

HAAS

Financial
Services Inc.

CENTER FOR FINANCIAL GERONTOLOGY

Money Monitor

NOVEMBER 2008



MARK'S MEMO

A Scary Time in the Market

If you spend much time watching financial news right now you are probably frightened about the state of our economy. I won't sugar coat this. The economy has rarely been this challenging.

We have seen echoes of this sort of market turmoil before. On Black Monday, 19 October 1987, the 30 stocks that made up the Dow Jones Industrial Average fell over 22 percent. It was the biggest one day drop in share prices in history. A bigger one-day drop than Black Thursday in 1929 and bigger than any one-day drop this year.

The 1987 economic event was also triggered by greed and dishonesty in the lending markets. The 1980s Savings and Loan Crisis shares many similarities with the current Sub-prime Lending Crisis. At the beginning of the Sub-prime challenge, I researched the numbers and scope of the problem and found that, in inflation adjusted numbers, it was about the same magnitude of risk.

I missed something though. This time, in addition to the lending institutions making bad loans, the capital markets created new and more ingenious methods of profiteering from these bad loans. These august bastions of capitalism creatively traded sub-prime based bundles of junk to each other and sweetened the deals with Credit Default Swap instruments (CDS).

What is a CDS? A CDS is a contract you can buy to either protect yourself if your investment goes bad, or you can buy just to bet that an investment might go bad. If the investment goes bad, the buyer of the contract gets paid off.

The bad news is that CDS trading was huge, much bigger than the Sub-prime problem. So big that the banks, hedge funds, pension funds and insurance companies involved have gone into a panic trying to make good on all their obligations. In the midst of this reconciliation, they lost faith in each other and stopped lending to each other.

In other words, the Big, Big, Big money people have all had their debts called in and they can't get cheap money to pay them. They are forced to get the money

from their own cookie jars. Anything they have left with value is on the list to get sold. That means the prices for perfectly good companies, precious metals, oil, gas, food, houses, you name it are dropping like rocks.

So, what do we do? We listen to the echoes in history. We pay attention to the wise and learned who have not only survived times like these but thrived. Warren Buffett on 17 October this year said, "Be fearful when others are greedy, and be greedy when others are fearful" (New York Times).

Times are bad, money is tight and this will be painful, but now is the time to scrimp and save and invest. IT IS NOT the time to panic and sell. If you find you just can't take it anymore, either consider adding the HFS money management program or when the markets have come back let's talk about anticipating the next market cycle.

I just read a great article by Dennis Gibb, president of Sweetwater Investments, a registered investment advisory firm in Redmond, Wash. Gibb is a 33-year veteran in the financial services industry and currently manages more than \$400 million in client assets.

Dennis discussed the wisdom he received during a phone call from his mom. Mrs. Gibb is 91 years old.

INSIDE THIS ISSUE:

JIM'S JOURNAL

A NOTICE FROM DON

She was 12 years old in 1929. She survived and thrived during the decades of the Great Depression and gave these excellent points to her son. Mr. Gibb graciously allowed us to quote him as follows:

Thriving in a crisis (excerpted from “Wisdom From a Great Depression Survivor” By Dennis Gill)

My mother then told me what she had observed during the Great Depression. She said that those who survived the deflation and prospered in the 1940s, 1950s, and later did the following:

- 1. They took every opportunity to reduce debt and to pay everything off.*
- 2. They lived not only within their means, but well within their means. In others words, they saved.*
- 3. If they owned stocks, it was only those of the absolute best quality and those that had been paying dividends, however small, for some period.*
- 4. They took the position that if they bought something, they were going to own it for at least five years and potentially for 10 years. This was the mindset, whether they were purchasing a car, a suit of clothes, or a stock.*
- 5. They did everything they could to save on expenses.*
- 6. They used their professions and interests to develop products and services that could be traded and bartered for other goods and services.*

I do not believe we are in the midst of a Great Depression. Granted there are echoes of it in this economy, but only echoes. Unlike the Great Depression, we are no longer living in a subsistence economy. We live in a wealth based economy. Then our stock market had virtually no rules. There was a big chance the stock you bought was nothing but thin air. Fraud was rampant. The average investor got fleeced. There were no mutual fund managers to help us screen stocks and buy only the best of the best.

