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THE HARBOR ADVISOR

The Importance of Natural Disaster and Financial Crisis Preparedness

Unfortunately, Mother Nature was particularly harsh in September and October both domestically and abroad. We saw three major hurricanes hit the southern United States, and several devastating wildfires whip through the West. As a state that has seen firsthand the power of floods and fires, we all know how quickly it can wipe away everything you've built. For the most part, the only thing people can do is be prepared, take steps to properly shift risk, and have a back-up plan ready. These steps fit perfectly with our view of financial planning and wealth management.

Being prepared to evacuate in the event of an emergency is essential in case you need to move quickly. Being prepared for market swings is also essential; this is especially true as our world becomes more tightly knit and intertwined. There are simply more factors affecting the markets than in past cycles. One of the best ways to be prepared is to build a diversified portfolio and stick to your laid out plan when the markets hit a speed bump. Being prepared also includes a fully funded emergency fund which can be used for unexpected expenses in a disaster, or to cover your cash flow needs for a period of months if the markets have a downturn. This will prevent you from being forced to sell your investments at an inopportune time which can have a significant impact on your financial independence.

Properly shifting risk in a disaster mainly refers to having adequate insurance in place to cover belongings, transportation and your home. If you can't get flood or fire insurance in your area, and it is considered high risk, you need to have a plan in place to sustain the loss without financial devastation. Insurance is an extremely important aspect of financial planning, and should cover areas including disability, loss of business income or earning potential, liability and casualty.

Lastly, have a back-up plan in place. Create online back-ups or databases of everything you need to continue life as normally as possible. Make sure you are financially stable to sustain several days, or weeks of being displaced and have some idea where you would go. Creating a safety net financially will give you the flexibility you need to switch courses if any of these major disasters affect you.



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2017 Anniversaries

125 Years Since the Debut of Sherlock Holmes - "A Study in Scarlet" was published in Beeton's Christmas Annual



Third Quarter 2017 Market Recap

The third quarter of 2017 saw a continuation of the synchronized global growth seen in the second quarter. The low volatility environment continued through Q3 with only a few minor jumps due to geopolitical events. Against a backdrop of global economic expansion, the United States saw many positive indicators, such as the highest job vacancy level since 2000. In equity markets, both domestic and international indexes performed well. Smaller domestic and international companies led the way with over 5% and over 6% increases respectively. Leading sectors included information technology, energy, and telecom.

In the third quarter, The Bloomberg Barclay's Aggregate Bond index was up 0.85% while the small-cap Russell 2000 gained 5.33%. The large-cap S&P 500 rose 3.96% and the foreign stock MSCI EAFE increased 4.81%. In response to these positive trends, the U.S. Federal Reserve announced it will further the process of quantitative tightening. This reduction in the size of the US balance sheet will begin to reverse the quantitative easing that was designed to stimulate growth in recent years.

"In a heart filled with gratitude, there is no room for discontentment." Rachel Cruze

Fund Focus: AMG Managers Cadence Emerging Comp. (MECIX)

For this quarter's fund focus we will take a look at one of the newest additions to our portfolios, AMG Managers Cadence Emerging Companies (MECIX). This small cap growth fund invests in companies with improving fundamentals and reasonable valuations. Companies are analyzed for important factors such as strength of management, competitive industry position, business prospects, and improving earnings. Although the majority of these companies are in the U.S., the fund has around 2% exposure to non-U.S. stocks. Fund managers Robert Fitzpatrick, Michael Skillman, and Robert Ginsberg have diverse industry experience as well as 30 years of management experience at Cadence. The fruits of their labor are obvious in MECIX's five star Morningstar rating for three, five, and ten years, rated against over 500 other small growth funds. MECIX had a total return of 24.93% in 2016 and is continuing these strong returns into 2017 with a year-to-date return of 16.43%. Harbor selected this fund for its exposure to small-sized, emerging U.S. companies, and for the diversity it adds to our portfolios.

Harbor's Annual Portfolio Review

Every summer the Investment Committee at Harbor takes on the detailed and lengthy task of deconstructing, reviewing, and reconstructing our model portfolios. While we meet consistently throughout the year and make adjustments to the portfolio regularly, this annual rebalance process takes a deeper dive to ensure we are providing the most efficient and effective portfolio possible.

