

Volume XXII, Issue II

# THE HARBOR ADVISOR

## Under the Surface

I have been reading and enjoying David Brooks' book *The Social Animal*. One primary premise of the book is that most of our thinking happens below the level of awareness in underlying emotional states created in part by experience, family, and peer influences. This is contrary to the commonly held assumption that we are rational beings who make smart decisions and respond to incentives. Whether or not you agree with all of his assumptions and attendant conclusions, this idea has a ring of truth.

From our point of view of the financial world, we know investors make poor decisions in the aggregate. They buy at market highs to get in on the profits, they sell at market bottoms fearing additional losses, and they refuse to sell losing stocks preferring to sell their winning positions. Many listen to the advice of their friends, golf partners, and even cabbies assuming that just because the person has said they have attained a 15% rate of return or this is the best idea since the magical iPad that it is true. We also know that humans are not by nature strategic planners, they have difficulty putting gratification off today for prosperity in the future.

One of my takeaways is to consider all of the ways we can change the way we think so that we are not quite so average, that we think for ourselves and not be so affected by those around us, that we try to examine the underlying emotions governing us. First, acknowledge them, then adjust the way we process information and make decisions to end up with a desired result. For example, if you have surrounded yourself with peers who live beyond their means, driving cars and buying houses they cannot afford, you too might overspend without any consideration for the fact that someday you will need to retire because you cannot work any longer and therefore fail to prepare in any way for the financial consequences. This appears to be true for a large percentage of the baby boomer generation.

At Harbor, we are very familiar with what we would call financial emotional quotients and ways around behavior that inhibits an individual or family from reaching their goals. Our process of questioning and really getting to know an individual helps to frame the goal setting in a realistic manner, often resulting in a different path than what the client came in with. We can then develop a plan to address investment, cash flow, risk mitigation, and perhaps, most important of all, achieving the balance between enjoying the fruits of your labor now while planning for the future.

We will continue to explore this subject in your planning process, on our blog and during future book group discussions. In the meantime, enjoy the newsletter and enjoy your summer!

July 18, 2011

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## Investor IQ

### Know Your Acronyms: SIMPLE IRA

This one is a mouthful! SIMPLE IRA is short for Savings Incentive Match Plan For Employees Of Small Employers Investment Retirement Account. Whew.



## Second Quarter 2011 Market Recap

The economic recovery stalled during the second quarter. Japan fell into a recession after ceasing substantial production and commerce following the devastating tsunami. Unable to obtain Japanese components, companies around the world experienced a slow-down in business, resulting in a surge in unemployment especially in the automotive industry.

Other global events included NATO's action against Libya, which sent gasoline prices skyrocketing. Concerns remained regarding the EU's long-term strategy to resolve the debt crisis in Greece and other nations in the

union that are poised to default. Here at home, budget talks and the looming deadline to increase the debt ceiling caused plenty of market volatility.

On the positive side, overall manufacturing in the U.S. increased and corporations posted strong earnings.

Market returns for the quarter were mixed. The S&P 500 was down 0.39%, the DJIA down 0.77%, the MSCI EAFE up 0.32% and the Barclays Aggregate US Bond up 2.29%.

*Financial Advisor Magazine has recognized Harbor as a top advisor for the sixth consecutive year!*

### Fund Focus: FPA New Income (FPNIX)

FPA New Income is a fixed income fund focused on maximizing total return using a low risk approach in identifying short to intermediate term high quality securities.

The fund mandate allows benchmark flexibility and focuses on macroeconomic indicators as an integral part of the research strategy.

As an example, growing leery of lower quality mortgage debt in 2005 and 2006, the managers subsequently increased cash and AAA securities in the portfolio. This strategy proved ingenious as the fund posted a gain of 6.02% in 2007 and 4.31% in 2008.

Today, the fund carries an average credit quality of AA and is invested largely in agencies, high quality mortgage loans, asset backed securities, US Treasuries and TIPS.

