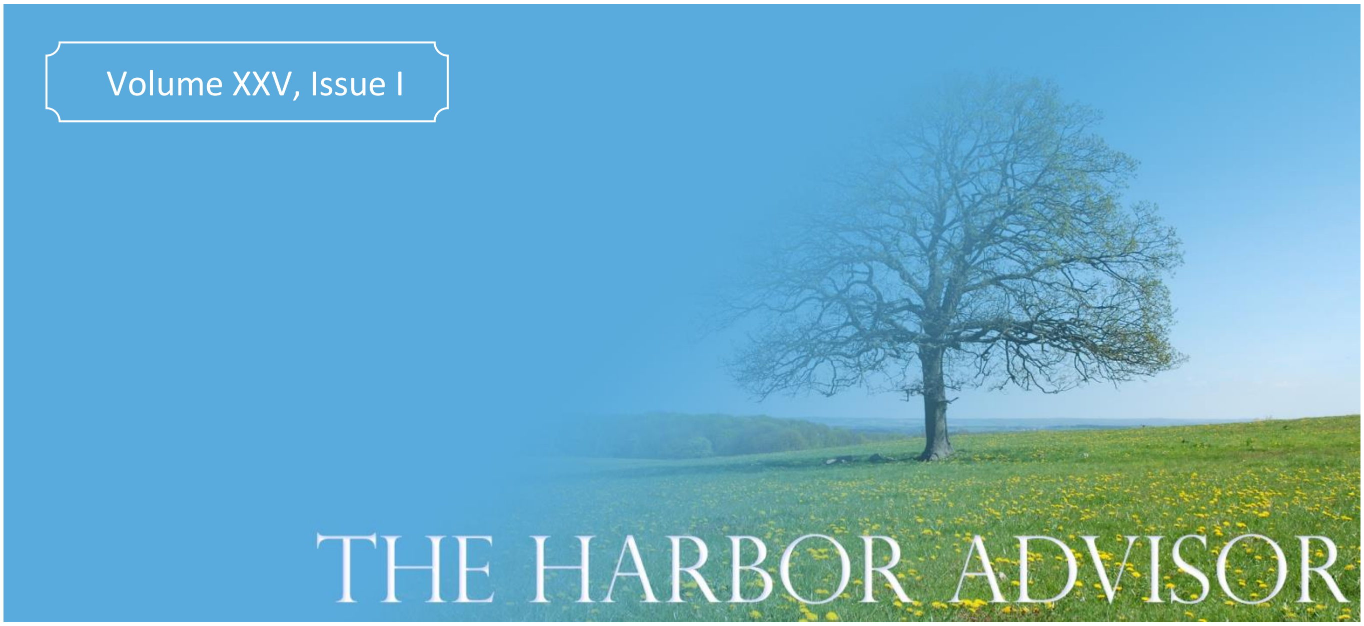

“The Only Thing That Is Constant Is Change.” <u>Heraclitus</u>

We live in an era where many bemoan the speed of change and wax nostalgically about the past. We all know that some change is good, very good in fact. Recent reading on the subject of change produced a point of view that matched my experience and is worth noting for the personal investor. Given the concern surrounding investing and the personal finance environment, a look at how far individual investors have come in the past 30-40 years is reassuring.

The availability of readily obtainable, good quality information is at the center of progress in the investment and personal financial planning areas. Investor types, individual investor behavior and tolerance for risk have had tomes written and expostulated upon. Bringing these issues into the discussion is the important part as many individuals continue to struggle with the identification of their style and behaviors. Information is now segmented and targeted to the pre-retiree, retiree, newly married, non-traditional couples, recently widowed, my first job, simultaneously saving for college and retirement to name a few.

