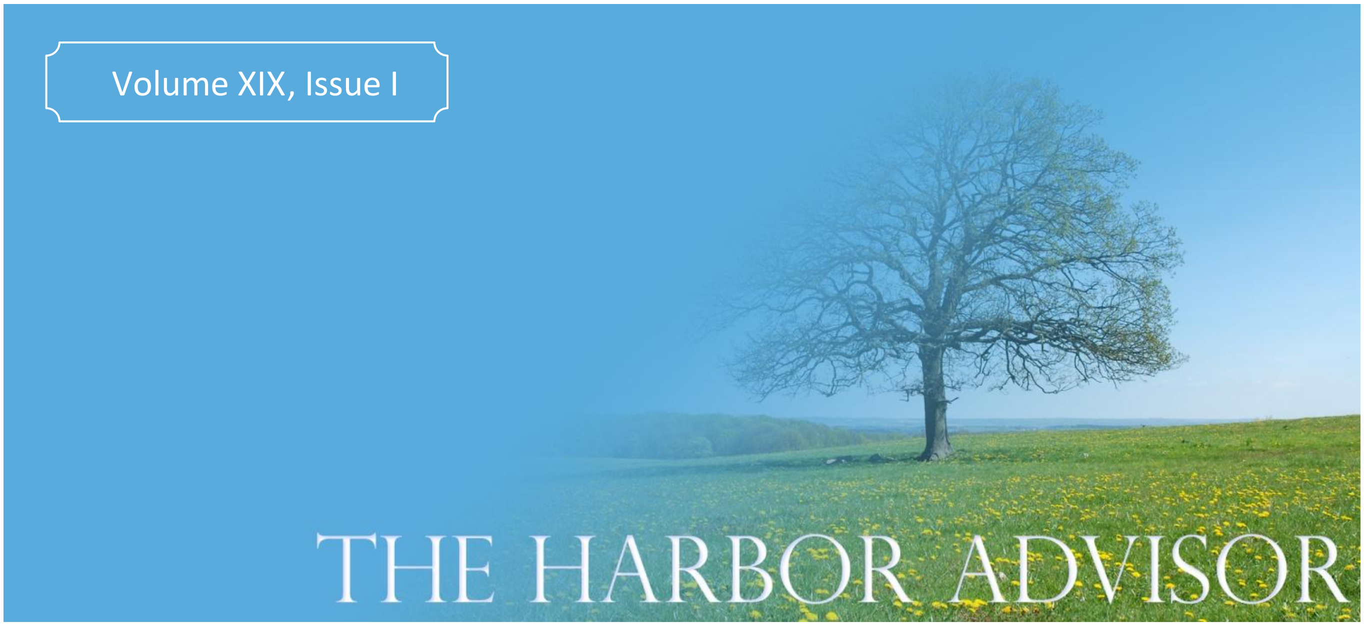

Volume XIX, Issue I

THE HARBOR ADVISOR

Past and Present

Global markets have entered uncharted territory in terms of the credit crunch, devaluation of currencies, and corporate bail outs. Coupled with a weak US dollar, subprime fallout, the specter of off-balance sheet financing, as well as costly global military conflicts, you have a situation we as investors have not faced before.

Given this is new territory, I think it best to question long-standing assumptions, hard and fast rules and the noise of financial predictions. That is not to say we cannot learn from the past. As we continue our retrospective of 20 years in the wealth management business, I am reminded that there are similarities between then and now. Volatility is nothing new, nor is uncertainty or risk. I do suggest challenging traditional market theories such as buy and hold, buying on the dips, everything has to recover, the market will always do well and safety lies in convention. I further suggest embracing a few good ideas: concentrated equity, making a habit of increased savings and decreasing consumption. Volatility can be used to achieve favorable returns as can utilizing perceived risk to your advantage.

We are examining our portfolios, reviewing optimum asset mixes, looking for new investment opportunities and ways of mixing current asset types. Our portfolios have performed very well; the assets were up last year nicely over the indexes and are holding their value better than the indexes in this down market. Our main concern is to preserve capital and purchasing power. Given inflationary factors, real return becomes increasingly important.

We realize that the market swings, possible energy shortages, ever increasing consumer prices, job loss and decreasing home equity values are disconcerting. Please know we are monitoring your portfolio on a frequent basis and vowing to trade on an infrequent basis. That said, we are keenly aware that it is hard to sit by and watch prices fall. Please contact us if you have questions, need reassurance or to discuss your portfolio.

