

Volume XXII, Issue III

THE HARBOR ADVISOR

Gone Fishin'

The advent of fall with the attendant weather, trees turning, harvests and back to school rituals is a favorite time of year for many, me included. I think it a good time to reflect on accomplishments for the year and make a list of goals still outstanding. Our newsletter theme this year has been resource management and acknowledging that your time is your most precious asset. Looking back over the year at how I have spent my time is a lovely luxury. For my part, I believe I spent my time wisely. I isolated objectives that were professional in nature and once accomplished, I moved my focus to personal goals.

I accomplished two big personal goals. I had a more relaxing summer; I took more time for myself and deliberately slowed the pace a bit. I also engaged in new pursuits: golf and a new exercise called Kangoo. Coming into the last quarter of the year, I am confident that I will meet my remaining goals and not feel stressed in the process.

Last week Harbor hosted a fly fishing trip with several clients and staff that epitomized my list for this year. The location was beautiful with the trees having turned and the weather mild. Our guides were wonderful showing us their personality and a way of life different from ours. We all learned a new fishing technique that was new to us called nymphing, where we cast with wet lures. The group was a good one with lively conversation and big smiles when they netted the big ones! Of most value was the luxury of time, to spend an entire day on the river, engaged in conversation and focused on a common goal: to net a fish. This was priceless. When was the last time you spent a whole day with a friend engaged in a new pursuit?

This issue of *The Harbor Advisor* contains the usual Investor IQ for your next trivia game, a market recap that resembles a roller coaster ride, information about an investment we use in your portfolio and the final piece of our four part series, "Helping Harbor Help You".

We trust you will enjoy this issue and the remainder of your fall.



October 14, 2011

Contents

Main Articles

Gone Fishin'	1
Portfolio Construction	2
Helping Harbor Help You (4 of 4)	3
Harbor Happenings	4

Individual Highlights

Investor IQ	1
Q3 2011 Market Recap	2
Fund Focus	2
Living Smart	3
Living Well	3
Reading Your Credit Report	3
Market Closures	4

Investor IQ

Acronyms: ESOP

This acronym might bring to mind a few cautionary diversification tales from the likes of Enron and WorldCom! ESOP stands for Employee Stock Ownership Plan, a method of compensating employees with company stock.



Third Quarter 2011 Market Recap

Equity markets took investors on a bumpy ride during the third quarter. The debt crisis in Europe was a primary cause for volatility as the E.U. tried to negotiate a new rescue plan for Greece. Italy and Spain also began to show further signs of economic distress, increasing concerns that they too may need assistance from the other increasing reluctant member states.

Emerging markets added to the turmoil, specifically regarding China's banking system. Investor sentiment turned pessimistic with growing suspicions that the big banks are downplaying their level of bad debt and that the Chinese economy is slowing.

In the U.S., last minute wrangling by politicians to raise the debt ceiling and the subsequent credit rating downgrade by Standard & Poor's fueled market volatility.

Adding to the stalled housing market and sluggishness in employment numbers, consumer spending slowed due to declines in personal income and increases in prices.

As erratic as the news was, the U.S. remained on a slow growth track. Business investments and exports stabilized and manufacturing continued to grow, albeit at a slower pace.

For the quarter, the Dow Jones Industrial Average's return was -12.09%, Wilshire 5000 -15.55%, Russell 2000 -22.15%, and MSCI EAFE -19.60%. The Barclay's Aggregate Bond index had a positive return of 3.81%.

"An investment in knowledge pays the best interest." – Benjamin Franklin

Fund Focus: WisdomTree Dividend Ex-Financials

We consider the WisdomTree Dividend Ex-Financials fund (DTN), worthy of consideration for three distinct reasons. First, being a passive ETF investment, costs are quite a bit lower (0.38%) than an actively managed fund. Second, the fund has a focus on large-cap domestic companies with the highest dividend-yields. To wit, DTN currently has a 4.05% dividend yield¹. A dividend strategy works well as a complementary strategy to traditional income sources during this period of sustained low interest rates. Third, DTN achieves this high income stream without exposure to the financial sector. This ties in nicely with our thesis of continued weakness in financials as the debt crisis in Europe continues to unfold.