With an effective duration of 1.5 years and effective maturity of 2.6 years<sup>1</sup>, it is clear the managers hold interest rate risk high on their watch-list. While this strategy may be leaving some yield on the table, we believe the fund suits conservative investors very well as a part of their diversified bond portfolio.

<sup>1</sup> Morningstar data as of 5/31/11

## Morningstar Conference

Most of you know the name Morningstar, as it has over the years been a valuable tool here at Harbor for high quality information about mutual funds, ETFs, fund managers, investment strategy and the latest investment news. Elyse recently attended their national conference, which differentiates itself in that it is not funded by any speakers or sponsors. The information is delivered at a high level and is very well researched.

The conference was held in Chicago on Morningstar's home turf. Key speakers were Bill Gross, founder of PIMCO, Bruce Berkowitz, founder and chief investment officer of Fairholme Capital, Don Phillips, President of Fund Research at Morningstar, Larry Fink, chairman and CEO of Blackrock, and David Laibson, Harvard University professor of Economics. Breakout sessions were staffed by some of the brightest and most engaged people in the industry. The sessions were set up to encourage information exchange and healthy debate and covered topics from active versus passive management to new strategies for income in portfolios.

Some highlights:

Bill Gross argues that the U.S. government has decided to dig out of our economic hole by 'picking the pockets' of investors through inflation and low real interest rates. The current 5-year Treasury has a real interest rate of -0.05%. With nominal interest rates less than inflation, the U.S. debt to GDP ratio will shrink at saver's expense. Gross suggests looking outside the U.S. for investments, to those countries with a less repressive policy. Brazil, Canada, and Mexico debt is recommended. For U.S. investments he suggests blue chip, dividend paying stocks.

Bruce Berkowitz believes that financials are in a similar state as seen during the savings and loan crisis in the late 1980s and early 1990s. He believes the situation to be a cyclical event. He believes the financial institutions to be solid, well valued and firmly entrenched in our economies. The fund's investment in AIG was a foray into ASIA. Emerging China is growing as is its middle class and life insurance is a way to ensure middle class security.

Elyse took extensive notes for our blog, please look for additional posts and takeaways there.

Here at Harbor, we strive to attend one to two conferences every year to keep our knowledge fresh and encourage new ideas. This conference certainly encouraged critical thought and enabled Harbor to interact with the best in the investing industry.

## Helping Harbor Help You (Part 2)

Last quarter we looked at a few of the most popular reports and schedules that we run in order to help you reach your personal and financial goals. This quarter we will look at some additional custom schedules that can be prepared to answer specific questions and situations.

- **Education Projection** – This report can be tailored to estimate education costs for an individual’s children both for higher education (public or private) and for private pre-school through high school. It takes into account both the growth rate of the assets held as well as the future inflated costs of tuition. From this projection, an adequate savings plan can be implemented.
- **Asset Allocation/Net Worth Chart** – High net worth individuals need a big picture analysis of their entire net worth. This report includes outside assets such as business interests, closely held companies, real estate, oil and gas interests, and private equity, as well as the standard stocks, mutual funds, and bonds.
- **Will/Trust Overview** – A proper will and trust document is essential to any well drafted financial plan. Durable medical powers and HIPAA forms are reviewed/created as well. We coordinate with the appropriate attorney and legal team to ensure that documents and titling of client assets meet the desired outcome.
- **Cash Flow Analysis** – Surprisingly, cash flow planning for the wealthy individual can be complex. We create a cash flow matrix to monitor cash needs for expenses, tax payments, education expenditures, and other large obligations.

We at Harbor firmly believe in the value of having an all-inclusive annual review of your financial plan. Arriving at a comprehensive picture of all of your assets and formalizing a plan for the future can be a stabilizing force in times of market volatility. It allows our clients who take advantage of a plan to assess their financial situation and make decisions about the future based on fact rather than feeling. If you are not currently having a plan prepared and would like one, please contact our office.