April 11, 2008

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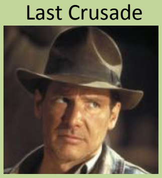

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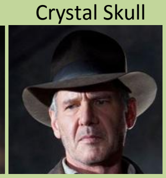

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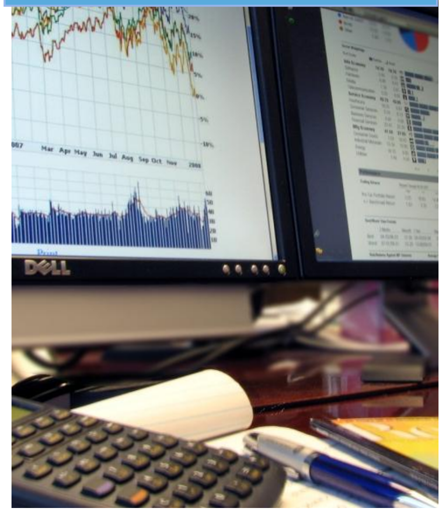

First Quarter 2008 Market Recap

1st quarter 2008 was certainly an interesting chapter in the history of global markets. The financial sector continued to exhibit volatility as news about Bear Sterns' near collapse and the persistent effects of the credit crunch remain in investors' minds. These issues, along with negative macroeconomic indices contributed to continued weakness in US dollar against global currencies. Only a few sectors were in the green for 1st quarter 2008, with some of the main laggards being technology and financials; each index was down 15.4% and 16.3% respectively. For the quarter, the S & P 500 returned -9.4%, Nasdaq -14.07%, Wilshire 5000 -10.04%, Russell 2000 -9.9% and MSCI EAFE -9.5%. Signs of a recession persist as homeowners are struggling with record foreclosures and sinking home prices. Contributing to stagnating domestic growth, commodity prices rose across the board directly disturbing the global supply and demand chain. As an indicator the DJ-AIG commodity index rose 9%; an increase directly felt by the pockets of consumers. This past quarter we have reacted to the downswing by moving to low duration bonds, continued focus on concentrated equity, using private equity for non-market correlated investments, and will cautiously watch market volatility the rest of the year. Detailed notes from the Investment Committee meeting are available on our website: http://www.harborfin.com

#2: "Buy straw hats in the wintertime." - Sir John Templeton – Elyse's "20 Years of Tips & Tricks"

Fund Focus: Janus Adviser Long/Short (JALSX/JLSIX)

In a down market, where should investors turn to preserve principal? While it is unadvisable to liquidate your portfolio every time a market correction occurs, it is certainly wise to have some investments that will reduce your overall risk and hedge against specific market pitfalls.

Harbor utilizes several strategies and funds that hedge in order to reduce risk, with particular emphasis on Janus Adviser L/S. Incepted in August 2006, this fund has had outstanding performance in the face of market volatility and quickly changing investing environments. The fund utilizes a long/short strategy allowing the portfolio manager to invest long in attractive stocks and short stocks predicted to devalue. The idea is to capture the gains over a full market cycle; bull markets and bear markets alike. In 2007, the fund posted a 16.29% gain besting the index by 10.8%. In bear market conditions, a long/short strategy tends to look more attractive than long only funds as it is able to favorably manipulate market risks. JALSX posted a .77% return for 1st quarter 2008 compared to the -9.4% return from the S & P 500.[1]

[1] *Wall Street Journal*, January 4, 2008

Managing Investment Risk

The current financial market provides a vivid illustration for the importance of a well-balanced portfolio to try and reduce risk. Sharp volatility and uncertainty about the extent of the economic slowdown are shining a spotlight on overexposed portfolios. As Warren Buffett famously quipped, "Only when the tide goes out do you discover who's been swimming naked."

Another article could easily be written on how to avoid the pitfalls of planning risks, so we will focus solely on investment risks. The most common perception of investment risk is the possibility of losing money due to capital risk, that is, that assets will decrease in value. Unfortunately, there are many other forms of risk that one must take into account. Currency risk, or the risk from assets valued in foreign currencies. Liquidity risk, or the difficulty in selling assets as currently seen with auction-rate securities and mortgage-backed securities. Financial risk, or the risk of a company completely collapsing à la Enron and many dot-coms. Market risk, a fine example of supply and demand that sees asset prices drop as more are sold. Interest rate risk, a fundamental issue for fixed income securities because as rates go up, fixed income prices go down. It is a daunting list.

Focusing on capital risk for a moment, what techniques are available to minimize this risk? For example, someone who has all of his assets in one stock is wedded to that single company's performance. While this is far and away the best strategy if the stock manages to post record gains, it puts all his eggs in one basket. Holding more positions allows the capital risk to be spread out.

Mutual funds and index funds are examples of this principle. By definition, an index tracks the performance of an entire selection of stocks. Thus, an investor is able to match his portfolio return to that of the particular index. However, a portfolio that contains a number of funds can still fall victim to capital risk if the assets are correlated, i.e. if their prices move up and down together. An investor who invested solely in large-cap ETFs is currently in worse shape than someone who owned both a large-cap ETF and a conservative bond fund. Additionally, index funds in general are vulnerable in down markets due to their passive structure and inability to adopt defensive positions.

