

Volume XXIII, Issue II

THE HARBOR ADVISOR

Noise [noiz]

Many readers of this newsletter have heard me use the word noise in referring to much of the media output we are all subject to on a daily basis. Not wanting to be totally disrespectful, I think an explanation of my opinion is in order. I started by looking up the definition of noise. The second definition I found for the word noise is 'A loud outcry or commotion: the noise of the mob'. Even better is the physics definition, 'A disturbance, especially a random and persistent disturbance that obscures or reduces the clarity of a signal'.

Both of these definitions fit my use of the word when describing the media, talking heads, and intellectuals offering opinions on the markets, trading, certain predictions and sure-fire bets. The problem in listening to the so-called experts is that many don't know what they are talking about. Their predictions are not likely to come about and since they are being paid to come up with an opinion on a daily basis their motives are suspect. I have told many Harbor listeners that I am considering much of what I hear and read as noise, to be tuned out when it comes time to make any decisions. I find that it makes for a clearer thought process. The process of investing and life planning should be well thought out, taking personal goals, your resources, and the world around you into account. To be sure, understanding of governmental policies and legislation along with current economic events benefit from outside information, but it is just that, data to be considered in making a decision, not factual evidence that dictates the decision.

In this particular environment, listening and observing are preferable to acting on news, predictions and mob mentality. Partly because the markets and individuals are emotional in reacting to news, both good and bad and partly because no clear direction is evident in our political situation or world or domestic economic indicators.

Assuming one agrees with the benefits of thinking for oneself, the question arises "What is an investor to do?" I advise sticking with the basics. In uncertain times stick to your plan, try to make conservative decisions, buy quality investments and ones that will protect you from future events as you see them. I see inflationary governmental policies, thus my eye is on inflation. I see depressed manufacturing in the U.S., so I am on the lookout for increased manufacturing activity. I see real estate prices stabilizing and increasing in some areas. I ask additional questions such as "Which areas?" Which local economies are staging a recovery? If we have lost an asset class, what opportunities are out there for a new idea? After all, they are being born all the time.

It should take a major event to incite you to move off course. Remember the long time horizon for life planning and ignore the noise. Better to go outside and enjoy your summer instead.

July 24, 2012

Contents

Main Articles

Noise [noiz]	1
2012 CFA Conference Recap	2
Beyond Email	3
Harbor Happenings	4

Individual Highlights

Investor IQ	1
Q2 2012 Market Recap	2
Fund Focus	2
Extra Income with Annuities	3
Living Well / Living Smart	3
Market Closures	4

Investor IQ

Q: What is the world's oldest currency still in use today?

A: The pound sterling



Second Quarter 2012 Market Recap

Equity markets gave up some of their positive returns during the second quarter due to events in Europe and overall weaker global economic data. In the U.S., June statistics indicated a contraction in the manufacturing sector, breaking the long-term trend of production expansion.

The labor market continued to move in the right direction, albeit at a slower pace. Uncertainty and low confidence persisted in anticipation of the upcoming election and decisions on several important pieces of legislation, such as the Bush-era tax cuts.

The housing market reported optimistic statistics over the past quarter. Home sales

and new home starts picked up as home buyers took advantage of low housing prices and attractive mortgage rates.

In Europe, a plan was recently agreed upon to stabilize the region's banks. While not expected to be a long-term solution, the plan implied that Europe is moving toward more fiscal and political consolidation.

Equity index returns were negative for the quarter. The DJIA's return was -2.51%, Wilshire 5000 -3.70%, Russell 2000 -3.83%, and MSCI EAFE -8.37%. The BarCap Aggregate was positive at +2.06%.

"The investor's chief problem - and even his worst enemy - is likely to be himself." - Benjamin Graham

Fund Focus: PIMCO All Asset All Authority (PAUDX)

When the investment community refers to PIMCO, many think of one of the largest fixed income asset managers in the world or of Bill Gross and his team of mustached investment strategists. Less known, however, are alternative strategies such as Pimco All Asset All Authority (PAUDX), which we will look at for this month's fund focus.

