



MARK'S MEMO

Ponzi Schemes

The father of Ponzi schemes, Charles Ponzi was an Italian immigrant who moved to the US in 1903, was deported to Italy in 1934, and died in 1949 in a Rio de Janeiro charity ward. Ponzi used a seemingly legitimate idea to lure investors into his web.

His premise was to buy International Postal Reply Coupons, which could be redeemed for stamps in a number of countries. He could buy the stamps at a low rate in some countries and redeem them at a higher price in the United States.

Ponzi promised investors a 50 percent return in 45 days. He used investor greed to bring in more and more funds, paying the early investors with funds from newer investors. Eventually Boston newspapers reported that there were fewer postal coupons in circulation than Ponzi had in his imaginary portfolio. By 1920, Ponzi fleeced thousands of people out of more than \$10 million dollars.

Bernard Madoff, even adjusting for inflation allegedly makes Ponzi look like a rank amateur swindler. That's right, I used "allegedly". He hasn't been convicted yet, but it looks like Madoff took his alleged victims for \$50 billion dollars. Let's look at that:

\$10,000,000.00
\$50,000,000,000.00

Madoff and Ponzi schemes have many commonalities, but the number one factor is and will be a play on your emotions.

AVOIDING PONZI SCHEMES:

1. If the perpetrator promises high, guaranteed, risk free profits, watch out! All investment involves some sort of risk. Savings accounts have inflation risk, stocks have company and economic risk. You can not avoid risk. You can only diversify and stick to a discipline.
2. If the perpetrator will not give you clear answers or won't tell you how he is paid, there might be a reason. Be wary.

3. Go to www.finra.org and find the "Broker Check" link. If the perpetrator has a history in the securities industry, you will be able to find it. If there is no record of him in the data base, then you might want to ask why he isn't registered with any regulatory agency.
4. Check with other regulatory agencies, such as the SEC, Michigan Office of Financial and Insurance Regulation, and the Better Business Bureau.
5. Ask for detailed information in writing. Ask for information on the company and its officers. If dealing with a Registered Investment Advisory, ask for the ADV Part II.
6. Ask to see a sample account statement. How is the document printed? Who prints the document? Who is the custodian? Who provides the technology from which the document is printed? Most of these can be answered by careful scrutiny of the statement. If it looks like a homemade letter or spreadsheet, be wary.
7. Does the perpetrator have employees who are involved in the operation? Few Ponzi operators have office assistance, as it complicates the operation and increases the possibility their scheme will be discovered.

INSIDE THIS ISSUE:

JIM'S JOURNAL

DON'S DISCOURSE

JIM'S JOURNAL

New Year, 2009

As we all know, 2008 was an extremely challenging year for the economy and many of our portfolios. Despite the difficulties of last year, I will follow my tradition of offering an inspirational message as we enter the New Year. This year's reflection was written by Regina Brett of The Plain Dealer Newspaper in Cleveland, Ohio. It is an update of a column she wrote called the **45 Lessons** life taught me and is the most requested column she has ever written. I think there are insights here that we can all benefit from as we enter 2009.

1. Life isn't fair, but it's still good.
 2. When in doubt, just take the next small step.
 3. Life is too short to waste time hating anyone.
 4. Don't take yourself so seriously. No one else does.
 5. Pay off your credit cards every month.
 6. You don't have to win every argument. Agree to disagree.
 7. Cry with someone. It's more healing than crying alone.
 8. It's OK to get angry with God. He can take it.
 9. Save for retirement starting with your first paycheck.
 10. When it comes to chocolate, resistance is futile.
 11. Make peace with your past so it won't screw up the present.
 12. It's OK to let your children see you cry.
 13. Don't compare your life to others'. You have no idea what their journey is all about.
 14. If a relationship has to be a secret, you shouldn't be in it.
 15. Everything can change in the blink of an eye. But don't worry; God never blinks.
 16. Take a deep breath. It calms the mind.
 17. Get rid of anything that isn't useful, beautiful or joyful.
 18. Whatever doesn't kill you really does make you stronger.
 19. It's never too late to have a happy childhood. But the second one is up to you and no one else.
 20. When it comes to going after what you love in life, don't take no for an answer.
 21. Burn the Candles, use the nice sheets, wear the fancy lingerie. Don't save it for a special occasion. Today is special.
 22. Over prepare, then go with the flow.
 23. Be eccentric now. Don't wait for old age to wear purple.
 24. The most important sex organ is the brain.
 25. No one is in charge of your happiness, except you.
 26. Frame every so-called disaster with these words: 'In five years, will this matter?'
 27. Always choose life.
 28. Forgive everyone everything.
 29. What other people think of you is none of your business.
 30. Time heals almost everything. Give time, time.
 31. However good or bad a situation is, it will change.
 32. Your job won't take care of you when you are sick, your friends will. Stay in touch.
 33. Believe in miracles.
 34. God loves you because of whom God is, not because of anything you did or didn't do.
 35. Don't audit life. Show up and make the most of it now.
 36. Growing old beats the alternative-- dying young.
 37. Your children get only one childhood. Make it memorable.
 38. All that truly matters in the end is that you loved.
 39. Get outside every day. Miracles are waiting everywhere.
 40. If we all threw our problems in a pile and saw everyone else's, we'd grab ours back.
 41. Envy is a waste of time. You already have all you need.
 42. The best is yet to come.
 43. No matter how you feel, get up, dress up and show up.
 44. Yield.
 45. Life isn't tied with a bow, but it's still a gift.
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DON'S DISCOURSE

Let's start with the obvious! We now live in volatile times—the stock market, real estate, terrorism (indiscriminate killings), economic uncertainty, many references to the great depression (here great refers to the extensiveness, not to quality). I'm sure that you have the picture.