In 2016 and beginning months of 2017 both domestic and international markets took political events and general discontent in stride, and even rallied in what industry insiders coined the Trump rally. This rally can be attributed to several economic factors traders were hoping to see, such as tax reform and infrastructure spending, which drove up prices. We believe that without any large negative events, the markets and economy can continue to grow and stabilize.

We monitor many different economic indicators, both leading and lagging to efficiently position the portfolios as well as we can. Global economic growth is on track for an 11th consecutive monthly gain, on course to tie the previous record set in 2003-04. Although many investors question if the growth can continue, economic readings show the global economy is actually strengthening, and will likely accelerate through 2018. There are a few areas of concern such as global debt and geopolitical turmoil. We watch these concerns carefully but believe while any one of them might start a short term decline, or correction, the global economy is strong enough to withstand short term shock.

Due to the rotation in risk-on trades and risk-off trades, historically the best risk adjusted performing portfolios have a good mix of equity and debt. Our asset allocation strategy includes mixing in international stocks and bonds, as well as real estate, commodities and currencies. We take a balanced approach to sector investment and have selections in each category, but also make tactical investments into sectors we believe will over or under perform the broader market. Currently our moderate portfolio is overweight in real estate, industrials, and healthcare and underweight in communication services, and utilities.

We use third party analysts Natixis and JP Morgan to compare our moderate portfolio to hundreds of other advisors' moderate portfolios. Harbor's model is very competitive, ranking within the top 33% of many areas tested such as diversification benefit, returns, risk adjust returns, manager selection, and up and down capture ratios. We feel confident that Harbor has built a strong portfolio with assets that will produce competitive returns with lower risk.

Risky Business – Part 1

Risk is often ignored by the media, by investors and advisors and misidentified by others. However, we often hear that the stock markets are perceived as risky and real estate is not or that gold is the only safe investment. Is there any basis for this opinion other than recent experience or possibly a misconception? We have innumerable historical examples of a disconnect between the perception of risk versus reality:

- Dot-com stocks were seen as a sure thing, remember Pets.com?
- Is Lending Club a conservative or risky investment?
- Is cash a risk free investment?
- When CMOs (collateralized mortgage obligations) came on the market they were perceived as low risk by almost all of Wall Street – was this true?

In a session at a recent conference, Michael Kitces spoke about one of the underpinnings of successful investment planning - knowing your risk tolerance and the difference between that and risk perception. Tolerance is the ability or willingness to allow the existence, without interference, of something that one does not necessarily like. Hardly anyone likes market volatility but some people have more patience and less anxiety about the ups and downs. This risk attitude or tolerance tends to remain stable throughout a person's life. For the most part we, unfortunately, don't become more flexible and less nervous over time about market shifts.

On the other hand, risk perception, our mental impression or understanding, is something that can change over time. During the tech bubble in the late 90s, many had the perception that the bull market would continue forever on the strength of internet and technological advances. That perception ended abruptly in 2000 and was challenged yet again during the recession of 2008 partially fueled by CMOs. For those who have been following the markets for the last two decades, perception of how they may or may not operate has most likely changed, possibly vacillating many times.

So the answer to the questions above – it depends? Maybe of more import is the answer to the question of how to not let our risk tolerance and perception sideline or sink our portfolio. Next quarter we will address that topic. Stay tuned!



Doctors on Your Doorstep

Doctors making house calls to care for their patients are a thing of the past....or are they? A number of home health care agencies are popping up around the nation to treat your urgent care needs. So the next time you find yourself stuck in bed with the flu...pull out your phone and launch an app and a doctor will be at your doorstep.

One such provider offering mobile urgent care services is **Dispatch Health**. They are a Denver-based provider and a partner with Centura Health. Requesting care is quite simple. You can use their mobile app or website to explain your symptoms, one of their providers will then contact you to learn more and get the right care en route to you. You then wait comfortably at home and one of their mobile medical teams will arrive within an hour, on average. They will treat you, call in prescriptions, update your family doctor and handle the billing with your insurance company. All this in the comfort of your own home. And no long wait times or expensive urgent care or ER visits.

