



## JIM'S JOURNAL

"It's only when the tide goes out that you learn who's been swimming naked." –  
*Legendary Investor, Warren Buffett*

A very insightful observation from the Oracle of

Omaha; we'll revisit Buffett's quote later in this article. But first, a look back at the fourth quarter 2009, a review of the year and finally, a perspective on the decade.

With the Dow Jones Industrial Average (DJIA) up +7.4%, the S&P 500 up +5.5% and the NASDAQ up +6.9%, the fourth quarter 2009 provided the culmination to a stunning rally that began in March of last year and continued through December. Financial markets around the world staged remarkable recoveries in 2009, coming back from the brink of disaster thanks to rescue efforts by governments around the globe. After falling -25.4% to a twelve year low in March, the DJIA staged a blistering rebound to finish the year up +18.8%. The broad market S&P 500 index rose 23.5% and the tech-heavy NASDAQ composite ended with a breath taking gain of +43.9%. (Source: Wall Street Journal 1-4-2010)

As might be expected, many mutual funds ended 2009 with solid gains after resurrecting themselves from the March lows. The Average US Diversified Stock Mutual Fund was up +5.4% in the fourth quarter 2009 and up +32.0% for the year. The average Latin America Fund was up a dizzying +113.1% for the year with the Science & Technology sector up +53.8% in 2009. While only up +1.8% in the fourth quarter, the Average Taxable Bond Fund was up a solid +18.3% in 2009. High Yield bond funds were up +5.6% for the quarter and +46.4% for the year. (Source: Wall Street Journal 1-6-2010)

Look Back 2009- 4<sup>th</sup> Quarter , the Year, the Decade

While the market turn around in 2009 was nothing short of spectacular, it distorts the real investing story of both the last several years and the entire decade. As an example, the Dow remains down -26.4% from its all time high of 14,164.53 in October 2007 and is down -9.3% from ten years ago. To really place the DOW's progress (or lack of it) in perspective, it hit 10,000 in 1999 and we are not far from that mark today. The S&P 500 and the NASDAQ fared much the same.

In another measure of decade long futility, stocks traded on the New York Stock Exchange have lost an average of -0.32% per year, including dividends, since 1999. Some investment analysts refer to the past 10 years as the lost decade. For example, if you had invested \$100,000 on January 1, 2000 in the S&P 500 Index, you would have ended up with \$89,072 at the end of the decade (Source: Open Letter, Richard Gonzales, COO of CIG Corp). Although not a pretty picture for many portfolios, some investments fared much better than the major indexes and many mutual funds; the challenge is to find them. And now the rest of the story...

Going back to Mr. Buffett's famous quote..."It's only when the tide goes out that you learn who's been swimming naked." Take a look at the investment summary chart at the end of this article. Oil, gold, bonds, the Euro, consumer goods and health care all show positive returns over the last ten years. The DOW, S&P 500, NASDAQ and technology all have negative returns over the last ten years despite being up dramatically in 2009. Were you swimming naked over the last ten years by not having any exposure to the categories that produced positive returns?

INSIDE THIS ISSUE:

MARK'S MEMO

MECHANICAL MARKET

Were you also swimming naked over the last ten years by holding losing portfolios during long market downturns? In 2008, the average diversified US stock fund was down -37.5%. A loss that large would require a +60% return to break even. In 2009, the average diversified US stock fund gained +32 % and many funds saw gains exceeding +50%. However, in most cases those returns have not brought investor’s portfolios back to their values at the start of 2008, and certainly not back to their higher values of October 2007 (Source: Wall Street Journal, 11-2-2009 and 1-6-2010 editions).

Don Phillips, managing director at research firm Morningstar Inc. states that...“A manager who limited losses last year (2008) goes a huge way to helping investors accumulate wealth over time and meet their long-term goals... It’s the kind of victory that often goes unnoticed amid the gloom of losing money.” Being in the right investments and minimizing losses can make a significant difference in portfolio returns and net worth.