According to James Cloonan, the founder of the nonprofit American Association of Individual Investors (AAII), “There’s more opportunity to do well, and less opportunity to be cheated, than there was in the past.” He thinks there is less for investors to worry about, in a lot of ways, than there used to be. Mr. Cloonan founded AAII in 1978 and notes the following comparisons - to which we have added some of our own - then versus now: Brokerage costs and mutual fund fees were very high, often exceeding 3%. Today, stock trades cost 5-8 dollars, a far cry from the hundreds of dollars charged for each trade in the past, not to mention penalties for odd lot trading which is almost unheard of today. Fees would have been much higher on less frequently traded stock. Commissions for mutual fund purchases were as high as 8.5% and you paid the same fee to reinvest your earnings in the fund. The inclusion of funds with 12b-1 fees were the norm. Today, they are increasingly rare and with a bit of research you can avoid paying them altogether. Currently many mutual funds trade without fees to purchase and there is a movement towards lowering the internal fees.

Let’s not forget taxes. If you could get past the trading costs and lack of information on what you were buying, the tax man would get you. Tax rates were almost triple what they are today. In all there is much reason for optimism.

We believe we will continue to experience rapid change in our cultures, business dealings, technology, environment and personal lives. How we deal with and respond to change is the challenge we all face. Opportunities will become apparent, many are the positive result of, you guessed it, change.

March 27, 2014

“They always say time changes things, but you actually have to change them yourself.”
– <u>Andy Warhol</u>, <u>*The Philosophy of Andy Warhol*</u>

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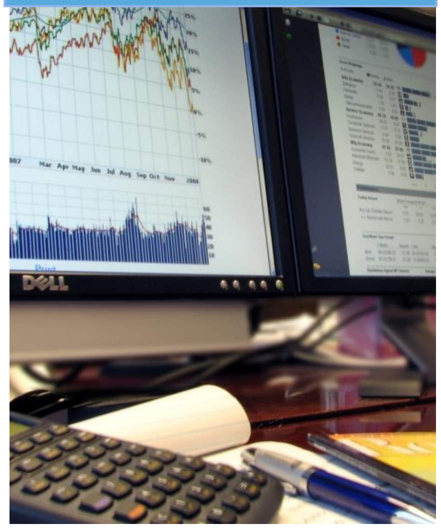
Financial Trivia

The world’s first bank, Monte Dei Paschi de Siena, was founded in Tuscany in 1472 and is still operating today.



Market Recap – 1st Quarter, 2014

Following robust returns in 2013, equity market performance during the first quarter was lackluster. Severe winter weather affected the US economy, putting a strain on retail sales and the housing market. While the weather was not completely to blame for the slowdown, it stalled construction and reduced the amount of cash available for discretionary spending after paying higher utility bills.

Geopolitical events during the quarter shook investor and business confidence as well. Uncertainty grew around possible sanctions against Russia for its actions in the Ukraine. Market volatility reflected growing concerns about the effect it would have on Europe's economy and energy resources. In China, the economy continued to grow but at a slower pace. Chinese consumer spending has not picked up as expected, and exports and manufacturing have been soft. The lower demand for commodities in turn affects other emerging market economies that are reliant on Chinese manufacturing.

The major indexes reported mostly positive returns for the quarter. The S&P 500's return was 1.30%, Russell 2000 was 0.81%, and the MSCI EAFE was 0%. The BarCap Aggregate Bond index also posted a positive return of 1.80%.

"Our dilemma is that we hate change and love it at the same time; what we really want is for things to remain the same but get better." Sydney J. Harris

Fund Focus: Schwab ETFs

This quarter's fund focus highlights Schwab ETFs (exchange-traded funds). ETFs are much like a combination of mutual funds and stocks. They are composed of multiple securities like a mutual fund but, similar to stocks, trade on the stock exchange throughout the trading day. They may be used as a low-cost method to increase a portfolio's diversification in specific areas such as industries, geographic regions, or segment of the market. Some main benefits of ETFs typically include potential tax efficiency due to low capital gains and distributions, high transparency due to frequent disclosure, low expense ratios allowing for higher retention of return, and reduction of risk due to diversification.