The fund's sub-advisor leverages PIMCO's extensive macroeconomic investment analysis capability and allocates capital across various PIMCO products, investing in asset classes such as US and foreign equities, commodities, bonds, and currencies. The fund's investment strategy allows the use of leverage and the capability to take a net short exposure to the US equity market. We believe this process will take advantage of and mitigate ongoing volatility in the markets.

Within our model, we utilize this fund as a part of the tactical allocation to reduce portfolio correlations to the equity market, maintain purchasing power within the portfolio and provide a healthy income stream. Please contact us should you have any questions about the fund or Harbor's investment model in general.

2012 CFA Institute Annual Conference

Every year, the Harbor staff takes time to visit at least one financial conference to expand professional knowledge, meet continuing education requirements, and network with colleagues. This year, Jordan had the opportunity to attend the 65th CFA Institute Annual Conference in downtown Chicago. Due to the global reach of the CFA charter, there was a melting pot of languages and accents to go along with the wide diversity of finance roles. Equity managers rubbed shoulders with credit analysts, private client advisors chatted with sovereign wealth portfolio managers. There were also two major food-industry conferences in the convention center, which led to the unusual juxtaposition of a converted VW Beetle in the shape of a marshmallow Peep against a sea of suits and ties on their way to the next session!

Real estate magnate Sam Zell took time in his colorful keynote session to dive into his approach to investing and areas he considers appealing (or not). Among his criteria, "Go where capital is needed and in demand". He emphasized that China was not in need of extra capital. Other emerging and frontier markets were addressed as well. India was not and had not been a target country for investment and Zell opined that sub-Saharan Africa faces problems with scale. His company looks for "what is there today, not what could be in the future".

A lively panel session on financial innovation with Duncan Niederauer, CEO of NYSE Euronext, Harold Bradley from the Kauffman Foundation, and Bill Hambrecht from W.R. Hambrecht covered the flash crash, the JOBS Act, dark pools, and transparency and opacity in the market. Looking forward, they agreed that it will be difficult to "out-technology" competitors and the focus for investors will return to the quality of research and content. The panelists also noted the rise of microfinance and crowdfunding. Future risks to the market in their minds include leverage, increasing market opacity, frontrunning of standard trading algorithms, and the size of notional derivative amounts.

An insightful talk by Daniel Kahneman, professor emeritus of psychology and public affairs at Princeton, on his studies in psychology and behavioral economics was one of the highlights of the conference. While not deviating much from his recent excellent book, *Thinking, Fast and Slow*, it was a great synopsis of his significant research findings over the years.

A wide variety of other topics were addressed throughout the conference, including tax changes for 2013, a retrospective with Eugene Fama, and insight into institutional investing from the CIO of CALSTRS. For more information and video replays, please visit our blog.

Beyond Email – Keep Your Gadgets Healthy

You've heard about them – virus, worm, malware, Trojan horse, spyware, and my new favorite - browser exploit! You may not know what they all actually are or the difference between them, but you probably know they are not healthy for your electronic devices.

Good anti-virus software with regularly updated virus definitions should provide valuable protection for the above threats as well as protection from keyloggers, phishing scams, email-borne threats and rootkits. Ease of installation and use are also important. Security software provides the first but not the only defense; here are a few other tips:

1. Keep your operating system updated with patches and fixes from the developer.
2. Be cautious opening email attachments even from people you know. Contact the sender if you are unsure. It's better to err on the side of safety.
3. When downloading information from the internet, be careful of what sites you use. When file sharing with family and friends be sure you are getting clean material.
4. If possible, keep tuned in to news from legitimate sources about new computer threats. This probably doesn't include mass forwarded emails.
5. You may want to scan external media such as flash drives for problems before loading them on your computer.
6. When using social media sites such as Facebook, if a link looks suspicious, don't click on it. Again, err on the side of safety.
7. Smartphone viruses aren't common, but they do exist. They spread through internet downloads, Bluetooth wireless connections and multimedia messaging service messages and may be masquerading as a game or security patch.

