

Have You Learned Your Lesson Yet?

JIM'S JOURNAL



At one time or another during our childhood years, most of us were probably warned not to play with matches, not to touch a hot stove, not to lie to our parents etc. Kids being kids, we probably ignored our parent's advice, only to find ourselves in trouble by doing exactly what we were told not to do. Thankfully, now that we are adults and know better, we learn from our mistakes and never make the same mistake twice. Or do we?

The financial issues of the last two years have been a painful but hopefully valuable lesson about money matters in our retirement years. What have we learned? We have learned that we can lose almost half the value of our nest egg in a very short period of time; we have learned that diversifying our investment portfolios does not necessarily prevent us from experiencing heavy losses; and, we have also learned that our homes do not always go up in value and may actually lose value.

In November, the Wall Street Journal ran a story entitled, "Have You Learned Your Lesson Yet?" From that article, I am reprinting some of the questions that I thought would really pertain to our clients. Please take this brief quiz to get an idea of what you have learned (or should be learning) about the meltdown of the last two years. The answers will be at the end of this article.

Question 1: "Diversification" holds that spreading dollars across non-correlated asset classes - that is, those that tend not to move in the same direction at the same time - will help minimize investment losses. In 2008, domestic stocks - as measured by the S&P 500 stock index-fell 37%. Which of the following non-correlated assets rose in value in 2008?

Choices (multiple choices allowed for this answer): a) International stocks b) Real-estate investment trusts c) High-yield bonds d) Commodities e) All of the above f) None of the above.

Question 2: For the ten year period ended September 30, 2009, stocks, as measured by the S&P 500 stock index, and bonds, as measured by the Barclays Capital U.S. Aggregate index delivered an annual average return of:

Choices: For stocks: a) Less than 0% b) 2% c) 4% d) 6%. For bonds: a) less than 0% b) 2% c) 4% d) 6%.

Question 3: What percentage of pre-retirement income is typically required for a successful retirement?

Choices: a) 40%. b) 60%. c) 80% d) 100%.

Question 4: In retirement, Social Security will likely replace what percentage of your pre-retirement income?

Choices: a) 23% b) 33% c) 43% d) 53%.

Question 5: Among the best ways for a couple to maximize Social Security payments over their lifetime is for:

Choices: a) Both spouses to claim benefits as early as possible b) Both spouses to claim benefits as late as possible c) The lower-earning spouse to claim benefits early and the higher-earning spouse to claim benefits late d) The lower-earning spouse to claim benefits late and the higher-earning spouse to claim benefits early.

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CONGRATULATIONS!

RUSTY DEATON

Question 6: A worker retires at age 65 in 2009 without employer health benefits. Starting with out-of-pocket health costs of \$900 in the first year of retirement, how much savings will this new retiree need to have a 50% chance of covering the cost of health insurance premiums (for a Medigap policy, as well as Medicare Parts B and D) and out-of-pocket drug expenses in later life?

Choices: For men: a) \$46,000 b) \$86,000 c) \$126,000 d) \$166,000. For women: a) \$45,000 b) \$85,000 c) \$125,000 d) \$165,000.

Question 7: The single best cure for a battered nest egg is to:

Choices: a) Invest more aggressively b) Save more money c) Work longer d) Plan to withdraw less money from retirement savings.

Question 8: The economic crisis is prompting major changes in strategies to help people build and protect their nest eggs.

Choices: a) True b) False

Question 9: In 2008, the average diversified U.S. stock fund was down 37.5%. What rate of return is required in 2009 to break even?

Choices: a) 37.5% b) 50% c) 60% d) 100%.

Now that you have taken this quick quiz, I will provide a condensed version of the answers as presented in the Wall Street Journal.

Answer 1: f) None of the above. In 2008 when stocks tanked, the value of each of the asset classes listed in this question declined by double digits. A mix of assets in an investment portfolio is still important but diversification alone will not necessarily prevent portfolio losses.

Answer 2: For stocks: a) Less than 0% and for bonds d) 6%. The actual number for stocks is minus 0.2%. Stocks are still recommended over bonds because they usually significantly outperform after market meltdowns.

Answer 3: c) 80%. Using rule of thumb ratios for retirement income can be a useful guideline for retirement planning; however, 80% of pre-retirement income may be the right number for your neighbor and not for you. A fact finding analysis is needed to discover what the "right number" is for your retirement plan.

Answer 4: b) 33%. According to the board of trustees for the Social Security system, approximately one-third of your retirement needs will come from your monthly Social Security payment. Will your savings and other assets be sufficient to cover the balance?

Answer 5: c) The lower-earning spouse to claim benefits early and the higher-earning spouse to claim benefits late. A growing body of research indicates that the "62/70" strategy- where the lower earning spouse files for Social Security at age 62 (or thereabout) and the higher-earning spouse waits to claim benefits until age 70 (or thereabouts)- can help maximize payouts for a couple. However, there is no single best answer for every couple.

Answer 6: For men: b) \$86,000. For women: c) \$125,000. These figures represent only a 50% chance of covering health related costs according to the Employee Benefit Research Institute. For a 90% chance of covering these costs, a man would need \$177,000 in savings and a woman would need \$221,000.