Most of our clients own the Schwab US Small-Cap ETF (SCHA) and the Schwab US Large-Cap Value ETF (SCHV) in their portfolios. In addition to low expense ratios, these ETFs have no trading fees. In our current portfolio models, we incorporate a barbell approach in several investment categories, combining both ETFs and mutual funds. The ETFs provide a passive investment in the broad market, whereas the mutual funds provide the benefits of active management.

Forecasting Results

Harbor recently held our 2014 Investment Forecasting meeting in which our Investment Committee gathered to discuss the outlook for the global economy, financial markets, and asset allocation into the New Year. Here are a few of the major discussion topics:

Global Economic Outlook – Harbor expects our slow and steady recovery to continue into 2014 and beyond. We note that combined central bank quantitative easing has played a major role in inflating asset prices and rekindling aggregate demand worldwide. The unemployment rate here in the US has been falling, GDP improving and legacy problems from the credit crisis in 2008 are working themselves out of the system. We expect the US housing recovery to have a meaningful impact on US growth as banks and financial institutions benefit from improving business conditions (i.e. land and real estate values are rising) and consumer consumption (wealth effect) ought to increase as well. We believe the Eurozone may emerge from its back-to-back recession and begin to grow again in 2014. Persistently high unemployment will be difficult to overcome, yet the Eurozone economies won't face as large of a fiscal drag and investors are encouraged by the European Central Bank's pro-growth policies. We see major Emerging Markets like India and China slowing from historical GDP growth rates. This is in part due to their increased GDP and partly due to the shift in global consumption. Our uncertainly lies in how pronounced this slowdown will be and the corresponding impact on the global economy.

Market Valuations – Coupled with an improving economy and favorable credit markets we believe corporations worldwide will see record earnings continue into 2014. Corporations have been steadily increasing share buybacks and dividends over the past few years, which have been well received by investors and boosted stock prices. At the same time, US corporate expenditures on its capital stock (property, plant and equipment) has remained well below historical averages. We believe as political and economic uncertainty subsides, equity markets will reward companies who ramp up business investment for future growth. The major US equity indices are currently slightly above long term price to earnings ratios, but we believe this is reasonable given our GDP growth rate and projected earnings growth for the next few years.

Asset Allocation – We are planning to stay the course in 2014 with our diversified portfolios. We are looking at a few tactical opportunities to capture value, but do not anticipate a large amount of portfolio turnover.

Stay tuned for a more comprehensive Investment Forecasting Summary in the near future.

Wealth Accumulation: The 'S' Word

"The way to wealth depends on just two words, industry and frugality."
Benjamin Franklin

'Thrift' and 'frugal' are two words that are an anathema to our culture of more, bigger, better. As character traits, what used to be considered admirable is now slightly questionable. The consumer mentality fuels our economy and tends to drive our feelings of self worth. In this atmosphere, is it any surprise that savings rates are at one of their lowest points since the Great Depression?

Yet in any article on building wealth, regular saving is near, if not at, the top of the list and being frugal doesn't have to mean being cheap. It can just mean being circumspect about our spending habits and reducing waste. It can allow us to redirect our resources away from the frivolous spending and toward what is of most importance to us. Below are a few tips on how to get started or ramp up your savings.

- **Make it automatic:** "Pay yourself first" is an old adage but still true and with electronic banking even easier now than it used to be. If on payday funds are automatically swept into a brokerage account chances are that you will never miss them.
- **Find money to save:** If ends aren't meeting consider and track your spending. Then look for places to cut. Rank non-essential expenses by order of importance and eliminate those at the bottom of the list. Bundle or reduce phone and internet services, pack a lunch or eat at home more.
- **Preserve the windfalls:** Save half or all of unexpected amounts of money you may receive – your tax refund, gifts, bonuses.
- **Save your raises:** Instead of increasing your standard of living, when you receive a raise increase your automatic savings.

The internet is awash with numerous other ways to curb spending and increase saving. Just pick one or two that appeal to you and in the words made famous by Nike "Just Do It"!

Technology for Non-Techies: Internet Spring Cleaning (Cookies!)