DTN has outperformed the S&P 500 by 3.81% annualized over the past three years.² While there may not be an exotic underlying strategy or concept, this value play emphasizes solid fundamentals at a very reasonable cost.

¹ WisdomTree data as of 10/12/11

² WisdomTree data as of 9/30/11

Portfolio Construction – An Overview

Our clients receive an annual in-depth portfolio update detailing our current market outlook, investment models and their portfolios. Given the substantial amount of time we devote to this process, we thought it timely to give you an overview of how this works.

The process begins largely at our annual forecasting meeting. Here we discuss contemporary issues in the economy, political climate, business cycles and the like to identify key trends we believe will have an impact on financial markets in the coming year. We analyze these trends in an effort to identify profitable or risk reducing strategies to incorporate into our investment model. One example in recent years is the trend of US dollar devaluation relative to foreign currencies and how to hedge this risk. To address this issue, we may look at adding an asset class that provides exposure to foreign currencies and hard assets to provide diversification. We focus considerable research and analysis at this level to ensure we have the most appropriate asset classes selected to begin the portfolio construction.

The process then becomes more quantitative in nature as we back-test various allocations developed in the research stage using historical benchmark and fund data. We look to analyze how various asset classes perform on an aggregate across several market and business cycles. We utilize financial metrics such as beta, standard deviation, correlation and value-at-risk to analyze our data while keeping in mind the pitfalls of backward-looking data, such as hindsight and survivorship bias. Next, we develop several models with varying risk and return profiles to ensure every client of our firm has an appropriate portfolio for their financial situation.

As specific asset classes are proposed for inclusion, our Investment Committee narrows the several thousand investment options available in the marketplace for the most suitable choice. A strict due diligence process guides our search, focusing on manager tenure, risk/return profile, cost, and style purity, among others. We run several iterations in optimization software with our fund selections to identify portfolios that generate the best risk adjusted return profile. After the Investment Committee approves each investment model, client portfolios are integrated to the models, rebalanced and our portfolio update is shared with clients. For more in-depth information or any questions, please contact your Harbor team.

Helping Harbor Help You (Part 4 of 4)

Once you have explored your goals and have a financial plan in hand, you have a springboard for future action and the information available to make that action effective. An initial plan is a dynamic and adaptable step towards your financial future. Since even the best laid plans are useless unless acted upon, the best way that you can help Harbor to help you at this stage is to become engaged and take responsibility for the follow-through needed in the implementation of your plan. Outlined below are some of the ways to do this:

- **Make sure you understand your plan:** Ask any and as many questions as necessary. Take the initiative to become informed about the larger financial issues and their possible impact on you and your financial future.
- **Do your homework:** Just as there is some work for you, the client, to do in the creation of a financial plan such as goal setting, providing detailed financial information and the like, there are, after the plan is created, some items that come to light and need attention. These can be account related, insurance related, possibly some estate planning items or any of a number of other things. Your cooperation in attending to these is vital to move forward in putting your plan into operation.
- **Foster and insist upon communication between Harbor and your other advisors:** Contact your accountant, banker, attorney and other advisors and give them permission and encouragement to exchange information and ideas. In this way, you get the most complete and informed advice from all of your advisors.
- **Keep us informed of any changes:** Significant life events can occur at any time and we love to hear from you! A marriage, birth, death, divorce, job change or loss, inheritance and more all need to be taken into account in the financial picture. An annual review of your plan can encompass changing goals and circumstances.

We recognize that your time is valuable and limited. A comprehensive financial plan and a small, well-aimed investment of time and energy on your part can successfully set you on the path to reaching your goals.



