

Volume XX, Issue II

THE HARBOR ADVISOR

The Value of Taking a Break

There have been a number of changes over the past few months that I think warrant a shift in our collective attitudes. While it is true that the economies of many countries continue to struggle and you already know we continue to be very cautious as to a recovery in the near future, I think there is reason to be a bit more positive than we were earlier this year. Stock prices continue to rise in the face of questionable economic progress, investor sentiment has improved, manufacturing purchases have increased, inflation is at bay for now and some of the housing overstock has been absorbed. While not cause for unbridled optimism, these are positive signs.

I would like to mention another reassuring fact, specifically the financial viability of Harbor Financial Group, Inc. We have been in business for 21 years independently owned as Harbor; I have been in business for 29 years. The current downturn has not affected our business in that we retained our capital and that of our clients through conservative management of the assets you have entrusted to us. We continue to grow utilizing a conservative model for the addition of new clients. Planning for growth has encouraged the identification and hiring of an operations manager, Wendy Blakemore, who started July 15th. We believe she will bring her considerable experience to Harbor to allow me to focus my efforts on client service and strategic planning.

We look forward to the remainder of the year and the opportunities it will undoubtedly bring.

In this issue, you will find local microbrewery suggestions in our living well section along with tips for finding value in travel. We extend a wish that you relax and enjoy your summer with your loved ones and friends and allow yourself a well-deserved break.

Enjoy your summer!



July 22, 2009

Contents

Main Articles

The Value of Taking a Break	1
Seeking Certification	2
529 Recovery Strategies	3
Harbor Happenings	4

Individual Highlights

Then & Now	1
Q2 2009 Market Recap	2
Fund Focus	2
Your Grandchild's Education	3
Living Well / Living Smart	3
Market Closures	4

Investor IQ

How many years would it take to double your money in current 3-month Treasury bills?

Answer: Over 380 years! (At 6/30/09 yield of 0.18%, not accounting for inflation)



Second Quarter 2009 Market Recap

Second quarter market performance hinted at signs of improvement; however, the economy rests on uneven ground as economic indicators, such as lending, employment, and retail sales, display mixed results.

Markets reacted uneasily in the wake of major news announcements, including the government bailout of GM and the continued fallout from the notorious broker Bernie Madoff. Proposed legislative reforms of the financial, energy and health care sectors have also kept the markets in limbo, as detailed information has been slow to disseminate.

Additionally, the Federal Reserve has kept interest rates near 0% in hopes of driving lending, despite fears of inflation looming on the horizon.

Domestic and foreign equity market returns were strongly positive for the second quarter, despite continued daily volatility and a decline in the second half of June. For the quarter, the Dow returned 11.96%, the S&P 500 posted a 15.93% return, NASDAQ yielded 20.05%, and the Russell 2000 posted a 20.23% return.

Wealth Manager, Financial Advisor and 5280 have recognized Harbor as one of the top advisors in the nation!

Fund Focus: Hedge Funds

Perhaps one of the most commonly misunderstood investment vehicles, and often justly so, is a hedge fund. Although named for the original intent of hedging against risk by shorting the market, these largely unregulated funds have mushroomed into a disparate global mix of \$1.4 trillion in assets¹, all operating under a common goal: to maximize the total return for their investors.

Hedge funds utilize a number of strategies in trying to reach this goal. Examples are long/short, quantitative, event driven, market neutral and global macro. The flexibility of their structure allows managers to take advantage of opportunities that traditional funds cannot. This flexibility comes with a caveat: high management and incentive fees.

One area where hedge funds are typically not flexible is investor redemptions. This issue came to the fore in the past year as investors clamored to redeem their shares during the downturn, resulting in many funds shutting down.

Contact the office if you are interested in learning more about the hedge funds available through Harbor.

¹Hedge Fund Research, "Global Hedge Fund Industry Report," Year-End 2008.

Seeking Certification

Over the past few decades the financial services industry proliferated rapidly as demand from both the institutional and retail investor surged for access to equity and fixed income markets worldwide. In tandem with this expansion, a crowded sea of financial designations emerged with varying levels of rigor and respect. As we move through the current downturn, we are seeing a shakeup in the industry and we want to distinguish what qualifications have stood the test of time and previous market upheavals.

A designation that should be familiar to everyone reading this is the Certified Financial Planner™, known for setting high fiduciary standards. This graduate level designation was introduced in the early 1970s to provide to the public an ability to recognize a high standard of financial planning in the United States. This accreditation requires a minimum of three years qualified work experience, a rigorous academic curriculum covering issues such as life insurance, investment planning, tax planning, retirement planning and estate planning, passing a two-day, 10-hour written exam, and satisfying the requirements of the CFP® ethics board. Upon completion of these tasks, the CFP® board designates the applicant a CFP® and this individual has an ongoing responsibility to satisfy certain requirements, such as continuing education, to maintain this designation. More information is available at www.cfp.net

Another highly qualified contingent comes from the quantitative side of the financial services industry as Chartered Financial Analyst® (CFA®) designees. This is also a graduate level certification for investment professionals covering economics, quantitative methods, financial reporting and analysis, investment analysis, portfolio management and wealth planning, as well as ethics and professional conduct. The requirements set forth by the CFA Institute include passing three rigorous written exams, an ethics exam and at least four years of work experience in qualifying activities such as evaluating and applying financial, economic or statistical data involving securities or other investments. Duties for a CFA® charterholder commonly include portfolio management, investment planning and security analysis. More information is available at www.cfainstitute.org/

The financial services industry continues to consolidate as certain business models and products are no longer suitable for investors. We suggest you invest with confidence in the quality advisors who hold highly respected credentials. At Harbor, we are anchored by a CFP® with over 29 years of experience and have a rapidly growing team, with two individuals pursuing their CFP® certification and one staff member seeking his CFA® designation.

