

Volume XXI, Issue I

# THE HARBOR ADVISOR

## Moving Forward

What a difference a year makes! One year ago investors were reeling from the market decline and making an effort to sort out what had happened and how. We were just beginning to see the return of market prices at what was to be a stunning rate. While economies look more stable and market prices have rebounded, unemployment remains high, debt of developed countries around the world is soaring, municipalities are cutting deeply into services and banks are failing at a high rate. Questions as to government stability remain, as do new thoughts of the drag that unfunded pensions, the cost of health care and low returns on retirement and college savings will have on our ability to get back on track.

Developing a plan for recovery and moving forward is on many of our clients' minds. It is a practical and realistic approach to the current uncertain environment. Our planning efforts are geared towards looking carefully at all of your resources for a realistic inventory. We are continuing our careful review of your insurance and risk management strategies along with establishing savings goals that are realistic and designed to achieve your family's goals. Monitoring spending is important as well in order to allow room for the important aspects of your life.

With this process you achieve measurable success and the peace of mind that you are moving forward not backward.

In this issue of the Harbor Advisor you will find a fund review, articles about personal risk, long term care and some fun bits on eating local just in time for the opening of our local farmers markets. For more lighthearted activities, look for our survey on educational and social events planned for the next few months. We look forward to hearing from you and catching up in person at one of the events.

Happy Spring!



April 14, 2010

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## Investor IQ

**Beta:** A measure of investment volatility. Beta derives from the movement of a security or group of securities compared to a broad benchmark, such as the S&P 500. A beta of one means that the price movements of the security in question track equally with the benchmark. A higher beta corresponds to higher movements (volatility) and vice versa.



## Q1 2010 Market Recap

The economy continued its recovery at a more modest pace during the first quarter. Manufacturing activity posted the strongest growth in years, adding to corporate profits and putting companies in a better position to hire as the economy gains strength.

However, after such a deep recession, the recovery has been slow. For those trying to find work, it has not felt like a recovery at all. March employment numbers indicated that employers had added the most jobs in three years. Yet, it will take a long time for the economy to absorb the 8 million jobs lost during the recession.

Inflation has not been a top concern, with high unemployment, relatively stable energy prices and low interest rates. Housing prices are weak although pending home sales rose sharply during the quarter as buyers moved to take advantage of tax breaks that expire April 30th.

The Dow Jones Industrial Average was up 4.11% for the quarter, the Wilshire 5000 up 5.83%, the NASDAQ up 5.68%, the Russell 2000 up 8.51% and the MSCI EAFE up 0.22%.

*"Continuity gives us roots; change gives us branches, letting us stretch and reach new heights."  
- Paulene R Kezer*

### Fund Focus: RidgeWorth US Gov't Ultra-Short Bond Fund (SIGVX)

"What has my money market fund done for me lately?" A common cry heard echoing in the press and mentioned by more than a few of our clients with interest rates hovering in the vicinity of nada, zilch, and zero.

For many situations, RidgeWorth U.S. Government Ultra-Short Bond Fund is a viable alternative. An effective SEC yield of 0.74%<sup>1</sup> certainly helps. The fund seeks to provide current income while preserving capital and maintaining liquidity. Strategically, the managers identify short duration U.S. government agency securities that offer a better return and yield potential than money market funds. The attention to duration is key, as it is a measure of the sensitivity of the fund's underlying holdings to changes in interest rates. As a simplified example, duration of 5 means the fund would see a price decrease of ~5% with a 1% increase in interest rates. Short duration means lower sensitivity to interest rates.

At Harbor, we have added the fund as an additional option to handle short-term fixed income needs for our clients.

<sup>1</sup><http://ridgeworth.com> as of 4/12/10

## Interested in Interest Rate Risk?

In the first quarter of 2008, we wrote an article on managing investment risk, namely capital risk and interest rate risk, and how we manage this risk within our portfolio management style. Capital risk was clearly evident during the credit crises in 2008 as equities and fixed income securities faced sudden and dramatic sell offs. The Federal Reserve responded to the downturn by reducing the federal funds rate sequentially to increase liquidity within the market. This action highlights interest rate risk, or risk associated with interest bearing assets due to variability of interest rates, in fixed income portfolios. We would like to revisit our discussion on interest rate risk in light of the current economy and how it pertains to your portfolio.

To begin, fixed income pricing has an inverse relationship to interest rate changes. Credit and other financial risks aside, a bond's value will decrease in rising rate environments and will increase in decreasing rate environments. In monitoring interest-rate risk, we calculate duration, broadly defined as the sensitivity to an asset's price as interest rates move. A bond with a longer duration has more interest-rate risk than one with a shorter duration.

Based on this fundamental description of interest rate risk, let us turn our attention to the current economic environment. The federal funds rate remains at 0% - .25% and will be kept at this rate for an 'extended period' according to the Federal Reserve. There has been massive monetary expansion domestically in efforts to aid the economy back to health and stabilize asset prices. As this combination can lead to inflation, the Federal Reserve will likely begin increasing the federal funds rate, which will adversely affect bond holders, especially those with longer term durations. Since we anticipate this interest rate movement to occur in the near future, what can be done to reduce this risk in our portfolios? The answer is two-fold: shorten the duration in your bond strategy and/or reduce your exposure to fixed income all together and allocate the funds elsewhere. While we have implemented the first strategy, the second strategy will be determined by Harbor's investment committee in the coming months.

