

Volume XX, Issue I

# THE HARBOR ADVISOR

## A Matter of Perspective

I have had the opportunity to speak with you over the past few months to discuss current market and economic events and the effect that this will have on you and your family. I have focused on the individual as I saw very early that each of us has been and will be affected differently. We are in the midst of a financial crisis that is unique and is difficult for everyone. While the effects for each individual are different, I have observed some commonalities.

Everyone can benefit from realistically assessing his or her financial position. We have been busy updating planning projections for you in order to determine both short term and long term needs for cash, capital growth and income. Almost everyone is better off than previously thought.

No matter what your situation is currently, everyone is better off than most of the people in the rest of the world. We have a standard of living and prosperity today because we are fortunate to enough live here. It is important to be grateful for this, especially when times are difficult.

It is a time to manage your expectations. While your asset totals, including your home value, might not be as great as they were two years ago, in most cases, it is more than you had to start with and less than you will have in years to come.

This is a good time to redefine 'normal'. In all likelihood, the future will look different than the past. Rather than wish for what was, focus on the opportunities inherent in the future.

This is a time to be as informed as possible so as to make good decisions. It is also a good time to connect with your community of friends; discussing current events can help make sense of seemingly random events.

In this issue of *The Harbor Advisor*, we have addressed long and short time horizons as it applies to investing and saving, how we plan for retirement income, college funding and several good investment ideas for today. We have also added a reminder to check your insurance coverage and money saving ideas for buying wine.

I hope you enjoy this issue. As always we appreciate hearing from you.



April 17, 2009

## Contents

### Main Articles

A Matter of Perspective	1
Time Horizons	2
Your Retirement Paycheck	3
Harbor Happenings	4

### Individual Highlights

Investor IQ	1
2009 Market Recap	2
Fund Focus	2
Insurance Review	3
Living Well/Living Smart	3
Market Closures	4

## Investor IQ

**Alpha:** A measure of portfolio performance on a risk-adjusted basis and one of the key ratios in modern portfolio theory. Alpha is often used as a proxy for the value added or subtracted by a portfolio manager. A positive alpha indicates that a portfolio returned more than a comparable portfolio with the same risk characteristics.



## 2009 Market Recap

Following the market plummet we witnessed in 2008, 2009 was off to a shaky start. Market trends during January and February of 2009 can be described as a leaky bucket: despite funds flowing into the economy by way of the TARP (Troubled Assets Relief Program) legislation, capital continued to leak out the bottom of the economy. The markets continue to react to major news with volatility, as the potential bankruptcy of the big U.S. automakers looms and unemployment figures continue to rise. Also influencing the markets and policy was the presence of a new presidential administration, as President Obama was inaugurated in late January.

Market performance continued the downtrend from 2008 in this first quarter of 2009: the S&P finished down 15.78%, the Russell 2000 (Small Cap) was down 16.03%, and the EAFE (an index of foreign stocks) finished down 17.28%. Despite these negative figures, markets showed signs of a small recovery late in the quarter, representing the first upswing since September 2008. Positive market performance since early March sent the Dow up over 15% from its prior low amid news of improvement in some economic data and world governments stepping up their efforts to alleviate the worldwide recession.

*"You must look at your expenses through a microscope and your investments through a telescope."  
- Jim Seneff, CEO, CNL Financial Group*

### Fund Focus: PIMCO Total Return (PTTAX)

As we research funds and revise our investment strategy in 2009, we are constantly evaluating investments for our core investment strategy. We believe PIMCO Total Return meets our objectives.

PIMCO Total Return is an intermediate-term bond fund that seeks to maximize both current income and price appreciation. This fund's strategy is to preserve capital and be prudent in taking risks, an approach which aligns with our aims at Harbor. This fund has exposure in all sectors of the bond markets, including government, corporate, mortgage, asset-backed, money market, emerging markets, inflation-linked and hedged international.

