



JIM'S JOURNAL

The stock market in 2007 certainly captures the essence of this Ancient Chinese proverb and curse. Stock markets around the world spent the early part of 2007 booming, continuing the fourth quarter rally of 2006. Then in late February stocks skidded for a short period but recovered by April as the Dow reached 13,000 for the first time in history. The momentum continued for the next few months with peaks slightly over 14,000 being reached in mid-July.

Swooning after that point, the remainder of the third quarter was a roller-coaster ride. The DOW, S&P 500 and NASDAQ all fell in the fourth quarter but the three indexes were able to produce positive gains for the year, respectively, at +6.4%, +3.5% and +9.8% (Source: Wall Street Journal, 2-2-08). For the Dow, it was the first fourth-quarter decline in ten years, and for the S&P, the first fourth-quarter decline in seven years.

Despite the fourth-quarter slide, U.S. diversified stock funds rose +6.6% on average for the year 2007. This was the smallest overall average return since 2002 and below the U.S. market's 10% historical average. The year's best performing U.S. fund group was mid-cap growth, up 17% for the year after a slight fourth-quarter loss. Sectors like technology (+15.4%), natural resources (+40.4%) and utilities (+19.8%) posted remarkable gains when compared to the overall market. International stock mutual funds (+12.4%) and especially those in emerging markets (+36.4%) and Latin America (+46.1%) had an outstanding year. The average gold fund was up +23.4% at year end while the average U.S. taxable bond fund posted a +4.4% gain (Source: Wall Street Journal 1-3-08).

On the downside, the sub-prime mortgage debacle saddled the average real estate fund with a -15% loss in 2007. And as you might suspect, financial

services funds were also hit hard suffering an average -13% loss for the year.

Going into 2008, we might have asked ourselves two questions: 1) how much damage will the mortgage and credit problems do to the economy and corporate earnings? And 2) Will problems in the U.S. spread further around the globe? One month into 2008 we seem to be getting less than favorable responses to the two questions as both the U.S. and foreign markets have suffered significant losses in January. As one analyst remarked, "The debate today is not whether thunder and lightning are coming, but, rather, how severe the storm will be and how long will it last."

In 2007, large multi-national companies were able to sell their products around the globe and maintain profitability despite U.S. economic problems. That "big-stock" strength is why both the DOW and S&P 500 were able to show gains for 2007 despite recent profit declines for the S&P overall. However, an aging bull market coupled with a dwindling number of profitable companies is a formula for trouble.

In addition, 2008 is a presidential election year. Presidential election years add a degree of uncertainty for stocks. Election year uncertainty may put a hold on stock gains until late summer. If the incumbent party appears headed for re-election,

Look Back - 2007

May you live in interesting times.

- Ancient Chinese Proverb

investors may look past the election and bid stocks higher. If the market remains nervous about the election, stock trading could remain volatile into fall. It is always difficult to make generalizations about the stock market, but most analysts would agree that the market hates uncertainty. It might be a good idea to keep the Maalox close at hand.

Look Back-2007 would not be complete without a review of the role the Haas Financial Money Management Program played in many of your portfolios. The program is a hands-on, sector rotational, daily reviewed, portfolio management program that looks to employ a stop-loss discipline. By that, I mean that I review what is happening in both the market and in your accounts on a daily basis and make changes whenever necessary. Changes may mean rotating to different segments of the market or even pulling out of the market when absolutely necessary to save portfolios from the possibility of significant losses. Due to the ebb and flow of the market, losses will likely always occur at different points in time when investing in securities. The goal of the program is to minimize losses and increase gains.

On two occasions in 2007 I sold significant portions of the portfolio to take cash positions, subsequently returning to the market when momentum warranted a reentry. The year ended with outstanding results for portfolios that were under management from January 1 to December 31. Mid-year entries into the program do not lend themselves to a valid evaluation yet (due to state regulation we are unable to publish actual results). While past performance is no guarantee of future results, the Program is developing an outstanding track record.

Due to deteriorating market conditions in the fourth quarter of 2007, I switched to more defensive investment positions by year end in addition to holding approximately 25% of the portfolio in cash. After the market deteriorated further in 2008, I sold additional positions to hold about 70% of the portfolio's in cash. The Federal Reserve has twice actively intervened in 2008 with rate cuts of 3/4 and 1/2 percent. Hopefully, this will be the stimulus needed to turn the market around. If and when more favorable conditions appear, your portfolios will be fully invested once again. Most clients like the stop-loss idea as an investment strategy and are impressed with the returns. This program can and should be used as a diversifier in many of your financial plans. Call me and I will be happy to explain the details to you. At moments like this in the stock market, we might wish that we did not live in such "interesting times."



DON'S DOINGS

As you know, I underwent quintuple by-pass surgery on October 29, 2007. It's been a long recovery, but it's progressing nicely. Oh, I've lost too much weight—its strange putting all kinds of food including fat in my mouth just to gain weight and, unfortunately, it hasn't worked yet—nothing tastes good. One client said to just think of everything as medicine and swallow—that did help.