However, the picture is quite fuzzy, and not just for the lay person, also for the professionals—economists, investment analysts, academics, and yours truly. When someone of the stature of Alan Greenspan says, “I don't know,” it's pretty obvious that no one knows what to do.

I have continued to closely follow H.S. Dent. His projections (analysis) for the long term remain the same. He has studied the direction of the future economy for over the past 15 years and follows the Keynesian theory that as spending rises, so does the economy—and vice-versa! How much and for how long (of course, with short term fluctuations), no one can predict, except to follow demographic trends, and now those trends show more people are spending less. John Maynard Keynes, economist, divided the economy into four components: consumption, investments, net exports, and government. He theorized that as the output of goods and services in any of these four categories rose or declined, so did the economy.

Harry S. Dent has concentrated on the demographics of the baby boomers, which is a large component of the US population (upwards to 80 million strong). Dent states (as do others) that in aggregate we reach the maximum spending age around 50. The peak of the baby boomers reached that magic age in 2007. Even though their spending is still high, it will start to

decline. Actually, short term, the recession that we are in will cause spending to decline almost immediately, if it hasn't already done so. More importantly, the large number of baby boomers will continue to decline for many years, possibly a dozen or more—until 2022. At that time, their children will be entering their high spending years. The theory of both Keynes and Dent is that as spending in aggregate declines, so will the economy.

The best advice that I can give is for you to stay flexible, eliminate debt, and reduce aggressive investments in favor of fixed dollar investments such as T-bills and Bonds, maybe AAA Corporate Bonds. Of course, the investment in all bonds should be delayed until we are in a period of higher interest rates. The rates do not stay the same, and after becoming higher (than today) will decline, which causes the value of the Bond to increase, while you still own and receive the higher interest rate. All of this requires some professional management.

Haas Financial offers both short-term money management (via Jim Fydroski, who has obtained a very impressive return on the money under his management), and a long-term approach, which has been my approach for several decades, and I'm more comfortable on this side of the coin. However, my approach was built around a growth oriented portfolio. Because of the anticipated change over the next dozen years, my approach must change from growth to savings.

Maybe the best I can do for you is to state my personal plan even though ***it should not be duplicated in your portfolio***, but can be used to develop a plan for your personal circumstances.

My Plan: If (when) the U.S. Stock Market (DOW) reaches 9,400 to 9,600, I will sell about 15 percent of my holdings; the proceeds will be temporarily placed in CDs. Then, I expect a drop in the market followed by a rise to 10,000/11,000 at which time I will sell the remainder of my U.S. Stock holdings and will stay out until about 2022 when the echo boomers start spending. Hopefully, I'll still be alive at that time and can come back into the U.S. market in a big way. This plan requires consulting with specialists. I will consult with Jim regarding a managed portfolio and with Art Frasca on a managed bond portfolio.

Of course, all of this is subject to change as the long-term demographics change.

More important than all of the above

Keep your financial planning up-to-date, especially if you are over 50, and, of extreme importance, update your Retirement Cash Flow Analysis. This has always been important, but in these extremely volatile times, you should not have a plan that is more than one year old. If your plan is dated before January 1, 2008, call our office immediately and arrange for an update consultation with Mark Davis or Jim Fydroski. Please insist on updating the Retirement Cash Flow Analysis AT LEAST annually, which reflects current asset values and current assumptions, especially projections of future interest and inflation/deflation rates.

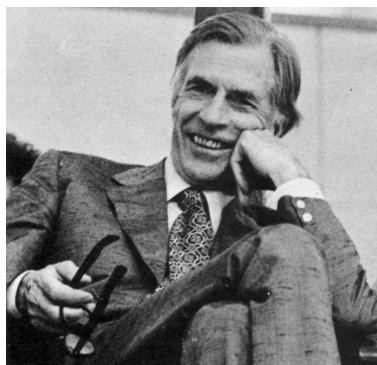
I will be traveling quite a bit in January and February and possibly March, but I welcome your inquiries or, simply, your conversation and thoughts (I miss this interchange). Call me (248-645-1638). If I'm not home, I will return your call when I return.

Hope you had a pleasant Holiday season. I wish you financial success in 2009, as well as in the next dozen potentially difficult years, and, of course, for the remainder of your life.

Donald Ray Haas

Changes

There has been much legislation passed this year and most likely thousands of pages more to come in 2009. We don't have a complete grasp of what changes have taken place but there is one big change that is effective for 2009. If you are 70 and $\frac{1}{2}$ or older Congress will allow you to skip the Required Minimum Distribution in 2009. We will keep you posted on legislation that affects you next year.



Here is a quote from John Kenneth Galbraith:

“The function of economic forecasting is to make astrology look respectable.”

Let's keep in mind that no economist has all the answers. We strive to make the most sense possible out of all the wildly variant opinions, facts and forecasts we see and cull strategic insights from the economic pundits and periodicals. We then put that to use as best we are able.

All of us at Haas Financial wish you a very healthy and prosperous New Year!

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