Reading Your Credit Report

You are entitled to a free credit report from each of the three credit reporting bureaus each year, but once you have pulled the credit report from www.annualcreditreport.com, reading it can often be confusing. The report from each bureau is slightly different but each has four major sections:

Identifying information: Your personal information – name, social security number, current and past addresses, date of birth, spouse’s name, etc.

Credit history: This will include the name of the creditor and account number. You will see the original balance of the loan and how much you still owe. If the entry is for a credit card, it will have the credit limit and/or the highest balance on the card. Additional information includes the status of the account (open, closed, inactive, paid, etc.) and whether or not you have paid and paid on time.

Public records: This section includes bankruptcies, tax liens, judgments, etc. Ideally, this section will be empty or even non-existent on your report.

Inquiries: This is a list of everyone that has asked to see your credit report such as phone companies and rental agencies as well as companies, such as credit card companies, that might want to pre-qualify you before sending you information. Current creditors sometimes also request a report in order to monitor your accounts.

Living Well

Are You Ready For Some Football?

Falling leaves mean different things to different people. At the Smith household, it signifies one thing – football! As the weekend approaches one question comes to mind – where are we going to watch the game(s)? If you are not one of the lucky who have ESPN Game Plan or NFL Sunday ticket, this question is critical.

Old Chicago, Jackson’s, Lodo’s and the Lazy Dog are favorites for watching the Buffs or Broncos. As my other half bleeds red, I know that the Fox & the Hound is where you will find Nebraska fans on Saturday. If you are travelling on Hwy 93 between Boulder and Golden and are not a Green Bay Packer fan, you know to stay away from the Rocky Flats Lounge on Sunday. Steelers fan? CB & Potts in Westminster transforms into Pittsburgh on Sundays. Regardless of whether your jersey is blue and orange or black and gold, it is officially football season.

Living Smart

Password Management

If you are like most of us, you are continually signing up for yet another online account. Trying to remember numerous passwords just isn’t feasible. A password manager is a great solution.

Password managers are services that allow you to securely save all your passwords using a master password. While having a master password may seem like it defeats the purpose of having multiple passwords, consider this: if one account gets hacked and you have one password for everything, you will have to change your password for everything. However, if one account is compromised and you have a different password for all of your other sites, you just have to change that one password. It’s easy to change your master password frequently rather than changing all of your passwords on a regular basis.

Harbor Financial Group, Inc.

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

P: 303.939.8788
F: 303.541.1059

info@harborfin.com

Find us on the Web:
www.harborfinancialgroup.com

Harbor

Financial Group, Inc.

Images: Nat Arnett

Harbor Happenings

CONGRATULATIONS!

Jordan Kunz recently passed the Level III exam of the Chartered Financial Analyst program and earned the right to use the Chartered Financial Analyst designation. More information on the globally recognized CFA charter is available at on our website and at www.cfainstitute.org. Well done, Jordan!

WE'RE HOOKED

Thanks to all of you who were able to go fly fishing with us. It was great fun -- the expert guides were terrific, taking us to some beautiful water on the South Platte and giving advice for beginners and advanced anglers in our group. We're not telling who caught the big one! Check our blog at www.harborfinancialgroup.com/news-views/ for photos and more information about our trip.

HARBOR RECOGNIZED

Harbor was recognized as a NABCAP Premier Advisor, published in the September 30, 2011 *Denver Business Journal*. This exclusive group of Colorado firms met an objective standard of excellence, focusing on a wide range of criteria.

PERFORMANCE WEBINAR

Our next quarterly performance webinar is scheduled for October 20 at 12:15 p.m. We hope you are able to join us. Please contact Susan for registration details.

2011 Closures

The New York Stock Exchange (and therefore our office) will be closed on the following days in 2011: Thanksgiving Day—November 24, Christmas (observed) —December 26.

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

Harbor Financial Group, Inc.

1909 26th Street, Suite 1A

Boulder, CO 80302



[Recipient Name]

[Street address]

[Address 2]

[City, ST ZIP Code]