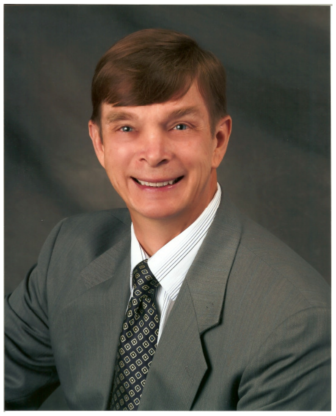
HAAS Financial Services Inc.
CENTER FOR FINANCIAL GERONTOLOGY

# Money Monitor

OCTOBER 2009



## Look Back– 3rd Quarter, 2009

**JIM'S JOURNAL**

*That's life, that's what all the people say,*
*You're riding high in April,*
*Shot down in May*
*But I know I'm gonna change that tune,*
*When I'm back on top, back on top in June*
*(and maybe in July, August and September)*

*Lyrics courtesy of Ol' Blue Eyes himself, Frank Sinatra. The song, released in spring of 1965, was a top-ten hit.*

In case you haven't guessed, the last line in the lyrics above was added by me and not sung by Frank Sinatra. When I hear his song, *That's Life*, I am reminded of the huge ups and downs that we have seen in the stock market since the peak in October 2007. It has been mostly a downhill journey since that time until March of this year. The market turned in March 2009, started heading up through the second quarter and continued the ascent through the just ended third quarter. After the best back-to-back quarterly gains since 1987, the major indices are up about 50% from their March lows but remain about 32% below their October 2007 high. And therein lies the real story. For judgment of the market is really not about a single quarterly gain (or loss) or even two quarterly gains- unless you pocket the money and walk away. Most of us need to be invested longer than that.

In light of my previous statement, it was, none-the-less, a great third quarter as stocks of all types surged and soared. The venerable Dow was up +15% in the third quarter, up +48% from its March 9 low (still down -31% from the October 2007 high) but up only 11% since January 1 of this year. This presents a very different picture when we compare year to date totals of +11% to the media-hyped +48% rise from the March 2009 lows. The S&P 500 is a similar story. It too was up +15% for the quarter, up +56% from its March low but only +17% since January 1 and down significantly (-32%) from its October 2007 high. The NASDAQ was up +15.7% for the third quarter and pretty much followed the same pattern of the DOW and S&P (Wall Street Journal 10-1-09).

With the market being up significantly in the quarter, it follows that many mutual funds would have experienced similar advances-and they did. The average U.S. stock mutual fund was up +16.7% with Small-Cap Value funds leading the way at +21.4%. Sector funds had dizzying returns with Real Estate (+32.5%) and Latin America (+28.1%) leading the way. The average taxable bond fund was up +6.5% with High Yield bond funds up an astounding +13.1% for the quarter (Wall Street Journal 10-5-09). Once again, to put the euphoria in perspective, the bottom line is that many investors are still sporting significant losses in their accounts over the last eight quarters and have a long way to go before recouping those losses.

Where does the market go from here? The current upsurge appears to be driven by the tremendous inflow of stimulus money, low interest rates and reduced corporate profit expectations. This combination does not add up to sound economics. At some point the stimulus money will end, interest rates will rise and companies will have to return to real profitability instead of touting smaller losses than expected. Bad debt, high unemployment and depressed home prices are not going away anytime soon. The true day of reckoning will be whether the markets can survive on their own accord without government help and accounting gimmicks. Until then the intermediate trend remains up even though we may still have the possibility of a corrective pullback in the weeks ahead.

The Money Management Program is alive and well, especially benefiting from the rise in High Yield bond funds during the third quarter. Due to the questionable economic fundamentals mentioned above, it remained slightly cautious but still had a solid quarter with very little of the volatility experienced by the rest of the market, especially during a two week dip in July.

Over the years, the basic premise of this Money Management Program has been momentum and sector rotation with down-side risk management. It seeks to go wherever there appears to be a reasonable chance of gaining favorable returns. It will move to money market funds if acceptable risk-adjusted returns are not available in other areas or even go inverse to the market (bear funds) if that presents itself as a best current strategy. Most of the mutual funds used in the portfolio end up being held for short to intermediate time frames before being sold to purchase funds with stronger momentum. While no investment strategy produces positive returns in all markets, this approach has proven to be a highly successful strategy over the six years that the Program has been formally offered. It will continue to follow that approach as a core strategy.

I'm sure many of you read Don's Shangri-La article in the September issue of the Money Monitor. He recommended that "you …own less equity type investments (stock market and real estate) and more fixed-dollar type investments." In response to Don's suggestion, I will be creating two new models for those who wish to more closely align with his thinking. The first new model will be invested with a focus on ***Capital Preservation***. The primary goal will be to preserve your account balances with minimum volatility and provide returns that exceed CDs and money markets. Growth is not the objective here. The second new model will seek to provide a ***Market Alternatives*** approach. Many mutual funds track and correlate with the major indexes: S&P500, NASDAQ, MSCI/ EAFE (Europe, Asia, Far East) etc. This ***Market Alternatives*** model will have less correlation and tracking with these major indexes. The goal is to provide a middle ground between the moderate growth, go anywhere, traditional Money Managed approach that I have been using and the new ***Capital Preservation*** model. As with any market type investment, there is no guarantee that these objectives can or will be achieved but that is the goal.