Answer 7: c) Work longer. For many people, a combination of these tactics may be the best answer. That being said, working longer allows you to maximize your Social Security payout, allows retirement savings more time to grow and shortens the time you need to have retirement savings support you.

Answer 8: a) True and b) False may both be correct. New strategies are currently being developed which may revolutionize retirement recommendations; however, some of the old strategies still have a lot of merit such as saving at least 10% of gross income, keeping debt to a minimum, spending less than you make, building a cash reserve etc.

Answer 9: c) 60%. Even with the stellar market returns of 2009, the stock fund holdings of most investors have not regained the value they started with on January 1, 2008. Controlling market loss is very important and it is a core strategy of the Haas Financial Money Management Program. As of this writing, both the qualified (retirement) and non-qualified (non-retirement) portfolios of the Money Management Program are showing small but cumulative positive returns since January 1, 2008.

So how did you do? I hope this brief quiz has helped you learn something about investing and planning in retirement.

Have a joyous, peaceful and happy holiday season!



Custodial IRA Service Company Now Called Lincoln Trust

MARK'S MEMO

Does anyone remember State Street Bank and Trust Custodial accounts? How about First Trust? Fiserv? NTC? Lincoln Trust? By the way, they have a **new website**. (If you need the site, email me and I will send you the link.)

All of these entities have been used by Haas Financial and Clients over the years. The last four are all the same company. Fiserv bought First Trust, then Fiserv spun off the IRA Custodial division to one of its top executives.

Through the 20 plus years we have used these companies, we have had a few constants. The first is **constant computational change**, followed by service challenges followed by improvement and again change, which of course starts the cycle over. At least the cycle has been getting less painful and quicker over the years.

Another constant is **increasing fees**. Fees for the average account are \$250 to \$350 per year. If you have several mutual funds within the account and you are not a "do-it-yourself" kind of person, this is a bargain. I know, I have shopped the service every year since 1996 and never found a company that would do it for less.

It is a bargain because of the last constant; Lincoln Trust takes responsibility for all IRS accounting requirements and makes the calculation of your **Required Minimum Withdrawal** reliable and easy. This is why we put up with the fees and constant change.

If on the other hand you only have a couple of mutual funds and no Real Estate Investment Trust or Limited Partnership accounts, then you don't really need the aggravation. Getting out of Lincoln Trust will cost at least \$250, but staying in will cost the same, every year. **If you are a good candidate for firing Lincoln Trust we will be calling you soon.**

Mark's email: Mark@haasfsi.com



Happy Holidays!

Congratulations!

Jack Couzens was again named as a Michigan "Super Lawyer" in a New York Times supplement. We are proud to be among Jack's clients.



Movie Madness Or: How I stopped worrying and Learned to Love the Classics

By: Rusty Deaton

The holidays are a fantastic time to get together and have events with family. Whether it's sharing a dinner with those closest to you, or going out for a night on the town, or even just having a night of board games, the goal of course is to connect with and appreciate the time you have with those around you. Given the time off many get around now, coupled with the cold temperatures, it's only natural that we'd want to stay inside and stay bundled up!

We here at Haas Financial love movies, so we figured we would show you something interesting. Here is a list of the 10 top-grossing movies in the USA, both adjusted and unadjusted for inflation.

Unadjusted for Inflation, as of 12-2009

#	Title	Released	Total Grossed
1	Titanic	1997	\$600,788,188
2	The Dark Knight	2008	\$533,345,358
3	Star Wars: Episode IV	1977	\$460,998,007
4	Shrek 2	2004	\$441,226,247
5	E. T. The Extra-Terrestrial	1982	\$435,110,554
6	Star Wars: Episode I	1999	\$431,088,301
7	Pirates of the Caribbean II	2006	\$423,315,812
8	Spider-Man	2002	\$403,706,375
9	Transformers: Revenge of the Fallen	2009	\$402,111,870
10	Star Wars: Episode III	2005	\$380,270,577

A few notes

1.) Several of the movies that are adjusted for inflation were re-released to theaters. To show you what average ticket prices were, we would have to list several different prices. An example of this is Star Wars: Episode IV. It was re-released to theatres Five separate times over 20 years!

2.) Inflation and movie ticket prices are not necessarily tied together. In fact, if you look at average ticket prices at www.natoonline.org and compare that to the average rate of inflation, we see that since 1974, the price of a movie ticket is actually **down** 20.7% compared to inflation.

3.) The top five, when adjusted for inflation, are all movies that came out before I was born!

See you next year.

Adjusted for Inflation, as of 12-2009

#	Title	Released	Total Grossed
1	Gone With the Wind	1939	\$1,450,680,400
2	Star Wars: Episode IV	1977	\$1,278,898,700
3	The Sound of Music	1965	\$1,022,542,400
4	E. T. The Extra-Terrestrial	1982	\$1,018,514,100
5	The Ten Commandments	1956	\$940,580,000
6	Titanic	1997	\$921,523,500
7	Jaws	1975	\$919,605,900
8	Doctor Zhivago	1965	\$891,292,600
9	The Exorcist	1973	\$793,883,100
10	Snow White and the Seven Dwarfs	1937	\$782,620,000

To see the list in detail, visit <http://boxofficemojo.com/alltime/adjusted.htm>.

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