HAAS Financial Services Inc.
CENTER FOR FINANCIAL GERONTOLOGY

Money Monitor

JUNE 2010

Look Back-1st Quarter 2010, What's Next?

JIM'S JOURNAL

The Good, The Bad, The Ugly.

The Good: The battered US economy continued its convalescence during the first quarter 2010 as the three major indexes all posted positive gains. Despite a steep February sell off, the Dow Jones Industrial Average ended the first quarter 2010 up +4.1%; however, it remains 25% below its all time high posted in October 2007. The S&P 500 also proved equal to the task by besting the DOW with a +4.9% gain. While both the DOW and S&P 500 had respectable gains, the NASDAQ claimed honors as king of the first quarter market hill with an enviable +5.7% advance (Source: Wall Street Journal 4-1-10).

Not to be denied, mutual funds had their own splendid first quarter run as the average US Stock mutual fund was up +6.1% for January, February and March. As is typical, a number of sector funds out preformed the stock fund averages with Real Estate funds up a dramatic +9.6% followed by Health/Biotech at +7.3%. The average US taxable bond fund posted a very respectable +2.4% return in the first quarter with High Yield funds leading the way with a +4.3% average (Source: Wall Street Journal 4-5-10)

So far, so good but now **The Bad**. Almost all of the market gains of the first quarter were wiped out as a result of the worse performing May in market history for the S&P 500 since 1962. By May 31 the DOW was down -7.56%, the S&P 500 was down -7.99% and the NASDAQ was down -7.99%. There is an old market adage that warns us to "Sell in May and go away." That certainly proved to be true in 2010. In a 2006 study, Dr. Marshall D. Nickles of Pepperdine University concluded that if an investor used a simple strategy of selling the DOW on May 1 and buying it back on November 1,it would have resulted in a +1,681% return from 1970 through 2005. Dr. Nickles compared this seasonality effect to a return of only +1,266% for a buy and hold strategy. The seasonality strategy improved performance by +33% while incurring only 50% of the market risk. In spite of big rallies in the unfavorable seasons in 2003 and 2009 (last year), most of the time, it does not pay to be in the market in the unfavorable season from May 1 to November 1 on hopes of hitting one of those rare up years. (Source: Street Smart Report, June 2, 2010).

Based upon seasonality probabilities and other research reports that I review on a daily basis, the Haas Financial Money Management Program exited stock mutual fund positions in your moderate growth accounts on Tuesday, May 4 before the 1000 point intra-day market drop on Thursday, May 6. Additional investment positions were sold off so that an 80% money market/20% bond position was held for several days. And finally, the moderate growth portfolio was turned into a 100% money market position until the market looks safe enough to re-enter. Of the six analysts I regularly review, five currently recommend 100% money market funds and one is about 66% money market funds. While there may be some periodic minor upturns, it is also likely that another significant downturn will take place before year end; this could start before the end of June. I am on red alert for that and you should be too with your investments that are not in the Money Management Program.

We saw **The Good** in the first quarter, so far we are seeing **The Bad** in the second quarter and now **The Ugly**. Based upon the research reports that I receive and read on a daily, weekly and monthly basis, the period from mid-June to November looks very vulnerable and anyone but an aggressive investor might wish to have some of their stock mutual fund investments on the sidelines in money market funds. I can offer you specific recommendations based upon your personal financial plan. These conclusions are based upon the aforementioned reports that I read and it encompasses the downside risk strategies that the Money Management Program uses for its retirement and pre-retirement clients. I cannot control what the market does, but I can control my strategy to

INSIDE THIS ISSUE:

MECHANICAL MARKET
CONGRATULATIONS!

make changes to your accounts based upon what I see happening in the market. And I can do that immediately since you have given me discretionary permission to do so in the contract we signed upon your entering the Program. With traditional mutual funds there is no simple way to make changes. All changes must be authorized in writing or voice recorded to be valid- an almost insurmountable task for any type of quick action. And while past performance does not guarantee future results, I prefer to have at least some ability to control the destiny of my client's investments by moving them in and out of the market when conditions dictate.

In my search to constantly improve the Money Management Program, my travel has taken me from the east coast to the west coast since the end of April. First, I attended the Ceros Financial Services conference in Orlando, Florida. One significant change coming this summer will be the ability to combine different investment models in a single client account. As an example, you could have 60% in Capital Preservation and 40% in Moderate Growth. When fully invested this could provide exposure to over 15 different mutual funds in the same account.

From the Ceros conference, I moved on to attend the National Association of Active Investment Managers (NAAIM) conference, also being held in Orlando. The men and women belonging to NAAIM believe that active investment management presents a superior strategy to increase portfolio returns and manage downside risk, especially in the vulnerable markets that we have been experiencing the last several years. NAAIM is many things, but first and foremost it is a source of information and knowledge. Some of the keenest investment minds in the country attend this conference and I gathered many new ideas to enhance the Money Management Program.

My final educational journey took me to Los Angeles for an all day seminar on Saturday, May 22. I left Detroit Metro Friday afternoon, attended the seminar all day Saturday and took the "red eye" Saturday night, arriving back in Detroit Sunday morning. It was a brutal travel schedule but the seminar was worth it. The analyst presenting the seminar writes one of the investment letters and updates that I read everyday. This information provides crucial input into my decision making process to either buy, hold or sell mutual funds in the Money Management Program. This analyst correctly predicted the May downturn in the market and helped me save significant losses to your accounts.