A website is composed of hundreds or even thousands of files loading all at once to display content in your browser. The first time you visit a site, your browser will "save" pieces of the website or even a complete copy of that website and store it on your computer. This is called the "cached copy" of the website and is kept on your computer for 0-999 days, depending on your computer settings. Your browser can display files stored in the cached copy much faster than it can pull fresh files from the server, so the next time you visit that same website, the page will load much faster. The more internet surfing (i.e. shopping) you do, the more cached copies of websites you probably have on your computer.

However, many times web developers update their sites for live features or to make a change, and you won't load the new content if your browser is using the older cached data. Also, if your computer were to be hacked, the hacker would have access to any pages you've recently browsed as well as any saved information on those pages. So for these reasons, it's necessary to clear out internet history fairly often, as well as to clear up space on your computer and increase your overall browsing speed.

You can quickly delete cached copies of websites, and you can also change the number of days you can store cached copies on your computer. Here's how: In your internet browser, usually in the top right corner, look for "tools" or "safety", then "delete browsing history." You can also go one step further and set times/days to delete Cookies (which are small files that some websites place on your computer to track your visits to their sites) or Files (which are the actual web pages and images).

Living Well/Living Smart

Spring Cleaning Your Finances

When spring fever hits and you are giving your house the top-to-bottom cleaning, don't forget your finances!

1. Review your budget. This is probably the most important piece, so start here. Review your past few months spending. Do you notice any problem spending areas? Perhaps you need to adjust your budget on some items, increasing or decreasing.
2. Clean up your accounts. Consolidate accounts if possible. If you have multiple accounts open that you rarely use, consider closing the unused accounts.
3. Opt for less paper. Today most accounts offer paperless options. Not receiving these paper bills and statements can cut back on those cluttering piles of mail taking over your kitchen counter.
4. Check your withholding. Tax return checks seem wonderful. But if you received a large return this year, it just means that you gave Uncle Sam an interest-free loan out of your paychecks throughout the year. You should aim to achieve a balance, so adjust your withholding as needed to get there.
5. Create a home inventory. It is important to have a home inventory of all your possessions. Take photos and indicate approximate amount you paid for each item. This will make things much easier if disaster strikes and you need to file a claim on your homeowners or renters insurance.
6. Shop around. If it's been awhile since you checked for better rates on your car insurance, cable, cell phone plan, or other recurring items, now is the time.
7. Check up on insurance coverage. Call your agent and review your policies. If it's been awhile, changes may be in order. For instance, if you've recently had a child or had a significant salary raise you may need to upgrade your life insurance.
8. Sort out paperwork. Take time to sort through paperwork and files, being sure to shred any discarded documents that contain personal information.

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Images: Lars Sundström, Fleur Suijten

Harbor Happenings

Harbor Recognized

For the 4th consecutive year since inception, Harbor was recognized as NABCAP Premier Advisor. This exclusive group of Colorado firms met an objective standard of excellence, focusing on a wide range of criteria including experience, team dynamics, credentials and customer service.

Events or Seminar

Do you have an idea for an event or seminar you would like to share with us? If so, we'd love to hear from you!

Checks to Harbor

Checks intended to be deposited into your Schwab account should always be made payable to *Schwab Institutional*. We are unable to deposit checks into your account that are made out to Harbor Financial Group. The only checks that should be payable to Harbor are those for wealth management services.

Privacy Policy & ADV Material Change

Copies of our ADV Part I & II and our updated Privacy Policy may be requested by contacting our office or by visiting our website.

2014 Closures

Our office is closed on the following New York Stock Exchange holidays in 2014:
Monday, May 26; Friday, July 4; Monday, Sept. 1; Thursday, Nov. 27; Friday, Nov. 28 is a half day closure; Wednesday, Dec. 24 is a half day closure; Thursday, Dec. 25.

The majority of our growth over the past 26 years has come from referrals from clients and other professionals. We thank those of you who have referred your friends and colleagues. If you know of anyone who might be interested in our services, please ask them to give us a call at 303-939-8788.