You may periodically review our Investment Committee notes on our website ([www.harborfin.com](http://www.harborfin.com)) to stay up to date with our views on fixed income and the markets in general.

## Personal Risk Tolerance

Even though an online search on 'personal risk' reveals two major groups of links, health and asset protection, these two areas definitely do not make up the whole of personal risk. In actuality, every individual needs his or her own distinctive set of boundaries for risk involving not just finances and health, but also decisions about family, career, hobbies and more. How a person responds to uncertainty and risk is as individualized as a fingerprint and based on a multitude of factors. What are my resources? What do I hope to gain or what can I afford to lose? How long do I have to meet my goals or recover from a loss? What about my dependents? How will this affect my family? What is my lifestyle and how important is it to me?

Overlaying all of these factors is our personal philosophy and hand in hand with this the emotional aspects of how uncertainty and risk make us feel. While the general usage of the words 'risk' and 'uncertainty' tend to focus on the negative, there is often tremendous positive potential in intelligent risk taking. Determining your comfort level is generally a trial and error proposition with the testing ground made up of life situations. Often security and wellbeing in one aspect of our lives can allow us the freedom for risk-taking in another.

One of the goals of financial planning is to discover the level of risk tolerance that each client is comfortable with at each stage of their lives and to design and adjust their finances to reflect that changing level. In a recent office discussion it was brought up that one of the benefits that Harbor offers its clients is the comfort of knowing that, at the very least, the financial portion of their lives is on track and being well monitored. That is, if some area of risk and uncertainty in our clients lives is keeping them awake at night, it should not be their finances.

"Risk can kill you, but it can also yield life-changing innovations." Jim McCormick & Maryann Karinch, [Business Lessons from the Edge](#)



## Long Term Care Update

Many considerations come into play when deciding whether to purchase a long-term care insurance policy or self-fund your care. If you decide to self-fund, on whom would you rely to help you with your personal care? Are you prepared to deplete personal assets built over your lifetime? Moreover, are you prepared to deplete those assets that your spouse may also need in order to continue his or her current lifestyle?

As a part of the planning process, your Harbor Team assesses the impact on your financial situation should you need long-term care. The cost projections can be frightening; facility care that may cost \$5,000/month today could cost \$20,000/month or more in 2030. Medicare and health insurance do not cover these costs.

Should you decide to purchase insurance, there many options available:

- A new LTC/Life product involves investing a lump sum; the benefit can be used for long-term care if needed or, if unused, it would revert to life insurance with a guaranteed rate of return. This option provides for you, your estate or your heirs.
- Traditional term plans are based on years of benefit coverage desired, inflation protection, elimination period, etc. If you are married, you may receive discounts of 30-40% and some plans have a shared option where each person may have 3 years benefit in the plan, but one person could use all 6 years if needed.

A portion of the premiums for traditional LTC policies are includible in your medical expense deduction. Your accountant can best help you with this determination.

We continue to look for options to provide for your LTC needs. Please contact your Harbor Team if you have questions.

## Living Well

### Locavores

They're called locavores, people who eat food locally grown, typically within a 100-250 mile radius. And they're growing in number. So much that, in July 2009 Merriam-Webster added the word to its dictionary. Freshness, taste, nutrition, regional economic health and environmental protection are just some of the benefits of eating locally.

Interested in joining the movement or finding out more? Check to see what community resources are available to you. Look around on the internet. Boulder County has launched its 2010 Eat Local! Campaign and is encouraging the community to make a 10% local food shift pledge. Take the pledge! With local farmers markets just around the corner, timing couldn't be any better. Also, for you iPhone users, there's an app for that... Locavores.

## Living Smart

### Recycling: Some Tips

People are becoming more cognizant of the benefits of recycling. Unfortunately, there is still a gap in knowledge of what truly is recyclable and what can cause harm in the recycling process.

#### Certain Plastics

Check the number in the triangle! Numbers 1 and 2 are fine (soda/milk jugs). Others, like bottle tops and toys, are not.

#### Glassware

It needs to be single-use, not a drinking glass or flower vase.

#### Shredded Paper

Clogs the machinery. Can be composted or recycled in special programs.

#### Plastic Bags

The worst enemy. Clogs machinery. Also, remove your recyclables from bags or they will be trashed.

#### Frozen Food Boxes

A layer of plastic is sprayed on that won't allow the fiber inside to break up.

When in doubt, check with your local recycling centers.

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Images: Lars Sundström, Fleur Suijten

## Harbor Happenings

### Congratulations!

Kevin McCulley passed the CFP® board exam and is in the final stages of obtaining the Certified Financial Planner™ designation.

### Office Seminars

In February, we hosted a seminar "Asset Protection" with Chuck Sisk, a local attorney as guest speaker. This was our most highly attended seminar to date. Thank you Chuck and to all who attended.

This quarter we are planning an educational webinar and will keep you posted on details.

### Form ADV

If you would like a copy of our updated Disclosure Statement, ADV Part II, please contact our office.

## 2010 Closures

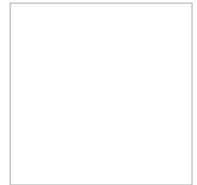
Our office is closed on the following New York Stock Exchange holidays in 2010: Memorial Day - May 31, Independence Day (observed) - July 5, Labor Day - September 6, Thanksgiving Day - November 25, and Christmas (observed) - December 24.

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

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