Finally, on a personal note, I am pleased, honored and at the same time humbled to be named a Metro-Detroit Five Star Wealth Manager for the Haas Financial Money Management Program. With more than 11,000 wealth managers in the Detroit area, only 686 made this year's list. I look forward to serving Haas clients for many years to come in this program. For more information on the Money Management Program, please give me a call.

The Mechanical Market, Part 2

By Rusty Deaton

As I touched on briefly in Part 1 of The Mechanical Market back in our February/March issue, there are horror stories associated with program trading. Situations where the computer program-based "ecosystem" that is part of the market has a fundamental breakdown whether through its own devices (Predation) or through our direct interaction with the systems we have created. I would like to share a few of these situations with you, so that we can understand the disadvantages of program trading before speaking their praises.

Where It All Began

In chronicling the failures of program trading it only makes sense to start at the beginning, back to October 19, 1987. In the world of Finance this day is known as Black Monday.

Black Monday is, to this day, an investor's worst nightmare. During a one-day period, the Dow Jones Industrial Average (DJIA) dropped a record 22.68%, the largest single drop in US trading history. It would be short-sighted of us to merely look at the US markets– the downturn of the 19th started in Hong Kong and moved across the globe. The losses taken from the 19th and the days that followed would not be reclaimed until well into January of 1989.

What could have caused such a massive shift, you ask? Of course, the standard reasons are there- the market being over-valued, not having enough money for the market to remain fluid, and people going into a state of panic.

What is of interest to note is that it is also the first time program trading was seen as a market disruptor. While it may be debated how much of an influence program trading had, it is unmistakable that it was part of the cause. At the time, program trading was used to execute hundreds of buy and sell orders to make fractions of cents. Over time, of course, those fractions of cents add up to thousands of dollars. The problem comes when your program has been told to sell (And sell everything it has) if it sees the market taking a downturn.

Automatic Issues

A computer, for better or worse, can only do what it is told. So when a trading program sees its parameters violated, it reacts with cold precision and lightning speed. What starts as a molehill suddenly becomes a mountain as the most "cautious" program sells out entirely, triggering in turn other programs to do exactly the same thing. Like ants on the march, they move in unison-- and obviously can have some very troubling results.

This same issue has been blamed as part of the cause for the large downturn we saw on May 6, 2010 wherein the DJIA dropped more than 900 points during a twenty minute window. It was triggered by a number of factors, and a massive sell occurred. Due to a lack of buying orders to balance it (Or as you'll hear it told elsewhere, illiquidity in the market), massive amounts of stock were being sold off at prices that even the most panic-stricken investor would have balked at. For instance, Accenture (ACN on the New York Stock Exchange (NYSE)) fell to a penny during what is being called the "Flash Crash"; at the end of the trading day, Accenture rebounded to $41.09. Thankfully, many trades that tried to capitalize on this computer-based fire sale were canceled. The point to take away is that there are periods where, quite simply, we lose control of our creations. And in doing so, we do harm to everyone.

The Fat Fingers of Mizuho Securities

A related (And perhaps almost comical) error was committed in December of 2005 when a trader at Mizuho Securities in Japan not only caused their own company to lose around 225 million dollars but caused the Nikkei to drop nearly 2% that day. The problem was caused by Mizuho selling 610,000 shares of J-Com stock for one Yen (Less than a penny) each, instead of selling one share of J-Com for 610,000 Yen (around $5,000 USD at the time). The worst part, per the news site CHINADaily (You can read the article at http://tinyurl.com/39d2efc), was that despite the fact that the amount of shares being "sold" were 41 times more than what J-Com even had available for sale, nothing was done to stop the trade! The Tokyo Stock Exchange forced Mizuho securities to go through with the transaction despite the obvious error.

Putting it in Perspective

How could any company in their right mind let this fly, you ask? The answer given is both hilarious and terrible—fat fingers. Instead of doing what the trader apparently meant to do, by slipping up and not double-checking their decision they suddenly caused massive, irrevocable issues. In a human-monitored system, these errors would have had far less opportunities to get out into the open. Further, in a human-monitored system, trades coming in with completely erroneous amounts (In the case of Mizuho) would have been cancelled- mitigating the damage caused and potentially removing it altogether.

The few incidents I have mentioned are not the only times where program trading has ran amok- they are simply times that have been officially reported on, or were such a blunder that they could not help but be talked about. Program trading is scarily unregulated. While Black Monday forced the hand of the SEC into creating curbs by which trading would halt, it could be that these curbs are not enough. While it may be a cautionary prescription on my end I feel that without a long, hard look at program trading and its affect on the market we could see a situation similar to the credit crisis we saw in 2008. Except instead of derivatives and risky business practices, we'll be blaming computers and unsupervised programmers.

It should be noted, then, that not all program trading is terrible. Indeed, it has revolutionized the way all of us interact with Wall Street, get information on how our investments are doing, and give us a certain amount of freedom. Next time I will cover the up-side to program trading, so stay tuned.

Congratulations!

Congratulations Jim, on being named a 2010 FIVE STAR Wealth Manager for the Haas Financial Money Management Program by Hour Detroit magazine! You can see him for yourself in the June 2010 issue of Hour Detroit, as well as the July/August issue of DBusiness.

All Money Monitor recipients will also be receiving a reprint of the article.

SECURITIES OFFERED THROUGH HAAS FINANCIAL PRODUCTS INCORPORATED

29600 NORTHWESTERN HWY SUITE 114
SOUTHFIELD, MI 48034
HTTP://WWW.HAASFSI.COM/
PH 248-213-0101
Fax 248-213-4502

HERE'S TO YOUR FINANCIAL SUCCESS!