Finally, the new models are not meant to initiate a wholesale change from either the individual bond strategy that we are recommending through Art Frasca or from the various mutual funds that we are currently using in your portfolios. They are another diversification tool for your toolbox, offer a different approach and may align more closely to what Don is suggesting if that is your desire. If you are interested, call me and I will go over the details with you.

*I've been a puppet, a pauper, a pirate,*
*A poet, a pawn and a king.*
*I've been up and down and over and out*
*And I know one thing:*
*Each time I find myself, flat on my face,*
*I pick myself up and get back in the race.*

## MARK'S MEMO

### The 2009 New Homeowner's Tax Credit

The clock is ticking down to the last on this credit. Qualifying home buyers have until December 1 to close on the house. Good luck!

### Green Energy and Home Improvement Credits

Remember to keep receipts for any energy efficient improvements to your homes over the next several years. You may even consider adding ***microgeneration*** systems to your homes. As covered in the Money Monitor earlier this year, Congress created a variety of tax credits you may want to utilize.

*(Continued on Page 4)*

## Karl's Salmon Boil

One of my favorite pastimes growing up was fishing. I forgot how much I loved the art of angling until last year. This year I decided to do something about it. I joined the Metro-West Steelheaders (www.metroweststeelheaders.org) and started fishing Michigan waters. What a terrific joy it has been!

On one great trip this summer I went with club members to Erieau, Canada. We caught some beauties. That's our team, from left to right: Darrell Schoen, me, Clyde Schoen and Karl Szulczewski.


Karl described a delicious way to prepare salmon that I thought I'd like to share with you.

This is done in one pot. The best set up is a pot with a matching insert sieve. Bring three gallons of water to a rolling boil with the sieve already in the pot. Add ingredients according to how long an item takes to cook. While waiting for the water to boil, melt 1/2 lb butter, add lemon juice, chopped parsley (a cup) and pressed garlic (2 tablespoons or more). Set aside.

| Elapsed time | Ingredient | Prepped | Amount | Minutes in boil |
|---|---|---|---|---|
| **0 minutes** | potatoes | halves or quarters | 3 lbs | 30 |
| | carrots | large chunks | 1 lb | 30 |
| **10 minutes** | onion | large wedges | 2 lbs | 20 |
| **20 minutes** | fish | large fillets | 2-3 lbs | 10 |
| | kosher or sea salt | | 1 cup (don't skimp!) | 10 |
| **30 minutes** | Remove insert and let salt water drain off, put the goodies on a large tray. | | | |
| | Pour the butter, lemon, parsley and garlic over everything. Serve. | | | |

If you want to make this dish with more goodies and flavors, here are some suggested ingredients, listed by the time they are best added to the boil.

| Elapsed time | Ingredient Ideas |
|---|---|
| **0minutes** | rutabaga, pumpkin, acorn squash |
| **5minutes** | corn on the cob broken into halves or thirds |
| **10minutes** | quartered sweet potatoes, whole mushrooms, one jalapeno pepper |
| **15minutes** | zucchini / summer squash chunks |
| **25minutes** | asparagus, broccoli, cauliflower, greens |

What do you think? Should I have a Haas Financial party and serve a batch? Let me know.

## More Memo

### Investment Distribution Basics

***Investments,*** in your portfolios ***that are not in*** IRAs, ROTHs, 401(k)s, or other tax sheltered vehicles ***will have taxable distributions***.

Most of the time, you leave your distributions with the fund. You reinvest those dividends with no commissions.

Distributions represent some form of profit the investment has realized on individual stocks, bonds or other properties within your investment. Let's call them ***issues***. In the case of capital gains, your investment manager bought issues at one price and sold at a higher price. In the case of a dividend or interest distribution, your manager bought issues that produced interest or dividend payments.

***Distributions always incur taxation in the year they are earned. This is true even if you reinvest them.*** Dividends and long term capital gains are taxed at a lower rate than your other sources of income.

Avoiding taxation for as long as possible is a good way to build investment balances. That's why we recommend that most of your equity investing be sheltered by IRAs and pensions. Distributions that stay within these plans are deferred for purposes of taxation. Except for ROTHs, when the money comes out it is taxed at your highest rate.

On the flip side, paying a lower rate on taxes is a good way to diversify against the risk of adverse legislation. There is a very final distribution that must be considered. That is distribution on death. Under current law, any gains in your investment, when distributed to your heirs are income tax free. There is a very messy situation in the tax law, that takes place next year which could change this, but we will just have to wait and see.

Most companies pay capital gains distributions toward the end of the year. Normally reinvesting the gains is the best option, but there may be years you wish to take them in cash.

### Guidance on 2009 Required Minimum Distribution Waiver

Haas Financial Services did not send out Required Minimum Distribution paperwork this year because Congress created a waiver for the 2009 distribution. HFS recommends you not take your distribution this year unless you need it.

If you took a distribution anyway to satisfy the rule, you ***can still put the money back and avoid taxes*** if you do so before 30 November 2009 or 60 days after the withdrawal, whichever is later.

Contact us immediately if you took a distribution but want to put it back.

**Securities offered through Haas Financial Products Incorporated**

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**Here's to your Financial success!**