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THE HARBOR ADVISOR

Before the First Question

As many of you know, I recently was interviewed by Kate Stalter from Moneyshow.com. She asked that I discuss what we were recommending as far as investments and specifically what was different since the last time she interviewed me. Kate added, "Not to worry this should be easy". In order to avoid a plethora of "ums" and awkward silence, I promptly gave the interview some thought. I arrived at the fact that the first and most important topic to discuss was the concept of being in the market in the first place. Investment philosophy aside, I told her that it was my opinion that most of us mere mortals (those with less capital than, let's say, Bill Gates) need the returns for our portfolio growth that were posted so far this year (in the case of the Wilshire 5000: 7.5%). These above average returns prepare us for the years when the returns might be lower. The individuals that are out of the market for whatever reason did not participate in the up market we have experienced for the past few months.

Sound obvious? Hardly. A high percentage of individual investors are sitting on the sidelines, waiting for what? The economy to recover? The Euro to stabilize? A time when there is no disruptive natural event? No political upheaval? You get the idea. Not that we suggest that you ignore the possibility for negative market events. The trick is to develop a portfolio strategy that accounts for risk and holds portfolio value in down market cycles. This brings us to the definition of "fully invested". You don't have to have all of your money in the equities market in order to gain a nice return. We are approximately 60% invested in equities which we believe is the maximum amount advisable in order to achieve the maximum return with the least risk. Properly constructed this portfolio holds its value on the downside while participating on the up side by capturing a good percentage of the up market return. In addition, setting aside funds that you need for the short and near term allow you to ride out the ups and downs of a normal market cycle, which in turn allow you to take advantage of the good years while avoiding some of the downside in the bad. Historically this has produced the best returns and I think it makes sense for today's markets.

Look to this issue of the *Harbor Advisor* for the usual market recap, strategies for protecting all of that data you have been entering in your smartphone, iPad and computer and a descriptive piece on the Columbia Acorn International Fund.

Enjoy spring!



April 18, 2012

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Investor IQ

Q: When was the last time the BarCap Aggregate had a negative total return for the calendar year?

A: 1999



Q1 2012 Market Recap

The U.S. Economy continued to grow during the first quarter with major indicators, such as employment, GDP, consumer spending and the housing market, showing further signs of improvement. Optimism brought on by strong corporate profits fed the rally in equity markets. However, concerns grew over rising gasoline and oil prices and the slowing economy in China. The bigger fears were consumer incomes and inflation, as wage growth stabilized at 2%, while inflation has demonstrated much more volatility.

While a long-term resolution to the EU's sovereign debt crisis remained unsettled, policymakers took action that reduced the

chance of another global financial meltdown. In developed nations, concerns persisted about global economic growth being weak, and unemployment and government debt being high relative to GDP. In emerging markets, higher gasoline prices had a large effect where oil comprises a large part of consumption.

Index returns for the quarter were positive. The S&P 500 posted a return of 12.00%. The Russell 2000 was up 12.06% and the MSCI EAFE was up 9.21%. The Barclays US Aggregate Bond's return was also positive at 0.30%.

"Yesterday's home runs don't win today's games."

- Babe Ruth

Fund Focus: Columbia Acorn International

Publicly listed foreign equities represent 90% of globally listed companies and 68% by global equity market capitalization¹. If an investor wants exposure to international and emerging markets, they have to look beyond ADRs and US listed multinational corporations.

Harbor rounds out its foreign equity exposure through the Columbia Acorn International fund. This fund focuses on small to mid capitalization foreign companies that exhibit potential for long-term growth. The fund leverages its deep quantitative capabilities to identify and value opportunities using a bottom-up stock selection approach. These equities offer similar risk and return characteristics to their domestic counterparts, which can be attractive in a well-diversified portfolio. However, foreign small/mid caps are often overlooked by many asset managers providing a unique alpha proposition for the skilled manager.

Since the fund's inception in 1992, Columbia Acorn International ranks in the top quartile for long-term performance further reinforcing a spot in Harbor's model portfolios.

¹Global Economics Paper 204, Goldman Sachs

European Debt Crisis Update

With equity markets, particularly in the US, on a tear through the first quarter, it is tempting to think that one of the biggest recent economic headwinds, the European sovereign debt crisis, must be subsiding. What is the latest from overseas?

After dominating the headlines in 2011, the latest news from Greece includes a deal with private creditors to agree to a 75% loss on their holdings. While the aggressive "take it or leave it" strategy worked this time, it will likely be more difficult if not impossible to take this stance against the new owners of the Greek holdings: the International Monetary Fund, the European Central Bank and the individual taxpayers of the European countries backing the bailouts. Greece has secured a temporary win, but there are many battles left.

With Greece shifted to the backburner for now, market participants have set their sights on Spain and Italy. Borrowing costs are back up to levels not seen since the beginning of the year for these major European countries. Spain has a much larger debt footprint than Greece, so there is significant concern about the health of banks holding Spanish debt. Unemployment rates in Spain are hovering at 51% for the youth under 25 and general unemployment is at Great Depression levels. Spain is also crippled by a huge property surplus from the remnants of a substantial real estate bubble.

Besides Greece and Spain, eight other European economies are currently in recession and there is fierce debate between economists and politicians on the proper way to resolve the crisis. Does a government take on more debt to give its citizens a safety net while being punished by rising interest rates for borrowing? Does it take strong austerity measures to reduce debt to manageable levels at the expense of near-term economic growth? The rigidity of the euro as a shared common currency has left little wiggle room for the peripheral economies to devalue their way out of this crisis. Political pressure from Brussels to keep all the euro zone countries together is clashing with the economic reality on the ground. With conflict comes uncertainty, and the market famously hates uncertainty.