Along with looking at your electronic security systems, this halfway point through the year might be a good time to assess progress toward any other tech goals or projects you might have started and to continue to make time in your schedule for moving forward.



Extra Retirement Income with Annuities

Traditionally, pension plans have provided a major source of income during retirement. However, the landscape of corporate retirement benefits has been changing since the recession began. Due to economic conditions and funding requirements, many companies have dropped their pension plans, leaving Social Security as the only income source designed to last a lifetime.

A good alternative to a pension is an annuity. Annuities resemble pension plans since they provide the option of lifetime payments in retirement. Payments may also be made over a certain period, such as 10 years. While annuities have the reputation for being complex, we believe some of the best products are also the most transparent. We currently prefer equity indexed annuities to complement a diversified portfolio. Unlike a variable annuity, an equity indexed annuity provides safety of principal protecting against market downturns. Here's an example of how the equity indexed annuity works, assuming that the annuity has an annual 4% cap rate linked to the S&P 500:

*If the S&P 500 earns 3%, the annuity's return would be 3%.

*If the S&P 500 earns 6%, the annuity's return would be 4%.

*If the S&P 500 had a return of -6%, the annuity's return would be 0%.

Earnings on annuities are tax-deferred until withdrawn. Because of this tax benefit, annuities may be especially attractive to those clients with limited options to contribute to retirement accounts. Before recommending an annuity to a client, we analyze cash flow to ensure that other sources will cover emergency cash needs so that surrender charges are avoided.

Living Well

Good Eats

Food trucks are gaining popularity in almost every city in the United States, and for good reason. They can offer inexpensive quality food with a convenience factor that is hard to beat.

Boulder and Denver have many local trucks that offer everything ranging from gourmet hot dogs to vegan choices to cupcakes.

During the summer, check out the Civic Center in Denver every Tuesday & Thursday for live music, and around 30 food trucks to choose from.

http://www.civiccenterconservancy.org/event-civic-center-eats_49.html

Staff favorites: Try NZ's Smokin' Guns for a quick BBQ fix. Give the sweet potato tots a whirl! Comida is an easy one to spot with a bright pink truck (named Tina) that serves Mexican street food.

Living Smart

Stay Cool - Visit a Museum

Museums are not only culturally stimulating, they also happen to be air-conditioned. With record setting heat this summer, finding things to do inside sounds more appealing than ever. Luckily, there are plenty of other options, and this one happens to be free!

Museums all across Denver and Boulder have free days year round. Boulder History Museum is free the first Sunday of every month. Check out this link to see free days at the Denver Zoo, the Denver Museum of Nature and Science, the Denver Art Museum and many more!

<http://www.scd.org/?page=home&sub=4>

Harbor Financial Group, Inc.

1909 26th Street, Suite 1A
Boulder, CO 80302

3773 Cherry Creek North Dr, Suite 575
Denver, CO 80209

P: 303.939.8788
F: 303.541.1059

info@harborfinancialgroup.com

Find us on the Web:

www.harborfinancialgroup.com

Harbor

Financial Group, Inc.

Images: David Lat

Harbor Happenings

Congratulations!

Megan Foster passed the March 2012 CFP® Certification Exam and she is now focusing on completing the work experience requirements needed for the CFP® designation.

Save the Date

Harbor will be hosting a wine and cheese party on September 20th. We are currently working out details and invitations will be coming soon.

Something New at Harbor

Harbor will have a new look soon! Stay tuned...

Book Group Review

Harbor recently hosted another book review in our Denver office - *The Social Animal: The Hidden Sources of Love, Character, and Achievement* by David Brooks. It was a fun afternoon with lively conversation. Thanks to those of you that joined us.

2012 Closures

Our office is closed on the following New York Stock Exchange holidays in 2012: Mon, 9/3 – Labor Day, Thus, 11/22 – Thanksgiving Day, Tues, 12/25 – Christmas Day

Harbor Financial Group, Inc.

1909 26th Street, Suite 1A

Boulder, CO 80302

