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THE HARBOR ADVISOR

Lifelong Learning

For many of us, the fall season retains a back-to-school aura long after most finish their formal education. Lifelong learning is a common moniker yet is a concept with tremendous opportunities for most adults. The beauty is that the individual can decide what is of interest as opposed to the more prescribed curriculum of our youth. Programs and opportunities abound, you may choose organic farming, audit classes at your local university, photography junkets that combine travel and the art of photography, the list is endless.

We embrace lifelong learning and support this with our small group sessions and emphasis on continuing education. Future gatherings will include book discussions, charitable planning and personal organizational workshops as well as seminars on educating our young people about finance and estate planning. We enjoy the process of expanding our knowledge and sharing it with others.

Learning is a two way street, I have realized there are many learning opportunities associated with my tenure at Harbor. I have received creative and innovative ideas, realized the benefits of collaboration and teamwork, benefited from supporting research, and in general learned a great deal from the wisdom of our clients, advisors and co-workers. I appreciate every opportunity, as each is meaningful and a true gift.

In this fall issue of The Harbor Advisor, we have articles on the new Roth IRA conversion, organic wines and some interesting, if spooky, local events. We also have an informative paragraph introducing our portfolio rebalancer, a marriage of portfolio management and technology that I think you will find of interest.

We enjoy hearing from you and about your lives. Please drop by, call or email anytime.

Enjoy the return to learning season.



October 19, 2009

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Investor IQ

Q: How many of the original companies that comprised the Dow Jones Industrial Average in 1896 are still part of the index today?

A: 1, General Electric



Third Quarter 2009 Market Recap

The upward momentum in market performance continued into the third quarter, as equity indexes again achieved double-digit returns. The Dow Jones Industrial Average was up 14.98% for the quarter, the Wilshire 5000 came in at 16.09%, the NASDAQ at 15.66% and the Russell 2000 at 18.89%. International markets performed well, led again by emerging markets. The MSCI EAFE returned 18.79%.

Inventory restocking and programs such as “Cash for Clunkers” contributed to positive manufacturing trends. Increasing home sales have been influenced by low mortgage rates and tax credits for first time home buyers. Inflation has so far been held in check, even with the Fed holding interest rates near 0%. GDP growth is now estimated at 3% annualized and further expansion is expected

into 2010, albeit at a slower pace.

In spite of the encouraging news, the durability of the recovery is a significant concern. Excessive government spending has become a double-edged sword: the federal deficit continues to skyrocket raising concerns of future inflation, yet unease surrounds the eventual pull-back of government stimulus programs which will determine if the economy can sustain growth without them. Employment numbers remain dismal with little optimism for new jobs growth in the near term, preventing stability in consumer finances and growth in spending. Economists expect it to take several years before the gap in the labor market is at a typical level again, which will have a profound impact on the economy as we move through this difficult period.

“Whoever ceases to be a student has never been a student.” – George Iles

Fund Focus: Rebalancing

For this *Fund Focus*, rather than delve into further details for a typical portfolio holding, we chose to examine a typical portfolio process: rebalancing.

We are constantly on the lookout for new technologies that assist in the asset management process and keep Harbor on the cutting edge. Great strides have been made in the portfolio rebalancing arena in the past few years and we have taken advantage of this growth.

The Tactical Asset Spreadsheet™ (TAS™) was created as a proprietary Harbor product in 2002 and has served a dual-role as a rebalancing tool and informative report. Unfortunately, creating and maintaining the TAS™ is a manual process. Rebalancing software allows us to apply the portfolio models in a much more efficient manner and at a higher level of sophistication. This allows us to dedicate more time to investment research and improves our client asset management process. For example, we can now seamlessly monitor the real-time impact of market movements on portfolio allocations and take appropriate actions when necessary.

Portfolio Update

Last month marked the one-year anniversary for the controversial collapse of Lehman Brothers, which acted as a catalyst that sent financial markets and worldwide economies into a rapid downwards spiral. Facing sudden and devastating market volatility, we held preservation of capital in the forefront of our minds for our clients. We believe it would be helpful and educational to share a few themes critical to the success of capital preservation in our asset allocation methodology in light of last year’s events:

Owning high quality assets – With the markets displaying continued volatility heading into summer 2008, we sought to employ guarantees via high quality assets where possible. We increased our fixed income asset allocation to these types of securities and took positions in GNMA’s (government backed mortgage securities), short term US treasuries, high quality corporate bonds and increased our allocation to cash. On the equity side we sought to acquire cash rich, low debt, fundamentally sound corporations offering a decent dividend yield. We also aligned our interest with fund managers following the same mandate, such as the Yacktman Fund.

Tax loss harvesting – Much to their chagrin, many mutual fund investors were saddled with a huge capital gains distributions late into 2008, even though the net asset value (NAV) had dropped by 40% or more. We turned lemons into lemonade, booked the losses and re-bought a similar asset. As of this writing, this strategy was advantageous in that not only will our investors have the ability to use realized losses against capital gains for years to come, but they have participated fully in the rally from the March lows.

Alternatives – Our investments in non-traded real estate investment trusts and private equity were invaluable in reducing the market losses on our portfolios. Since many of our real estate investments are very conservative in nature with low leverage, they were able to dodge the disastrous credit crunch while paying attractive current income. Accurate hedging efforts from our natural gas investment sponsors provided for an above market return on natural gas via tax sheltered current income.