The one complication that has developed is fluid on my lungs, so due to diuretics, I participate in seemingly constant trips to the bathroom.

How can I thank all my many well wishers—many, many cards (I especially enjoyed the personal comments), the gifts, the phone calls, and the personal visits. All of this really helped—thank you.

My only complaint is the slow recovery process. All the medical people say slow is normal, so I've tried to convince them nothing in my life has been normal, but that's been a waste of time.

Your considerations, concerns, and communications have been wonderful. I really, really appreciate all of this. Thank you so much.

MARK'S

Required Minimum Distributions

If you are 70 ½ this year or you inherited an IRA from someone, and that someone was not your spouse, then you must take a Required Minimum Distribution (RMD) from your qualified retirement account. Your distribution can be at any time during the year. ¹

As a matter of convenience and to reduce worrying, we have routinely recommended you take your distribution towards the beginning of the year and be done with it. ² Most of the time that works just fine. This year is starting out differently, however.

As you probably noticed most investments have started the year with a nose-dive. We are basically back to where we were mid-2006. For those who have the cash in their retirement account, take the money now. If you don't have the money in cash, then let's wait a bit. We have a long list of withdrawal forms to get out. If you want or need to make your withdrawal right now, please call us to get moved to the front of the list.

Back to this market volatility. We have been through ups and downs in investments more violently than anytime since the mid-1970s. It is no fun at all, but we still made more money from 2000 to now than we would have made in savings accounts or CDs. We can't eliminate the volatility, we can only take the edge off. We do so by diversifying and trying to identify broad, long-term trends.

The US debt keeps growing, the Social Security problem looms bigger and bigger with no solutions forthcoming, our export imbalance continues with only modest improvement, domestic corporate profits are starting to show some signs of weakness and our politicians keep spending MORE money they don't have. The US dominated the world equity markets for 20 years. I think the time

is upon us when the rest of the world markets will dominate the US.

Moreover, I think people are getting increasingly tired of the volatility of stocks. High dividend paying, conservative stocks will look more and more attractive until the next big market swing. You may remember that in 1999, at the peak of the Technology Bubble, people were selling their safe, boring utility stocks at a loss to buy Tech stocks.

I continue to recommend you increase your international holdings and add high dividend paying equity income funds to your portfolio in response to and anticipation of these trends. You may also want to consider creating a distribution strategy that reduces your near term exposure to volatility. Yet another option is to meet with Jim to add the Haas Financial Services Money Management Program to your portfolio. Let's talk soon to discuss options.

When was the last time you reviewed your portfolio? Have you cleaned house and sold funds that no longer make sense? Are you worried and need to talk about your investments? Don't wait, call.

¹ You may postpone your first RMD until April 1st of the next year. Keep in mind you would then need to take two RMD's. Also certain retirement plans allow you to postpone taking RMD's until you turn 75.

² For some accounts it makes more sense to set up automatic payments, in which case distributions are made at the end of the year.



FYI**ARE YOU READY TO SEE YOUR TAX RETURN PREPARER?**

Your tax forms should have arrived from nearly all parties by now. The law says the most commonly used income reporting documents, the W-2 and 1099 must be posted by the issuer no later than 31 January. Here is a quick checklist to organize for the tax preparer:

<u>Type of Transaction:</u>	<u>Form Name:</u>	<u>Additional Report/Info Needed:</u>
Employee Wages	W-2	Non-reimbursed Employee Expenses
Gambling Wages	W-2G	All Gambling Losses for same year
Sale of stock or mutual fund	1099-B	Cost Basis report, date of purchase(s)
Dividend/Capital Gain Distributions	1099-DIV	Foreign Tax Paid or Proceeds from Government Entities Report
Interest Banks, Savings Bonds	1099-INT	
Sale of Bond Issued at Discount	1099-OID	
Self Employment (contractor)	1099-MISC	Expenses to conduct business
IRA/Pension/Annuity Distribution	1099-R	Report of after-tax contributions if any
Educational Benefits received	1099-Q	Disposition of proceeds
Government Payments	1099-G	Prior year tax return
Health or Medical Saving Account Distributions	1099-SA	Qualifying Medical Expenses Receipts
Sale of Home	1099-S	If profit is more than \$250k for single person or \$500k for married then report of purchase price and capital improvements.
Railroad Retirement Payments	RRA-1099	
Social Security Payments	SSA-1099	
Limited Partnership Income	K-1	Previous years' Suspended Loss Carryover
Real Estate Taxes	County Form	State Equalized Value/School District
Personal Property Taxes	Registration	
Deduction for Mortgage Interest	1098	
Qualifying Tuition Expenses	1098-T	
Charitable Donations of Cash	Receipt	Required for any amount greater than \$250
Charitable non-cash Donations	Receipt	Estimate of Fair Market Value, date of purchase (or receipt of gift), Third Party Appraisal.
Medical/Dental/Rx Expenses	Receipts	Ask providers for Annual Summaries

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