### Missing Money

Each year thousands of dollars are turned over to states for safekeeping because the owners of the property or funds cannot be located. Unclaimed property can include savings accounts, checking accounts, stocks, uncashed checks, insurance claim payments, safe deposit box contents, and the like.

The national database [www.missingmoney.com](http://www.missingmoney.com) was created in 1999 and contains unclaimed property records to assist the participating states’ outreach efforts in locating the owners of the lost cash and property that they are holding. All but 11 of the 50 states are currently participating. Non-participating states generally also have their own individual searchable databases which may be found by a general search on ‘unclaimed property’ and the state name or by going to [www.unclaimed.org](http://www.unclaimed.org) which has links to all of the state databases.

Searches are free of charge as is filing a claim should you find evidence of missing funds. If your name appears in a search, the web site generally directs the searcher to the individual state’s unclaimed property database for more information and a claim form. Filing a claim involves filling in some paperwork with personal information and attaching copies of documents, generally your driver’s license and social security card. Once you file a claim, you should receive your property within a few weeks.

## Living Well

### Summer Breeze

For a lot of us, it would not be summer in Colorado without a concert at Red Rocks, Rockygrass, a couple of Rockies games and maybe a rafting trip. That is just the tip of the proverbial iceberg when it comes to exciting summer events in Colorado.

Do you enjoy tuning into The Amazing Race? Why not register for the Great Urban Race in downtown Denver August 27th? It’s a combination adventure race, scavenger hunt and road race that gives you a new perspective of the city ([www.greaturbanrace.com](http://www.greaturbanrace.com)). Missing Invesco Field? Go cheer on our outdoor lacrosse team, the Denver Outlaws ([www.denveroutlaws.com](http://www.denveroutlaws.com)).

There are plenty of art, music and wine festivals to choose from as well. For a comprehensive list of summer events in Colorado, visit [www.colorado.com/events](http://www.colorado.com/events).

## Living Smart

### Drive or Fly?

Summer vacation...should you drive or fly? With high fuel prices, both options will be more expensive this year. BeFrugal has come up with a Fly or Drive Calculator to help you with this dilemma. Check it out at <http://www.befrugal.com/>.

The calculator takes you through several steps asking for various travel information including starting location, destination, number of people traveling, travel dates, vehicle you would drive, estimated hotel costs per night, how much time is needed for airport check in and arrival, transportation to and from airport, etc. The results show a summary for both flying and driving: time needed, total cost and your CO<sup>2</sup> impact. These facts should make your driving or flying decision easier.

Now, WHERE are you going for vacation?

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Images: David Lat

## Harbor Happenings

### New Intern

Please join us in welcoming our newest intern, Carey Moeller. A Business Administration graduate of the University of San Diego, her internship will mainly focus on implementing a new organizational and management system for Harbor Financial Group's operations. Welcome!

### Elyse Foster Featured in Morningstar Advisor

Elyse was featured in the June 2011 issue of Morningstar Advisor exploring her unique investment management style. You can see the article in its entirety at [http://www.nxtbook.com/nxtbooks/morningstar/advisor\\_20110607/#/14](http://www.nxtbook.com/nxtbooks/morningstar/advisor_20110607/#/14)

### Book Group Review

Harbor hosted its first book review last quarter. The Big Short: Inside the Doomsday Machine proved to be very interesting and made for terrific discussion. Thanks to those of you who joined us. We are considering hosting another in the future, so stay tuned!

### Performance Webinars

Did you know that Harbor hosts a portfolio performance webinar each quarter? We have received very positive feedback for past webinars and hope you can attend one in the future. Our next webinar is scheduled for July 21<sup>st</sup>. Please contact Susan for registration details.

## 2011 Closures

Our office is closed on the following New York Stock Exchange holidays in 2011: 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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