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THE HARBOR ADVISOR

Resource Management

While always important, since the onset of The Great Recession resource management has become an essential component of our financial, household management, business and community lives. This ability increases in importance as our resources become scarcer. Assessing and analyzing resources are an essential part of the planning process. An understanding of each helps us to build in maximum flexibility, which in turn enhances our ability to maneuver through difficult environments. Here at Harbor we review your resources during the annual financial planning process with an eye towards maximization of each.

Resources include assets, debt, earnings, company benefits, and time to name a few. Including all aspects in our conversations with you helps to determine what is most important to you. The result is a critical component of your personal financial plan, which in turn allows for complete utilization of your individual resources.

Protection of resources is also critical in the process. Risk transference and even elimination are both possible with proper planning.

The combination of resource identification and monitoring, realization of what is important to you, and protection of your resources is integral in effective planning. Using your plan as a guide, we are able to help you achieve your goals.

In this issue of *The Harbor Advisor*, you will find more detail about our financial plan, current tax information and our fund focus. In addition, please review our coming events including a webinar and a small group opportunity here at Harbor.

Enjoy spring!



April 15, 2011

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Investor IQ

Information Ratio (IR): A measure of investment performance focusing on excess returns or alpha. Related to the well-known Sharpe Ratio, the IR is computed by dividing the difference between the investment return and the benchmark (active return) by the standard deviation of the active return mentioned above. A higher IR relative to another portfolio can indicate better consistency in returns.



Q1 2011 Market Recap

Investors' appetite for domestic and international equities continued through the first quarter of 2011, fueled by improving corporate margins, profits, and strong GDP estimates. Country risk was on the forefront however as political uprisings flared up across the MENA region as protestors toppled longstanding dictatorial regimes in Tunisia and Egypt while anti-Gaddafi rebels in Libya instigated a civil war.

Tragically and most recently, the markets were literally shaken by the earthquake and subsequent tsunami in Japan. Our thoughts are with the Japanese people, who remain in

an unstable situation. Markets reacted sharply to the news, sending the Nikkei down into a 20% tailspin over the course of a few days. Given that Japan has the third-largest GDP in the world, one would have thought this severe supply disruption would diminish the appetite for equities, but this was not the case. The S&P briefly went into the red for the year on March 16th, but rallied strongly to have one of the best first quarters in over a decade. The S&P 500 was up 5.33%, DJIA was up 6.4%, MSCI EAFE up 2.67% and Barclays Aggregate up 0.42%.

*"Inflation is taxation without legislation."
- Milton Friedman*

Fund Focus: Oppenheimer Developing Markets

Emerging market economies accounted for 37% of world GDP and 31% of world equity in 2010¹. These are significant numbers and there is every indication that they will continue to rise in the coming decades. Positive demographic trends and rapid economic growth will fuel the further ascent of China, India, Brazil and others.

Harbor gains access to this market through the Oppenheimer Developing Markets Fund. Portfolio manager Justin Leverenz focuses on companies that fit four investment themes: mass affluence, new technology, restructuring, and aging. A bottom up valuation style then looks for market leaders with sustainable levels of strong growth and cash flow. The fund is benchmark agnostic, meaning it does not need to match the allocation of benchmarks such as the MSCI Emerging Markets Index.

Somewhat rare in this category, the fund has a low turnover ratio, giving companies time to perform and speaks to the bottom up style of Leverenz's team. Returns have been strong, but the emerging market investment universe is notoriously volatile.

¹Global Economics Paper 204, Goldman Sachs

Price Inflation

In recent months, inflation has begun to make unwelcome appearances in nearly all aspects of our lives, especially at the grocery store and at the gas pump. Since the recession, companies have been reluctant to pass increasing costs onto consumers for fear of losing business. However, now that consumer confidence is showing signs of improvement, businesses are more likely to pass those costs along in the form of higher prices.

Recent gas price increases can largely be attributed to the turmoil in the Middle East, but what has caused such volatility in food prices? Food prices were already on the rise prior to the recession, but the recession temporarily squelched demand, and good weather made for a more bountiful crop harvest than expected. Currently, prices are trending upward because of a combination of bad harvests and increasing global demand. Winter freezes in Florida, Texas and other southern states have caused prices of vegetables to soar recently. On a more global scale, much of the decline in wheat and other grain production has been the result of heat waves and drought in Russia, Ukraine and Kazakhstan, which normally produce a quarter of the world's wheat supply. As people in developing nations (such as China), move up the social structure into more affluence, demand for meat, and therefore demand for feed, increase. Crops are also being diverted from a food source to the production of ethanol, as the world looks for alternatives to oil.

The federal government maintains that inflation is well within its preferred target range of around 2% and does not believe current price increases pose a long-term threat to the economic recovery. The Federal Reserve monitors core inflation, which excludes such categories as food and energy, two of the most volatile categories that affect consumers the most in their daily lives. According to the Fed, the core inflation rate is considered a better indicator of long-term inflation than the Consumer Price Index (CPI). The CPI represents eight major groups, which include food, transportation, medical services, housing, clothing, recreation, education, and other goods and services. The Fed believes that removing food and energy smoothes the effects of long-term trends.