Dispatch Health is among a handful of companies that are popping up nationwide to bring medicine closer to home. **Heal** is a similar mobile care app that operates throughout California and in Washington D.C. and **Pager** provides care to patients in New York.

These apps are not intended to replace the family doctor but instead provide quick treatment for easy to treat ailments and symptoms. So the next time you are sick and need a doctor, just remember - there's an app for that.

Living Well/Living Smart

HSA Accounts – Staying Healthy, Wealthy & Wise

A Health Savings Account (HSA) is a savings account that allows you to pay for qualified medical expenses with tax-free dollars. Contributions are tax-advantaged, funds grow tax-free and distributions for qualified medical expenses are tax-free – triple tax benefits!

The HSA must be paired with a qualified high-deductible health plan (HDHP). A HDHP has a minimum annual deductible higher than a typical health insurance plan (\$1,300 for individual, \$2,600 for families) with a maximum cap of \$6,550 and \$13,100 for individual and family out of pocket medical expenses. The annual deductible must be met before plan benefits are covered, unless the expense is an in-network preventative care service, which is 100% covered.

HSAs have contribution limits of \$3,400 for individuals and \$6,750 for families. The contribution limit increases by \$1,000 for those over 55.

In addition to the triple tax benefits, other major perks include:

- The HSA balance rolls over from year to year.
- Your HSA funds are portable even if you change health insurance plans, change employers, or retire.
- HSA funds can pay for a variety of medical expenses including co-pays, some alternative care, vision, dental and even long-term care premiums.

Typically HSAs work well for high income earners because they can more easily afford to contribute the maximum amount toward an HSA. Being in a higher tax bracket creates more savings through a tax deduction.

To read more about this and find out if you may benefit from an HSA, see our full blog post at www.harborfinancialgroup.com/news-views/

*The deductibles and contribution limits listed above are for 2017. These amounts are scheduled to increase in 2018.

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Harbor Happenings

Second Saturday Divorce Workshop for Women

Megan Miller, CFP® CDFA® (Certified Divorce Financial Analyst), along with other professionals, hosted a divorce workshop in September for women who are going through or contemplating divorce. Much information was disseminated and the attendees walked away from the workshop feeling empowered. Second Saturday workshops offer non-biased financial, emotional and legal advice from qualified local professionals, providing women with the knowledge, support and resources that they need to survive the divorce process and move forward with confidence toward a new life. The next workshop will be held on Saturday, November 11.

Doggie Dash 2017

On Saturday, September 24th, Elyse Foster, along with a host of other animal lovers and their dogs, participated in the Humane Society of Boulder Valley's Doggie Dash 2017. They trooped out to the Boulder Reservoir in spite of cold and wet weather conditions and still had a great time – nearly 1,000 people including dashers, volunteers, community partners and supporters were in attendance! Click [here](#) to see photos of the day on Facebook. The monies raised from this event will help the humane society to continue the care of almost 7000 animals that pass through their doors each year and increase awareness of the humane society's mission.

Harbor on Facebook

Visit us on Facebook! See the latest happenings at Harbor and get tips and financial information from market experts. <https://www.facebook.com/harborfin>

Privacy Policy and New ADV Available

A full copy of Harbor's updated ADV (the form used by investment advisors to register with the SEC) is available on our website. Please notify us if you would like a hard copy sent to you by mail.

2017/2018 Office Closures

Our office is closed on the following New York Stock Exchange holidays in 2017 and through the beginning of 2018: November 23, Thanksgiving Day; November 25, half day; December 25, Christmas; and in 2018: January 1, New Year's Day; February 19, President's Day.

Year End is Around the Corner!

Year-end continues to get more challenging for the financial industry with more delays and red tape every year. Consider acting now to make sure everything needed is completed before the end of the year. Possible tasks:

- If applicable, take your required distribution from your IRA or inherited IRA.
- Make a contribution to your child's 529 account.
- Consider any estate planning that might need to be done before year-end and phone your attorney for an appointment.
- Discuss with your accountant whether or not you might be eligible to contribute to a Roth or Traditional IRA for 2017 and, if needed, contact us to open the account.
- Take care of any gifting, transfers of stock or cash that might need to be done by year-end.

Please contact our office today if we can help with any of these items. Thank you!