Modern portfolio theory stresses the need to diversify to uncorrelated asset classes and this has a large impact on how our portfolios are allocated. The ultimate goal is to minimize acceptable capital risk while still preserving returns.

Visit www.harborfin.com to learn other techniques and theories to combat some of the other forms of risk mentioned above.

Lifelong Learning

With college decision days approaching for high school seniors, paying for that education is a pressing concern. Wealth management and financial planning services have long provided a plan for educating the children of our clients. Harbor has developed analysis that projects costs for tuition, room and board and ancillary costs associated with post-secondary education. The same planning comes into play with private secondary education costs.

Appropriate projections include best estimates for growth rates of portfolios and inflation which over a period of 20 years can be a significant factor in planning horizons. We pin down earnings rates by assigning rates of return to various portfolio models which in turn are designed around market risk. Inflation is estimated based on near term projected increases in the base costs. Last, we help by planning for the sale and spending of the assets saved over the years in the most logical and tax efficient manner. Over the years our projections and associated planning advisory have worked well, these are expenses that can be very successfully planned for given time and resources. As always, the greater the time horizon the more modest resources required.

We all know that while important, a college education is just the beginning of the necessity and joy of learning throughout our lifetimes. This brings me to the topic of lifelong learning. We would like to explore this and share some life learning through our mutual association with Harbor.

This will take many forms; we already share investment and business knowledge ideas. We would like to expand with ideas for living well and living smart, two new areas of the quarterly newsletter. Once we move into our new office, we plan to host periodic book discussions, have sessions planned on teaching children about money, finance for young adults, wine tasting, and cooking classes to name a few.

Our association is a rich one, yours are interesting lives based on curiosity, ambition and a willingness to share. I think this combination blends well and lends itself to some fun and exciting sessions.

Insurance with Schwab

Most of you have either already moved your accounts from National Financial Services to Schwab or are in the process of doing so. Since Schwab is new to most of our clients, we want to assure you that protecting client assets and financial information is a high priority at Schwab.

Schwab provides two levels of protection in the event of broker-dealer failure. First, Securities Investor Protection Corporation (SIPC) provides up to $500,000 of protection for each account held in separate capacities, i.e., joint tenant, sole owner. With SIPC coverage, uninvested cash is covered up to $100,000. Second, Schwab has insurance coverage through Lloyd's of London, which provides protection up to an aggregate of $600 million, limited to $150 million for combined client accounts. This includes protecting cash up to $1 million. Lloyd's of London coverage kicks in after SIPC coverage is exhausted.

Living Well

"Life is what happens to you while you're busy making other plans."
- John Lennon

Living Smart

MAKING A HOME INVENTORY

Recommended along with your homeowner's insurance to protect yourself in the case of fire, burglary or natural disaster is a home inventory of your belongings. As well as helping you to purchase enough insurance to replace your belongings, a home inventory will help substantiate any losses for your income tax return and facilitate settling with your insurance company.

The process of creating and maintaining a home inventory involves documenting your assets with receipts, video and photos as well as appraisals and any other information that might be needed to establish replacement value. Along with the larger and more expensive items, smaller items such as toys, CDs and clothing should be noted and photographed. Both the interior and exterior of your home should receive the same treatment. Items in storage, either in the home or in storage lockers, should not be forgotten.

Software is now available to help with the process of creating your home inventory. Several companies offer packages that let you scan receipts, upload photos and make notes in electronic folders organized by room. Some of these packages come with free or low cost online storage so that in the case of a disaster you can access your home inventory on a secure web site.

Once all of the information is collected, unless you choose the online access, one copy of the inventory needs to be stored either in a fire proof safe or safe deposit box and another copy should be given to a friend or relative to keep. The inventory should be updated frequently as new items are purchased.

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Harbor
Financial Group

Images: Lars Sundström, Margan Zajdowicz

Harbor Happenings

HARBOR'S NEW OFFICE

The remodeling of our new office space is coming along nicely. Lights, flooring, walls, paint, trim, lots of decisions! We anticipate our move date to be mid-May. Stay tuned for information about our Grand Opening Party this summer!

UPDATE – CUSTODIAL MOVE TO SCHWAB

We are in the last phase of moving our custodial accounts from National Financial to Schwab Institutional. If you haven't yet returned your paperwork to us, please do so as soon as possible.

Have you signed up for E-Delivery yet? This is a terrific feature that Schwab Institutional offers. You now have the option of choosing how you receive your statements, confirmations and/or shareholder materials from Schwab (email, online or hard copy mail). What a great way to reduce paper and lighten your footprint on the environment!

We appreciate your cooperation and patience through this process and welcome any questions you may have.

2008 Closures

The New York Stock Exchange (and therefore our office) will be closed on the following days in 2008: Memorial Day—May 26, Independence Day—July 4, Labor Day—September 1, Thanksgiving Day—November 27, Christmas—December 25.

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