As we continue in uncharted territory in the markets and world economies, we believe we have sound strategies to preserve and grow your capital.

Roth IRA Conversions – New Rules

In 2010, investors with income over \$100,000 will be able to convert all or part of their traditional IRA accounts to the possibly advantageous Roth IRA. There are several valuable benefits, but bear in mind that this is a very general overview and not definitive:

- If you roll over in 2010, you may split the income between your 2011 and 2012 tax returns.
- Regarding estate planning, the Roth doesn't require mandatory distributions at age 70½; your assets will continue to compound, increasing the amount inherited tax-free by your heirs. Additionally, as long as five years have elapsed after converting, even if you are under 59½, you may withdraw the converted amount along with any additional contributions (to a set maximum) without penalties.
- Although you have to pay income taxes upfront on the account's value, the immediate tax consequence can be softened if your portfolio value has declined in the past year compared to taking taxes on appreciated distributions in the future. It is also likely that taxes will rise in 2011 and beyond.
- It is important that you pay the upfront taxes from cash or other assets. Paying from your IRA would lessen the potential benefit of tax-free growth and, if under age 59½, you incur a 10% penalty for early withdrawal.

If you are over the \$100,000 income limit for 2009, it could be wise to open one or more traditional IRA accounts, contribute the maximum allowable amount and then convert the assets to a Roth next year.

Your Harbor team is happy to help you explore these new options in coordination with your tax advisor.



Organic Wines

Organic wines are proliferating and increasingly featured in the press. We decided to explore some of the offerings and share our thoughts, as well as a personal favorite.

Labeling of organic wines dates back to 1990 when Congress passed the Organic Foods Act. For a wine to be labeled organic, it must be made from organic grapes and give information about who the certifying agency is. A wine in this category cannot have any added sulfites. It may have naturally occurring sulfites, but the total sulfite level must be less than 20 parts per million.

Sulfite or sulfur dioxide is used as a preservative in wines. It has strong antimicrobial properties and some antioxidant properties. The health effects or consequences of sulfites are debatable though a small percent of the population is sensitive to them, which makes organic wine extremely appealing to this group.

While many farmers practice organic farming methods, we are limiting comments to certified organic wines. There are also sustainably farmed wines. Of interest, these farming methods work best in warmer, drier climates due to their lack of mold and the need to spray or treat the grapes with chemicals.

Organic wines are widely available at local shops and span price ranges and variety. We have tried several and are currently enjoying Nuevomundo, which is a 2008 Chilean Sauvignon Blanc from the Maipo Valley. The wine can be obtained locally for about \$14.

Living Well

Fall in Colorado is a wonderful time to get out and enjoy some of the weekend festivals and farmer's markets. Below is a sampling:

The Metro Denver Farmer's Market has six locations and runs through the end of October. Check their web site at www.denverfarmersmarket.com. There are also the Boulder and Longmont Farmer's Markets at www.boulderfarmers.org. Longmont's market runs through the end of October and Boulder's market runs through November 7.

October 24 and 25 is the 11th annual Greeley Hot Air Balloon Harvest. More information is available at www.hotairballoon.us or phone 970-353-8626.

For those interested in the slightly macabre there is the Emma Crawford Coffin Race and Parade on October 24 in Manitou Springs. More information available at www.manitousprings.org under the Events section or phone 1-800-642-2567.

Also for those interested in Colorado history, the weeks before Halloween are always a good time for ghost stories. Check out the following:

Colorado Historical Society's Halloween Cemetery Crawl, <http://drcolorado.auraria.edu/calendar/> 303-866-4661

Capital Hill Horror Stories & Governor's Mansion Tour, <http://drcolorado.auraria.edu/calendar/> 303-866-4686

Halloween Tours of the Brown Palace Hotel, <http://brownpalace.com> 303-297-3111

Frontier Historical Society Museum (Glenwood Springs), Ghost Walk through Linwood Cemetery www.glenwoodhistory.com 970-945-4448

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Images: Nat Arnett

Harbor Happenings

HARBOR IN THE NEWS

Elyse D. Foster, CFP® and Harbor have been recognized in 3 independent publications for 2009. We consider these shared awards; without our clients and trusted advisors, we would not have achieved this recognition of our success.

- Five Star Wealth Manager “Best in Client Service” – 5280 Magazine and Colorado Biz Magazine
- “2009 Top Wealth Managers” – Wealth Manager Magazine [7th year!]
- “2009 Top RIA Ranking” – Financial Advisor Magazine

HARBOR INTERNS

Megan Whittlesey and Kyle Moore have completed their internships with Harbor. Megan graduated from the University of Colorado Boulder and accepted a job in Denver with KPMG. Kyle returned to Bentley University in Massachusetts where he is a junior. They will be missed in our office, as they were both considerable assets to the firm.

CERTIFICATIONS

Several staff members have reached significant milestones on their paths towards various professional designations. Karen Didde and Kevin McCulley recently completed the College for Financial Planning® CFP Certification Professional Education Program, a prerequisite in obtaining the CFP® mark. Jordan Kunz passed the first of three exams required to receive a CFA® charter. Congratulations to all three! Further information is available at www.cfp.net and www.cfainstitute.org.

2009 Closures

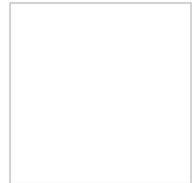
The New York Stock Exchange (and therefore our office) will be closed on the following days in 2009: Thanksgiving Day—November 26, Christmas—December 25.

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

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