The fund showed positive performance this year with a year-to-date return of 1.38% as of 3/31/09. For 2008, Pimco Total Return had a total return of 4.33%, which is significantly better than the markets as a whole. Since this fund has broad market exposure and pays dividends regularly, we see it as an important piece of our fixed income investments.

## Retirement, Education and Time Horizons

One common complaint for many investors who may have needed cash for their retirement or the education of their children in the past year has been the necessity of selling investments at severely depressed prices. One of the goals in planning at Harbor is to manage the time horizons of your investments so that adequate cash reserves are available when needed.

In investing, a time horizon is the length of time an investment is made or held before it is liquidated. This can range from a very short period of time up to decades. When time horizons are properly managed, the effect of market downturns can be mitigated and the above scenario of being forced to sell to create cash flow avoided.

At Harbor, five years before your retirement approaches we begin rearranging your assets to provide you with an income stream once you have stopped receiving a paycheck. There are several elements that will make up your new source of income, often thought of as a four legged stool. First, there are your retirement savings. These are the savings you have accumulated in your IRA, 401k, defined benefit and other retirement plans. Second, there are the government programs such as social security or government pension plans. Third, your personal savings and fourth, any annuities in which you might have invested over the years. Starting the analysis and rearrangement process early allows us to build you a new paycheck made up of strategic withdrawals from your qualified assets, maximized social security withdrawals, capital gains, dividends, interest and calculated sales from your personal investments, and regular monthly annuity payments.

The process of providing cash for your children's educational needs is similar to providing for your retirement. When your children reach freshman year in high school, we begin raising cash in their accounts for their freshman year in college and so on, until by the time they graduate from high school most of their assets are in cash or conservative assets that can be quickly and easily converted to cash. The exception to this type of planning would be if the children's assets would not cover their educational costs. In that case, more of their assets remain in equities in order to gain higher rates of return.

We have developed both retirement and education analyses as part of our planning package that can diagram your current and future resources for these two life events. They take into account your current ages or the ages of your children, assets available, and the projected growth rates of those assets as well as other less tangible factors such as risk tolerance and life goals. The following article on retirement income looks at this process.

## Your Retirement Paycheck

As previously introduced in this newsletter, understanding time horizons is a very important part of retirement planning. However, what about unforeseen severe market contractions that leave an investment portfolio off over 20%; how will this affect the probability for success in the long-term? The knee-jerk reaction is to suggest it will greatly affect the probability for success, as long-term projections do not account for such a precipitous drop. However, diligent planning can successfully decrease the impact of this risk, as it would suggest diversifying your expected sources of income in retirement. Take, for example, an early 40s dual wage earning couple who expect social security, a pension income, and have personal and retirement investment assets. How could they increase their likelihood for success assuming they have about twenty years until retirement?

Begin by thinking about it in a different light. One of the goals in retirement planning is to build a seamless transition of income streams from employment to retirement. As mentioned above, the couple will already have pension and social security checks coming in the mail, but what else can supplement their monthly income?

As we have mentioned in previous editions of this newsletter, one option would be to purchase a deferred annuity product that, when annuitized, will begin making monthly payments. To illustrate, suppose the couple purchases a single premium deferred annuity paying a fixed 4% interest per year for \$50,000. Upon retirement in 20 years, the value of this annuity will be about \$110,000. If the couple annuitizes this amount utilizing a 10 year period certain at 3%, then the couple will receive \$1,075 per month for the duration of that ten years when retirement spending is likely to be the highest.

Based on an appropriate risk-adjusted portfolio allocation for their retirement and personal assets, it is possible to forecast a sustainable withdrawal rate out of the portfolio to supplement the first three calculated income streams illustrated above. Even if markets suffer a similar drop to 2008-2009 just a few years before their retirement, the couple's chance for a comfortable retirement is not in jeopardy, as they will have properly diversified their sources of income.