Yes, there are echoes of bad times, but there are improvements in which we can trust and believe. Now is the time to tweak our portfolios, look for bargains and prepare for the next wave of prosperity. It is coming, just as sure as 1:00 o'clock this afternoon. Good times follow bad, which follow good, which follow bad and so on and so on. We will not just survive we will thrive.

The U.S. Treasury Temporary Guarantee Program

In addition to the \$700,000,000,000.00 bailout, Uncle Sam announced another temporary program to help add stability to the market. Here are the key points as spelled out by the Financial Industry National Regulatory Agency (FINRA):

- The U.S. Treasury Temporary Guarantee Program provides a guarantee to Participating money market mutual fund shareholders based on the number of shares invested in the fund at the close of business on September 19, 2008.
- Any increase in the number of shares an investor holds after the close of business on September 19, 2008, will not be guaranteed.
- If a customer closes his/her account with a fund or broker-dealer, any future investment in the fund will not be guaranteed.
- If the number of shares an investor holds fluctuates over the period, the investor will be covered for either the number of shares held as of the close of business on September 19, 2008, or the current amount, whichever is less
- The Program expires on December 18, 2008, unless extended by the United States Treasury.

Haas Financial Products conducted further research and found:

- The following companies have announced they will participate in the program: Flex Funds, Federated Funds, American Funds, and Franklin Templeton. Virtus has noted that they will not participate as of this printing.
 - Government money market funds will most likely not participate and do not need the coverage as all instruments are backed by US Government instruments.
 - FISERV cash is FDIC insured.
-

JIM'S JOURNAL

Look Back- 3rd Quarter 2008

If you read my last article, you know that this month I intended to finish writing about my Russian trip and comment on third quarter market results. Due to the severe market conditions, I will postpone the Russian travelogue until December and expound upon the third quarter commentary.

Early in the third quarter, it looked like the market bear might go into hibernation but that did not happen. The Dow was down -4.4% for the quarter and -18.2% year to date, the S&P 500 off -8.37% in the third quarter and -20.7% for 2008 and the NASDAQ down -9.19% quarterly and -21.5% YTD. (Source: Wall Street Journal, Barons Online, Standard & Poors Online, Dion's Retirement Income Guide). Mutual funds followed suit as the average US stock fund was down -10.3%. World stock funds did even worse with quarterly losses averaging -24%. Biotech (+0.2%) and Real Estate funds (+1.9%) were the bright spots with modest quarterly gains although they are down for the year. Even most taxable bond funds (except US government bond funds) were down for the quarter. There was almost no place to hide from the losses unless you were in a bear fund or cash- both of which were strategically employed by the Haas Financial Money Management Program. For those not familiar with a bear fund, it is a mutual fund that is inverse to the market. This means that when the market goes down, the bear fund goes up and makes money. If the market goes up, the bear fund will lose money. Bear funds are the opposite of a typical mutual fund. A typical mutual fund makes money in a rising stock market.

Many clients have called to ask me how I avoided the steep losses of months past. Briefly, in the early part of September, I moved into bear funds for a short period of time and made up most of the earlier losses. I then moved to cash on September 16, 17 and 18 before the market started its volatile tail spin. The analysts that I follow indicated that if a money manager was not willing to go into and out of the market on a daily basis, it would be best to exit the market and go to cash. That is the option that I chose and the Money Management clients were spared the devastating losses that followed. On September 18 when all Money Management positions were in cash, the DOW was at 11,019.69. On October 1, the DOW was at 10,831.07 and on October 15, it was at 8,577.91 which was a loss of about 22% in one month. Unfortunately, almost all non-Money

Managed investments have been caught in the downturn. I am currently expanding the Money Managed Program to also include non-retirement investments and non-qualified annuities to remedy this shortcoming.