We are keeping an eye on inflation and have added defensive positions to client portfolios. Investments in commodities and inflation-protected securities are intended to offset the impact of rising costs and price volatility. As always, please contact us if you have questions.

Helping Harbor Help You – The Financial Plan

The first questions we ask our clients at Harbor are about personal goals and objectives. Questions about family and career goals, possible career changes, major purchases planned, desired retirement age, etc. are the starting point to help us understand what is important to you, where and how you would like to proceed in your life, and with your financial affairs. The answers to these questions along with your detailed financial information form the basis for the preparation of a financial plan.

Below are some of the reports and schedules that are most popular with our clients:

- Morningstar Principia – This provides a customized analysis of your portfolio, evaluating risk, composition and return. Risk factors indicate how your portfolio would perform relative to the market based on historical data. Data on fund composition is analyzed and your portfolio's return is compared to a benchmark return from Morningstar.
- Financial Statement – This provides you with a consolidated view of your current financial situation. It details the assets and liabilities making up your total net worth and provides a snapshot of your personal information. Everything you own and owe is represented, including costs and market values of your investment portfolio, partnerships, real estate holdings, debt information and other personal assets.
- Financial Independence Projection – This custom report answers many big picture questions. How much money can I spend in retirement? What rate of return do I need to achieve on my capital in order to live comfortably? What is an appropriate amount of risk for me? Will I be able to leave my family any money when I am gone? This is one of the cornerstones to a complete financial picture.

Once the plan is in place, discussions around the plan findings encourage informed decision making, communication between family members and a unified approach to the financial management process. Next quarter, we will discuss some additional analyses that can be prepared such as the Education Projection and Cash Flow Analysis. If you are not currently having a plan prepared and are interested in one, please contact our office.



Who Doesn't Want a (Tax) Break?

A few years back McDonald's said, "You deserve a break today." Well, it seems that Congress and the IRS agree. According to the 2010 Tax Relief Act, the applicable exclusion amount for lifetime gifts made between January 1, 2011 and December 31, 2012 has increased from \$1 million to \$5 million for individuals and from \$2 million to \$10 million for married couples.

If you previously utilized your \$1 million exemption, you now have an additional \$4 million that can be gifted, prior to December 31, 2012, without incurring a gift tax. In addition, the top tax rate on gifts above these amounts will be lowered to 35% (also until December 31, 2012).

Individuals with assets of \$4 million or more, or couples with \$8 million or more should consider reviewing current estate plans to take advantage of this opportunity.

That said, be aware of the tax drawbacks of gifts. Unlike assets left in an estate, the giver's original cost basis carries over to the recipient. If an asset is put in trust, the trust will owe income tax at the highest rates. There is also no guaranty that future sessions of Congress will not retroactively reverse this exclusion.

Please contact Harbor, your estate attorney or your tax professional with questions or to discuss this further.

Living Well

Online Wine Deals

There are many new online wine sale sites popping up – Wines til Sold Out (WTSO), Wine Spies, and Cinderella Wine just to name a few. Our office favorite is WTSO: great bargains, free shipping and superb customer service. Just as the name implies, they post one wine at a time and once it sells out, they offer another wine. It is hit or miss on what is available, but we have found some incredible deals on some very nice wines.

Take a peek and see what you think: www.wtso.com. You can sign up for daily email notifications of wines that are available or just check the site from time to time. Mobile apps are available for both iPhone and Android users.

Living Smart

Your Finances at Your Fingertips

Imagine logging into an app and having all of your financial information at your fingertips, updating in real-time. Sound far-fetched? If you are already comfortable with online access to your sundry financial accounts, you should consider looking into Mint. A number of Harbor employees have been happily using Mint for over a year and have found it to be a wonderful time saver and an effective planning tool.

How does the magic happen? Enter the login credentials for each of your online finance accounts and Mint automatically begins to pull in recent transactions. Online security is a major concern these days; Mint is wisely a secured read-only service. There are a number of tools to review your spending and asset totals, including budget creation and alerts, trend analyses with charts and graphs, goal trackers and more.

Mint is available from any web browser and has award-winning iPhone and Android apps for access on the go. Read more about the service here:

<http://www.mint.com/how-it-works/>

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Images: Lars Sundström, Fleur Suijten

Harbor Happenings

Lunch with the Governor

We enjoyed seeing those of you who were able to join us at the recent luncheon with Governor Hickenlooper at the Boulder St. Julien hotel.

Harbor Launches New Website

We hope you have checked out our new website. If you haven't, please do so! There is a lot of new content and the look has been completely overhauled. A special thanks to our very own Jordan Kunz for his hard work on this project. Visit the new site at www.harborfinancialgroup.com. We would love to hear what you think.

Quarterly Webinar

Join us for our quarterly portfolio performance webinar on Thursday, April 28th at 12:15 pm. Instructions for joining the webinar will be emailed out in the coming weeks.

Book Review

We would like to invite you to a book review at Harbor's office on Thursday, May 19th from 4-5:30 pm. We will be discussing Michael Lewis's *The Big Short*. Look for an invitation with more details soon. Space is limited!

Form ADV

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

2011 Closures

Our office is closed on the following New York Stock Exchange holidays in 2011: Memorial Day - May 30, Independence Day - July 4, Labor Day - September 5, Thanksgiving Day - November 24, and Christmas (observed) - December 26.

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

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