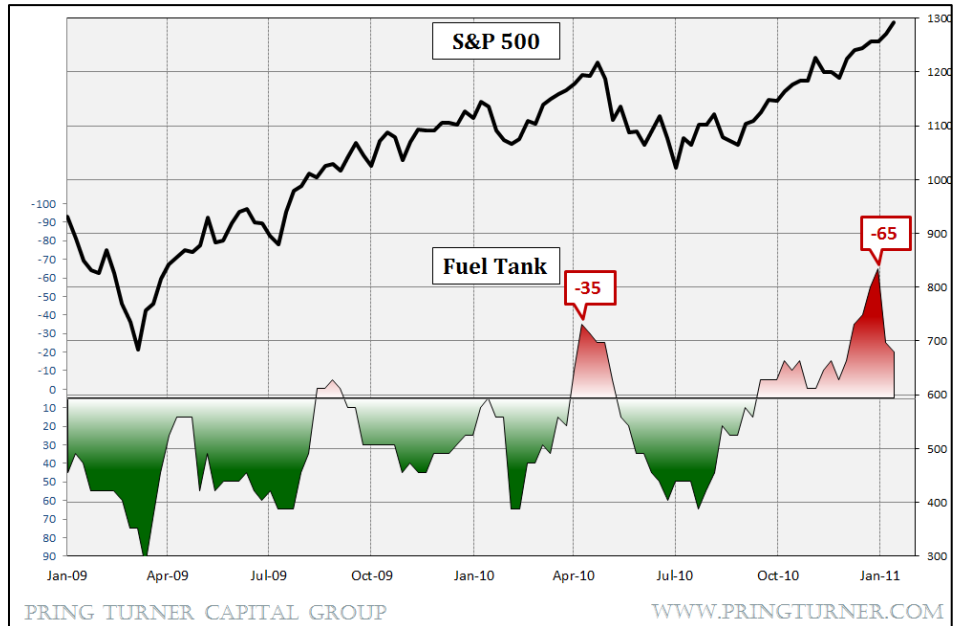
Reducing Risk While Manufacturing Portfolio Returns

Our career long passion is to develop and continually *improve* tools to navigate through business cycle booms and busts (4-5 year periods). Another layer of risk management Pring Turner Capital Group utilizes is identifying and capitalizing on the intermediate term (2-6 months) stock market fluctuations. These opportunities to either reduce or increase exposure to the market come about two or three times each year. Tactical asset allocation changes around these turning points are critical components for us to generate higher profits while taking less risk.

One portfolio discipline we use to identify important intermediate market turning points is our proprietary Intermediate Composite Model, which we call the "Fuel Tank." Our Fuel Tank is an invaluable risk management tool that measures whether the stock market tank is full (plenty of opportunity) or empty (more downside risk). A look at the model shows why we have taken a temporary defensive posture. The current negative reading shows there is little fuel left in the tank and more risk than opportunity. The next low risk investment window awaits. **The combination of your patience and our disciplines explains your successful investment results through this "Lost Decade."**

The typical Pring Turner client achieved new high levels of wealth in 9 of the last 11 years.

The Fuel Tank is a critical element contributing to this achievement.



Rising Interest Rate Risks

As the economy gets stronger, demand for money increases bringing higher interest rates and thus lower bond prices. Higher interest rates make the bond market (especially long-term bonds and bond funds) quite vulnerable to losses for the rest of this business cycle. More importantly, we strongly suspect a *long-term* turning point is also at hand. Each successive business cycle in the next decade could lead to higher and higher interest rates (lower bond prices).

Will the secular down trend in yields be broken?

Our Cyclical Model signals risk of higher interest rates.



Many bond investors are grossly under-estimating the risks and are not prepared for this new bearish interest rate environment.

Pring Turner's most valuable offering is financial peace of mind, a direct result of careful risk management.

The last time bonds were in a secular bear market was during the brutal inflationary environment of 1970's. Not many of today's investors remember the devastation that wreaked havoc on bond portfolios during that time in history. We remember well, because we were actively managing portfolios during that decade. Past experience helps us prepare a well thought out game plan for this harsh period should it trigger this year.

Our economic and financial market indicators have us always looking forward to the next major turning point for bonds, stocks, and inflation sensitive assets. There is no doubt 2011 and indeed the next decade will be just as demanding as the last eleven years, but we are up for the challenge. **Pring Turner is dedicated to working both harder and smarter to continue growing and protecting your wealth in the years ahead.**

The trust and confidence you have placed in us is deeply appreciated. Thank you. We wish everyone a healthy and prosperous 2011.

Pring Turner Activity Update

- *The highlight of January was an enjoyable and informative meeting for clients and guests where we presented the Pring Turner 2011 outlook.*
- *A few days later; Tom, Martin, and Joe delivered a detailed market overview to the San Francisco Technical Securities Analysts Association.*
- *Congratulations to Jim for successfully passing the Uniform Investment Adviser Law Examination (Series 65) – a comprehensive exam required to qualify an investment professional as an Investment Advisor Representative.*
- *Pring Turner was once again referenced by the financial media, Joe was quoted in the Los Angeles Times and Martin was interviewed by CNBC India.*
- *Tom will finish the month sharing our outlook (10th consecutive year) to a Sons in Retirement (SIR) investment group in Walnut Creek.*

*Pursuant to the provisions of Rule 206(4)-1 of the Investment Advisers Act of 1940, we advise all readers that they should not assume that all recommendations made in the future will equal that referred to in this material. Investing in securities involves risks, including the possibility of loss. Performance numbers include all retirement accounts. Performance includes total return (capital growth and dividends, after all costs.)

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