In times like these, platitudes such as "hang in there" and "it will rebound" are frequently heard. It certainly begs the question, "How important is it to do well in a falling market?" Buy and hold proponents argue that it is impossible to "time the market.". The thinking is that you should simply hold onto what you have no matter how bad the market gets because eventually it will rebound and go higher. Probably the reason we hear these phrases so often is that people in general will buy at market highs and sell at market lows. Instead of falling into the buy high/sell low trap, it would be better to simply buy and hold. However, what if you did have a strategic plan that facilitated selling near the top and buying near the bottom? What difference could that make?

To demonstrate the importance of downside risk management, I came across a catch-up calculator developed by Theta Investment Research which brings to light the significance of having good returns when the market is having a bad year. Theta started collecting data on December 31, 1999 as part of an experiment designed to verify the validity of active investment management as an approach to increasing gains and limiting risk in portfolios. As an independent entity in 2001, Theta began developing software and protocols for the automated collection of investment account data. They also generate portfolio performance and risk characteristics for actively managed accounts.

The catch-up calculator looks at both a manager's performance and the market's performance over the last year. The calculator also allows the user to assume a market and manager rate of return into the future and tell us how long it will take the market to catch up.

As an example, the S&P 500 Total Return Index was down -21.98% in the 12 months ending September 30, 2008. Although the Money Management Program was actually up slightly during that same period of time, let us assume that the return was 0% for this example. Let us also assume that both the S&P and Money Management Program produced 7% returns from this point on. How long would it take for the S&P to catch up to the Money Management Program?

According to the Theta calculator, the catch-up time would take over 100 years. This is not a misprint, it would take over 100 years to catch up. Let us say that the S&P gained 7% yearly and the Money Management

Program gained 5% yearly. Catch up time falls to 15 years. If the S&P gains 7% and Money Management gains 3.5% per year. Catch up time is only 9 years.

Does it start to make sense that preventing losses is as important as realizing gains. That is one of the main tenants of the Money Management Program. It employs a stop-loss strategy to either go to defensive positions or redeem to cash when market conditions dictate. The other part of the Money Management strategy is to return to the market as soon as it is reasonably safe to do so since little money is made by sitting in cash on the sidelines.

Theta Research came up with the following conclusions that I will share with you:

- One good year with an active manager during a bear market can provide better long term results than Buy and Hold over the accumulation phase of most individuals.
- Active management offers the opportunity for long-term out-performance of the market if all it does is side-step the worst of a bear market.
- It is not just important to have good relative returns in a portfolio. The best relative returns should come during a bear market.
- The pain associated with Buy and Hold investing is not necessary, allowing for focused and consistent portfolio management regardless of market environment.
- The Buy and Hold mantra of the financial services industry serves the financial services industry primarily and not the investor.
- Active management is a viable investment approach that proves itself best in the worst of bear markets.

I am sure that there are some who will disagree with these conclusions. That is to be expected. However, please let us know what your returns are for this year when you challenge Theta's findings.

I still believe that the market will rebound and I still believe that markets will go up over time. However, I have personally come to the conclusion that active money management should be a part of every portfolio strategy, especially for anyone nearing retirement or already in retirement. As we all know, past performance is not a guarantee of future results; however, if the proof is in the pudding, the Money Management Program has some awfully good tasting pudding for the last 5 years.

As mentioned earlier, I am introducing a new Money Management Program for non-retirement money. It could also work well for clients in existing non-qualified annuities. Call me for details.

A Notice From Don

Next month

In a recent *New York Times* supplement, **Jack Couzens** was named as one of Michigan's Super Lawyers. This List is Limited to the top 5% of Lawyers in Michigan.

Jack has been my personal attorney as well as our corporate attorney for the past 2+ decades. He also represents a significant number of our clients. So, the next time you see him, say "Job well done."

— Don Haas

Be sure to catch our guest article by Jack Couzens next month on estate planning.

A conclusion to Jim's "From Russia With Love" article will come alongside photography from his trip.

SECURITIES OFFERED THROUGH HAAS FINANCIAL PRODUCTS INCORPORATED

29600 NORTHWESTERN HWY SUITE 114

SOUTHFIELD, MI 48034

[HTTP://WWW.HAASFSI.COM](http://www.haasfsi.com)

PH 248-213-0101

Fax 248-213-4502

HERE'S TO YOUR FINANCIAL SUCCESS!