Based on these observations, we believe there is a sizeable possibility for another default or a country to leave the euro in the coming months. The EU is the largest trading partner for the United States, so further disruption overseas will have a negative effect. The question we are working on answering is how much.

Beyond Email – Keep Your Gadgets Backed Up

In the newsletter last quarter, we talked about using the convenience of your computer and phone to organize your calendar and banking. We hope you have taken some time to explore these tools and have found them helpful. Most people find that once they expand their use of their electronic devices, they become indispensable. This leads us to our next topic – backups.

If you are like me you can easily recite your long time friends' home phone numbers, but can't get past the first few digits of your children's mobile numbers because you never actually dial them. Losing the phone numbers saved in your phone, not to mention the other information – pictures, music, passwords – saved there can be a minor catastrophe. Regular backups are vital if you want to prevent the possibility of losing your data. The 'how to' for phone backups tends to be specific to the phone company and/or the phone but the major phone services have information and often step by step instructions on their web sites. If the web site instructions aren't sufficient or you prefer a demonstration from a real person, a visit to the phone store may be in order.

Backing up your desktop or mobile computer allows you to recreate the information stored on it in the event it becomes inoperative, destroyed, or stolen. You can accomplish a backup of important files on your own by copying them to disks or flash drives. A full system backup is more complicated, takes more storage and is often best accomplished with an external hard drive. One option is to invest in one of the online services that for a fee will do regular online backups for you. There are also services that, for a small monthly fee, will backup all of your computers, your phones and your Facebook account.

If you haven't investigated and evaluated your backup systems for your technology tools recently, consider blocking some time on your electronic calendar to take whatever steps might be needed to ensure that your information is available if something happens to your phone or computer.



Medical POA For Children Over 18

Did you know that once a child turns 18 the parents are no longer considered his or her legal representative? Because of this, you do not necessarily have the right to make treatment decisions on behalf of your adult children even in the case of an accident or incapacitating illness. In fact, some healthcare facilities may refuse to provide information to anyone, even family members, about a hospitalized adult (anyone over the age of 18) unless the patient has given written consent. If you have not done so already, we would urge you to confirm that your young adult child has a medical durable power of attorney in place.

We would encourage you to speak with your adult child soon about having this document drawn up and signed if needed. You may either contact your family attorney to have the document drawn up or standard state forms are also available online, at the public library, at your doctor's office or at a local hospital. The original of your child's medical power of attorney may be kept with any other estate documents, but copies should be given to the stated Representative as well as the successor Representative. Your child may also wish to consider providing copies to any doctor that they see on a regular basis, a hospital or college health clinic where they are likely to receive treatment, as well as other immediate family members such as siblings or grandparents.

Please call us if you have any questions about this or other planning items affecting you or your family.

Living Smart

Shred or Keep?

With tax season coming to an end, many of us are going through personal financial documents and trying to determine what goes in the shredder and what stays. Here are some general guidelines to help with this decision. Of course, this list doesn't cover everything, so if you have questions, please let us know.

Keep One Year or Less (unless used for tax documentation)

- Credit Card and Bank Account Statements
- Utility Bills
- Pay Stubs – keep until reconciled with W-2 or 1099
- Schwab Investment Statements
 - Harbor keeps records of your Schwab confirmations and statements, so no need to keep. However, you may want to keep year-end statements for tax purposes.
- Receipts
 - Exceptions are if you think you may return the item, receipt is needed for a warranty, or a big ticket item that may be included in insurance claim.
- Social Security Benefit Statement
- Insurance Policy Renewals

Keep Seven Years (at least)

- Personal Tax Records and all supporting documentation

Keep Until Sold or Paid Off

- Annual Investment Statements and Transaction Confirmations
- Home Purchase and Improvement Records
- Loan Documents

Keep Forever

- Life Insurance Policies
- Estate Planning Documents

Make sure you have emergency copies for these important documents. Electronic versions are easy to maintain and backup (see accompanying article).

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Harbor Happenings

Congratulations Jordan!

Congratulations to Jordan Kunz, who has passed the November 2011 CFP Board Exam and achieved the CERTIFIED FINANCIAL PLANNER™ certification. More information on the CFP® certification process can be found at www.cfp.net.

Events – Book Review

Have you read *The Social Animal* by David Brooks? If not, there is still plenty of time. We are holding a book review on May 30th from 4-5:30 pm in Denver. More details to come!

Upcoming Webinar

Our next quarterly performance webinar is scheduled for Friday, April 20th at 12:15 pm. Have you joined us in the past? Reminder invitations will be going out soon, so please plan to join us. Contact us if you have any questions.

Privacy Policy & ADV Material Change

Clients will find our 2012 Privacy Policy and a summary of Material Changes for our ADV Part II included with their quarterly reports. Full copies of our ADV Part I & II may be requested by contacting our office or by visiting our website.

Harbor's New Look

Harbor will be rolling out a new look this summer. Stay tuned!

2012 Closures

Our office is closed on the following New York Stock Exchange holidays in 2012: Monday, 5/28 – Memorial Day, Wednesday, 7/4 – Independence Day, Monday, 9/3 – Labor Day, Thursday, 11/22 – Thanksgiving Day, Tuesday, 12/25 – Christmas Day

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