

THE HARBOR ADVISOR

Static Investing

I have noticed a recurring theme this year in my writings, it turns out there are several ways to deliver the same message. In the first quarter I spoke about the value of sticking to your overall plan; in the second quarter I suggested ignoring media output and encouraged thinking for oneself. Now I think it appropriate to pause and realize that independent thinking and taking a big picture view has paid off. If you had listened to the media noise I referred to in last quarter's letter or allowed the fear of the markets, economy and unknown to deter your investment plan you would probably be worse off today. Why do I say this? Sticking with the plan has allowed for a measure of certainty and confidence which should allow you to sleep at night. Not so much questioning and worry about the next decision since it has already been made. Not listening to the talking heads and so called experts saves a lot of time and aggravation I think better spent on more enjoyable pursuits. I like cooking, friends, wine and hiking for this season.

In addition you have been rewarded with higher than anticipated returns. Surprising to many, as of this writing, the S&P 500 is up 13.51% year to date, the small cap index 16.90%, the midcap 400 16.77%, Barclays US Bond 3.31%, MSCI/EAFE 12.87% just to quote a few popular indexes.

To be sure there is a great deal to be concerned about and I do not advocate ignoring world events or our Government's trials and tribulations. Rather in this particular market and investment cycle I don't think we can out maneuver or call the highs and lows of the daily swings in pricing. The idea that we prepare as best we can and stick to high quality investment choices and overall long term plans has been the best solution financially and one incidentally that has allowed most of us the greatest comfort.

Stay tuned for the election, more Euro drama amongst other predictable and not so predictable events to come. You might guess that my advice is to stay the course and enjoy the lovely fall.



October 14, 2012

Contents

Main Articles

Static Investing	1
Fiscal Cliff	2
Beyond E-mail	3
Harbor Happenings	4

Individual Highlights

Investor IQ	1
Q3 2012 Market Recap	2
Fund Focus	2
Living Well	3
Considering refinancing?	3
Market Closures	4

Investor IQ

Fun Financial Fact:
The US Secret Service was created during the Civil War to fight counterfeiting.



Third Quarter 2012 Market Recap

Markets were relatively calm during the third quarter. Europe was again a primary focus, but during this quarter, progress toward resolving the fiscal crisis was viewed with optimism as the European Central Bank (ECB) indicated that it will do whatever it takes to keep the EU together. However, even with the new strategies in place, it is expected to take years before Europe's crisis finally ends.

Here in the US, uncertainty surrounds the upcoming election and the potential fiscal cliff that is facing tax payers at year-end. Manufacturing contracted over the past

quarter, but other statistics generally point to further economic growth. The housing market continued to recover, boosting consumer sentiment. Employment numbers were stronger, with 438,000 jobs added during the quarter and the unemployment rate dropping below 8% in September. Index returns were positive for the quarter. The DJIA's return was +4.32%, Wilshire 5000 +5.51%, Russell 2000 +4.88%, and MSCI EAFE +6.14%. The BarCap Aggregate was also positive at +1.59%.

"Good judgment comes from experience, and a lot of that comes from bad judgment." – Will Rogers

Fund Focus: Brown Advisory Growth Equity

The Brown Advisory Growth Equity (BIAGX) Fund invests in large cap domestic growth stocks utilizing a bottom-up research approach to identify companies that exhibit an above average and sustainable earnings growth rate. The fund typically holds 30 to 50 stocks that meet these criteria and are held for multi year periods.

As with other large cap growth strategies, information technology represents the largest sector for the fund and household names such as Apple and Google are the top two holdings. A low turnover rate of 60% is encouraging as it confirms their investment process and aversion to momentum chasing.

As with Brown, we believe investing in high quality, industry-leading companies is key to achieving success in our current economic environment. These companies should be able to leverage their comparative advantage and solid financials during times of duress to gain market share on their competitors. Historical performance would suggest the same as this fund on a rolling 10 year basis has outperformed its benchmark by over 40%¹.

¹ Morningstar Principia 8/31/2012

Fiscal Cliff

"Beware of the cliff ahead" might be a sign you would expect to see in a national park. These days, however, Americans from coast to coast are hearing about the so called 'fiscal cliff' facing the U.S. This 'cliff' is the automatic tax increases and spending cuts scheduled to occur at year-end. Set to expire are temporary payroll tax cuts and the Bush era tax cuts. In line for deep spending cuts are the defense budget and many other government programs, such as Medicare. As prescribed by the Affordable Care Act, additional Medicare taxes are already on the docket for 2013 for couples with incomes over \$250,000 and singles over \$200,000.

The extent of these changes is in the hands of Congress, but no decisions are expected to be made before the election. Lawmakers want to avoid the "cliff" but a compromise could be difficult to reach, given the polarized nature of both political parties. Proposed compromises include Congress voting to enact an increase in taxes only for higher income families, or extending the current tax cuts and spending for another year.

You may want to consider a couple of strategies should taxes increase. If you have highly appreciated investments, you may want to consider selling a portion or all of a position before the federal capital gains tax rate increases from 15% to 20%. This strategy may include re-buying the position after taking the gains. Municipal bond strategies may be more appealing as tax rates on taxable investment income are set to increase. You may also want to consider a Roth conversion if you expect to pay a lower tax rate now than you will during your retirement years. We recommend that you have a discussion with your accountant prior to year-end.