529 Recovery Strategies

Many investors are unhappy with the recent performance of their 529 college savings plans. While this has led to system-wide changes in the way the 529s are managed, such as more conservative choices for asset allocations and third party consultants, these changes are not helpful for investors who already have significant assets in their 529 plans and children who are rapidly approaching college age. If you are in this situation, there are a few options available to help.

One of the solutions we are advising is that after checking that the current 529 assets are appropriately invested for a child's age that they be left invested while the market recovers. Any new funds put in a 529 account should be placed in the cash reserve or money market option. These cash assets can then be used first, giving the other funds more time to recover. Since 529 contributions generate a state tax deduction (approximately 5% in Colorado) for state residents, the investor receives this tax-advantage on their investment almost immediately even if the funds stay in cash.

If there are other funds available for education not in a 529 account, such as UTMA assets, consider delaying the use of the 529 funds until your child's junior or senior year in college. This will again give those assets time to recover. Another alternative is to transfer the non-cash 529 assets to a younger sibling to delay their use.

For children who still have a few years before they will be looking at college choices, a frank discussion with the child about college costs versus the funds available may be in order. While parents may have their heart set on a private college education for their child, more cost effective options are worth exploring. These could include a less expensive private school, student loans, applying for grants and/or scholarships or the choice of a public in-state school.

For more information about 529 plans and other college saving strategies, visit www.savingforcollege.com. Also, please do not hesitate to contact the office with any questions or concerns you might have about your child's college education funding.



Funding Your Grandchild's Education

As the cost of higher education continues to rise faster than the rate of inflation, many grandparents are interested in contributing to their grandchildren's future education needs. A 529 plan is an excellent way to accomplish this objective. Along with the tax-free growth and a state tax deduction for contributions, a 529 plan, with a grandparent as the account owner and a grandchild as the account beneficiary, can allow you to reduce your taxable estate while still maintaining full control over the funds including the right to ask for the money back at any time. While removing funds from the 529 for anything other than qualified education costs will result in a 10% tax penalty, it is still reassuring to know that the funds are available in an emergency.

Some grandparents prefer to make third party contributions to a 529 plan owned by their grandchild's parent. Having the parent as the account owner does have the advantage of ease for the grandparent, of not having to open and maintain their own account, and should the grandparent die or become incapacitated there are no transition issues with the account. However, there are disadvantages. The state tax credit for contributions is generally only available to the account owner. Also, should the grandchild apply for financial aid once they reach college age, 529 accounts owned by the child's parents are reportable on the FAFSA financial aid application, as are any UTMA accounts owned by the child, but 529 accounts owned by the child's grandparents are not reportable.

If you would like more information about opening a 529 for a child or grandchild, please contact one of your team members at Harbor.

Living Well

Next time you are in for a visit to the Harbor office, consider stopping at one of the local microbreweries afterwards for a taste of their famous brews. We've detailed some of our staff favorites below:

Avery: Located in east Boulder, this brewery offers free brewery tours and inexpensive samples in their tap room. Avery beers have gained national popularity and are well known for their high gravity offerings.

Boulder Beer Company: Located near 28th and Pearl, this brewery offers tours, tastings and live music. Started in 1979 by two CU professors, this brewery is locally popular for its Buffalo Gold, Never Summer, and Hazed and Infused varieties.

Mountain Sun and Southern Sun: Located on Pearl Street and in South Boulder, these community-focused pubs offer nationally renowned beers, food, live music, and a uniquely Boulder spirit.

Living Smart

Summer is a great time for an adventure and the drop in consumer spending has resulted in lower pricing, making travel more affordable this year. With gasoline now at an average \$2.691 per gallon, a road trip might be the perfect get-away. If you want to take to the skies, airlines are trying to fill flights, so not only can you save on airfare, but you can upgrade more cheaply as well.

Perhaps you have been longing for a European vacation, but the high prices in recent years have discouraged you. This year, not only are discounts available on airfare and hotels, but you will also find that many European destinations are less crowded. Hotels everywhere are lowering nightly rates and offering specials such as "buy two nights, get the third night free", room upgrades and free breakfast. If you do travel this summer, we wish you a bon voyage, along with a discount or two!

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Harbor Happenings

NEW EMPLOYEE

We are extremely pleased to announce the hiring of Wendy Blakemore as Harbor's Operations Manager! Wendy's duties will include office management, analyzing processes and work flow for the firm, marketing and public relations, client events coordination, maintaining the Harbor website and managing property/casualty insurance and LTC insurance analysis.

SUMMER INTERNS

We are happy to welcome Kyle Moore as our summer intern. Kyle just completed his sophomore year at Bentley University where he is majoring in Finance/Economics.

Additionally, Megan Whittlesley will continue to intern with us through the summer. Megan recently graduated from University of Colorado at Boulder where she double majored in Business and Political Science. Congratulations Megan!

WEBINAR/SMALL GROUP DISCUSSION

We held our first two Webinars in May and another in June. Both were a success, and we plan to schedule others soon.

2009 Closures

The New York Stock Exchange (and therefore our office) will be closed on the following days in 2009: Labor Day—September 7, Thanksgiving Day—November 26, Christmas—December 25.

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

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