Most Haas clients are aware that I am responsible for and manage the Haas Financial Money Management Program. I formulated the concept before joining Haas seven years ago and continue the process today. It has been an evolutionary journey that always looks for an investing edge but centers around two key concepts: 1) locate and rotate to the sectors that are producing the best risk-adjusted rates of return and 2) manage downside risk by attempting to avoid huge losses. And while past performance is no guarantee of future returns, the Money Management Program has been able to produce significant long term results. It rotates into strong sectors when the market is bullish and moves to cash or inverse positions when the market is bearish. In addition to the daily investment management of your accounts, yearly losses have been kept to a minimum, thus far, by employing the loss prevention objective of this strategy.

If you have yet to invest in the Money Management Program, now is a great time. It is a diversifying tool and can be used for both retirement and non-retirement accounts. The Program offers both moderate growth and capital preservation portfolios. An investment decision is made everyday to buy, sell or hold the individual funds in the current portfolio. Your money is being monitored on a daily basis. And while results can never be guaranteed, if this is an approach that you are looking for, give me a call and I will be happy to explain the details. The Money Management Program looks to point out the naked swimmers as Mr. Buffett does, instead of counting you among them. The goal

Chart Sources:

Wall Street Journal

1/4/2010

S&P Index Data

www.sp-indexdata.com

Major Indecies	Change		
	4th quarter	1 year	10 year
DJIA	7.40%	18.80%	-9.30%
S&P 500	5.50%	23.50%	-24.10%
S&P 500 (Dividends Reinvested)	6.03%	26.46%	-9.09%
NASDAQ	6.90%	43.90%	-44.20%

Commodities	Change	
	1 year	10 year
Oil (Nymex)	77.90%	210%
Gold (Comex)	23.90%	279.60%

Bonds	Change	
	1 year	10 year
Junk	57.50%	88%
Mortgage	5.80%	88.60%
Treasuries	-9.30%	85.40%

Currencies	Change	
	1 year	10 year
Euro v. Dollar	2.50%	44.20%
JP Morgan \$ Index	-5.20%	-12.80%

U.S. Sectors	Change	
	1 year	10 year
Technology	63%	-52.20%
Consumer Goods	21.20%	37.30%
Health Care	19.20%	21.70%
Financials	12.80%	-20.60%

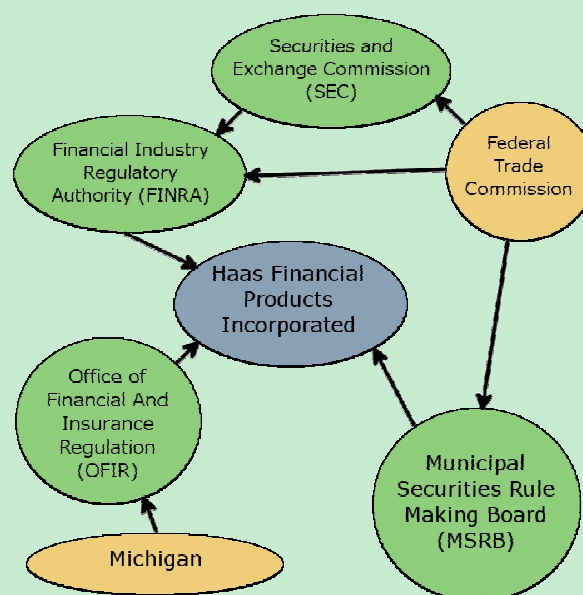
## Haas Financial Products Incorporated

Doing financial planning is a very complex and varied endeavor. Annuities, insurance, mutual funds, stocks, bonds and other vehicles are essentially **products**. The financial plan is a **service**. Money management is both a product and a service.

These products and services aren't delivered in a vacuum. Every time you sign your name to an application, you have folks looking over your shoulder. Your representative has to play by a complex and ever changing set of rules written in at least a few different rule books.