Also scheduled to change in 2013 is the maximum amounts allowable under the unified gift and estate tax credit for each taxpayer. This amount will drop from \$5.12 million to \$1 million unless Congress extends the current exclusion amount or changes the law. Tax rates over these maximums are also scheduled to increase. If you want to take advantage of the current unified gift tax credit prior the end of the year, we recommend that you discuss this with your accountant and your attorney. Now would be a good time to review your estate planning documents to make sure that they allow for changes to the unified credit.

Beyond Email: Keeping Your Information Safe Online

Last quarter we discussed keeping your devices safe from viruses and other technological malware. This quarter we would like to focus more on your personal information and keeping it safe while online. It should be remembered that the internet is, in fact, a very public place. Emails sent to one person can be forwarded multiple times and any web site where you enter your information can make the decision to share or sell it with other companies or web sites. Social media sites can be notoriously communal almost to the point of being a bit creepy. Here are a few tips for keeping your private information private:

- Legitimate companies will not send emails requesting personal and sensitive information be entered online. If you receive an email and are not sure whether it is a real request, phone the company the email is ostensibly from and ask.
- Never save your password on a public computer and when you finish using a public computer make sure that you log out completely.
- While most public hotspots are, just by the odds, unlikely to actually harbor internet thieves, if you are using the local coffee shop as your office avoid doing sensitive tasks such as banking and shopping online.
- When shopping online look for a valid trustmark such as BBBonline or VeriSign that indicates that the site has passed security tests. Use a credit card since your liability for fraudulent charges is limited and the charges may be disputed should someone succeed in stealing your credit card number.
- If you must keep sensitive information and documents on your laptop make sure you are as protected as possible should the machine be stolen. Do not rely solely on passwords to protect the data on the machine but consider additional security such as encryption or other types of authentication.

When it comes right down to it, common sense may be the final line of defense when cruising and using the internet as well as your other electronic gadgets. We encourage you to continue investing time in expanding your ability to utilize and safeguard your personal technology.



Considering Refinancing Your Mortgage?

Record low interest rates have homeowners considering refinancing, but there is more to the decision than just low rates. It's important to consider how long you plan to live in your home; you'll want to make sure you are in the house long enough to recoup the closing costs and see the savings of the refinance.

You'll also want to consider the remaining term of your loan. When refinancing, you are "starting at the beginning" of the amortization schedule. Mortgages are amortized so that almost all of the payment goes toward interest in the first few years. The longer you have the loan, a larger portion of the payment is applied towards the principal. If you are refinancing into a 30 year mortgage and you've already been paying your old one for 8 years you might want to consider a 15 year loan. Another option to consider is applying additional funds towards the principal each month.

We recommend getting a Good Faith Estimate (GFE) from two lenders. The GFE states the specifics of the loan (amount, term, rate) and itemizes the fees and costs associated with the loan making it easy to compare the quotes. When comparing GFEs, keep in mind that it's not just the best rate nor is it just the lowest closing costs. You'll want to determine how long it will take to break even given the cost of the loan and the monthly savings.

A good refinance should benefit you by lowering your monthly payment and/or shorten the term of your mortgage. Being informed about the process will help you choose a lender and loan that offer the best value for you.

Living Well

It's that time of year again, Starbucks came out with their pumpkin spice latte, Halloween candy seems to pop up everywhere you go, and there is a distinct chill in the air.

Whether we like it or not, we have entered the last quarter of 2012. In order to help prepare for an easy start to 2013, we have created a checklist of items that will be helpful to have taken care of by the time the clock strikes midnight.

Tax and Finances

- Maximizing any tax deferral options: 401K, 457, 403B and college savings plans
- If applicable, make sure to take your required minimum distribution from any IRAs or inherited IRAs before year end
- Review your beneficiaries to make sure they are still up to date
- Consider charitable contributions that you would like to make for 2012
- Confirm with your accountant that you have maximized your deductions for 2012
- Update your budget and savings goals for 2013
- Review your tax withholding elections
- Review your will and trust documents to make sure they are still current

Health

- Check your health benefits for any unused services including any balance in a Flexible Spending Account that won't roll into the new year. This includes things like eye exams, annual checkups and dental cleanings
- Check the batteries in your smoke alarms and carbon monoxide detectors
- Make sure you have updated insurances to cover any new purchases or collectibles
- Update your home inventory

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



Images: Nat Arnett

Harbor Happenings

Harbor's New Logo

We are pleased to announce the new Harbor logo. It's simple, modern and innovative. The logo design process proved to be harder than we anticipated. Over 8 versions were designed, but we finally narrowed it down and fine-tuned it to perfection. We hope you enjoy the new look as we do.

Wine and Cheese Party

Last month we hosted our bi-annual wine and cheese party. We tasted wines from five different countries along with a large selection of cheese pairings and specialty beers for brew aficionados. As always, we had a great turn out and it was an evening enjoyed by all.

Performance Webinars

Our next quarterly performance webinar is scheduled for Thursday October 18th at 12:15p.m. Invitations will be emailed out shortly. Please let us know if you have any questions on registration.

2012 Closures

The New York Stock Exchange (and therefore our office) will be closed on the following days in 2012: Thanksgiving Day—November 22, Christmas —December 25. In addition our office will be closing at 11:00am on December 24, Christmas Eve.

Securities offered through Schwab Institutional. Member FINRA & SIPC.