## Insurance Review

The economic downturn has emphasized the importance of protecting your assets. In our last newsletter, we discussed fixed and equity-indexed annuities as options to guard against losses when the markets drop. Insurance is another way to protect your assets, regardless of market movement. If you have not done so lately, now is a great time to determine if your current coverage is adequate.

**Personal umbrella liability:** This type of insurance shelters you from excess losses not covered by your standard auto and homeowner's policies. Consider adding an umbrella policy if, for example, you are a high income earner, you have a swimming pool or you have teenage drivers.

**Life insurance:** Consider if your coverage would enable your family to maintain their current standard of living in the event of your death. Include your mortgage and education costs.

**Auto insurance:** Review your deductible amount and medical expense coverage.

**Homeowner's insurance:** Given the increasing cost of materials and construction, check your policy for extended replacement cost, which provides a buffer if costs to rebuild or refinish exceed the stated limit on the policy. Consider if you have enough coverage to begin with.

**Disability insurance:** This type of insurance provides income replacement if you become disabled. Review your coverage for the percentage of salary replaced, inflation protection, coverage for partial disability and the inclusion of own occupation coverage.

**Long-term care insurance:** Should you need long-term care at some point in your life, rising medical costs can deplete your assets rapidly. Review your policy for its term, the benefit amount and inflation protection.

## Living Well & Smart

Now more than ever, we are looking for ways to save money and dining out is no exception. Here are some tips that may help you find value in wine at restaurants:

**Skip wine by the glass** - Restaurants tend to make enough on a single glass to pay for a whole bottle. In addition, many of these wines by the glass are poured from bottles that have been open for too long. If you do not drink the entire bottle, most states will allow you to take unfinished wine home with you.

**Check the vintage closely** - Many wines are meant to drink young and fresh. Facing slumping demand, restaurants may not be in a rush to replenish their inventory. This means some wines are still being served that should not be.

**Pass the second cheapest wine on the list** - Restaurants know that diners don't want to appear cheap by ordering the least expensive wine on the list, so in many cases, they will charge you more when ordering the second cheapest. The least expensive is actually a pretty good deal in many places.

**Scope out the owner's passion** - If there are a dozen wines from Oregon on the list and just a few from other regions, chances are the owner knows and cares about Oregon wine. Therefore, you are more likely to find good values in these wines.

**Don't pass up house wines, in carafes or by the bottle** - More often than not, these wines can be simple, inexpensive and delicious.

**Look for wine deals** - some restaurants offer specials like Monday night 1/2 price off bottled wine or 1/2 price off a specific region.

Remember, in good times and bad, wine always tastes better when it is a good deal.

[The Wall Street Journal](#), March 12, 2009, US, W6

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# Harbor Financial Group

Images: Lars Sundström, Fleur Suijten

## Harbor Happenings

### Webinar

We have received positive feedback from you in our efforts to increase communication of newsworthy events and market developments. In addition to our emailed Harbor Update letters, we will be hosting our first Webinar later this spring. Details and registration information will be emailed. As always, we would love to hear from you if you have questions or ideas to improve our communication with you.

### Small Group Discussion Series

Harbor will be hosting a series of small group discussions in our office this quarter:

*Perspectives: New Questions & New Answers*, date/time to be determined

Alternative Asset discussion, date/time to be determined

Private Equity discussion, date/time to be determined

### Advisory Teams

Harbor prides itself in providing exceptional and individualized service to each of our clients. In an effort to improve this service, we have completed assigning advisory teams. This team approach will allow us to be even more familiar with our clients and provide a more thorough and personalized service. You will be hearing from your team soon. Stay tuned!

## 2009 Closures

Our office is closed on the following New York Stock Exchange holidays in 2009: Memorial Day - May 25, Independence Day - July 3, Labor Day - September 7, Thanksgiving Day - November 26, and Christmas - December 25.

Securities offered through Triad Advisors and Schwab Institutional. Members FINRA & SIPC

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