For instance, when you buy term-life insurance, the issuing company has a set of rules. The state in which you live has a director of some sort who oversees your home state's set of rules and the issuing company has to abide by a set of rules from the state in which they are domiciled. IF you buy that insurance in a bank, you have rules from the bank, the FDIC, the state and on and on.

Why is this important? I'll tell you. Every Haas Financial Products Incorporated representative must abide by rules. This is called **Compliance** with regulation. The regulation comes from at least the following entities in the diagram on the right:



Compliance is so important it was necessary to give me a real important title;

### **Chief Compliance Officer.**

This wonderful title has given me the following benefits:

1. HFP hired a professional to create a mostly customized book of supervisory procedures that in turn gave me the opportunity to rewrite the couple hundred pages to make them fit our company. This gave me over 80 hours of experience in technical writing.
2. HFP sat through 21 audits with regulatory agencies and independent auditors in the last 14 years. The shortest audit required a few days of preparation, and an hour of communication with the auditor. The longest audit was 21 days of preparation, 6 days of in-person communication with three auditors and 6 more days of follow up. This gave me the valuable experience of making friends with government officials and communicating openly and efficiently with them.
3. HFP had the benefit of defending its registered representatives from lawyers and regulators in a few cases which involved ineffective communication with clients or errors with clients. This has given me experience again in highly effective communication.

4. HFP has been through a transition of relatively simple and direct accounting to accounting overseen by a Public Company Accounting Oversight Board credentialed CPA. I now know what it feels like to use the same standards of accounting used by big corporations like Ford, DuPont and GE. This gave me the benefit of learning complex accounting controls and procedures and frugal corporate budgeting.

5. HFP must train, supervise and audit its 15 to 20 registered representatives. This has honed my leadership and management skills.

I could go on, but you get the picture. Running Haas Financial Products Incorporated is a huge and onerous task that has gotten bigger and more daunting over the years. The challenge we face now is how to effectively reduce or manage this burden of compliance as it continues to grow in complexity and difficulty.

Mark Davis, Chief Compliance Officer

### The Mechanical Market, Part 1

By Rusty Deaton

When I was a kid, whenever I thought about stock exchanges I thought of the 1983 movie Trading Places, with Eddie Murphy and Dan Akroyd. While the commodities markets are nowhere near the same as the stock markets (I didn't know better as a kid), I think the imagery can certainly be useful for what I want to talk about. There is a scene where they are deep in the belly of the beast- standing on the commodities trading floor of the world trade center; people stream around them, and pool up in places to trade. Furious shouting, hand-waving, watching of various monitors to track price, and the like. Everything is done in the flesh, orders being bought and sold.

Since that scene in the movie, many things have changed- namely, that people are becoming an increasingly smaller part of the actual trading process. Over time, computers have been implemented to carry out these buy and sell requests, and do them at a much faster rate than you could ever do by hand. And this certainly isn't a bad thing- it makes certain that people get what they want faster. At the end of the day, it's someone deciding they want to buy or sell, and executing the transaction.

Something that has come about on top of using computers to speed along transactions is people setting computers up to watch the market, and executing trades based on events that occur in the market. This isn't just one or two crafty people, either; a 2009 article by Jon Stokes (Which you can read by going to <http://arstechnica.com/tech-policy/news/2009/07/-it-sounds-like-something-ars>) states that 60 to 75 percent of trades that occur on the NYSE are now just computers buying and selling against each other based on what they are programmed to do. What this equates to is essentially an electronic ecosystem; computers preying on and working with each other in order to meet their goal of profit (And therefore, survival). It is almost surreal how all of it plays out, and it is my intent to help you understand what it is now, and what it will mean in the future.

In the coming months I'll be sharing with you some of the horror stories and hang-ups that have come with these developments, as well as discussing the benefits that these practices offer to people like you and me- the people who don't have the luxury of a billion-dollar computer network to execute our trades.

**Correction: In the January 2010 issue, I listed that Michigan would be losing one seat, making their new total 14. The new total should be 12. Apologies for any confusion this caused!**

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**HERE'S TO YOUR FINANCIAL SUCCESS!**