

THE HARBOR ADVISOR

Risk – Friend or Foe?

If the past few years are any indication, 2010 will bring a host of unknowns, surprises and opportunities.

While we successfully anticipated a number of the events of 2009, we missed others. I would imagine the process will be repeated this year. In reflecting back at 2009, one aspect of our financial lives that was exposed and examined was risk. I refer to the risk we expose ourselves to every day, as well as a deeper examination of what risk is, and perhaps more importantly, what it means to each individual. In retrospect, we were able to contain the risk we and Harbor's clients were exposed to via a combination of current strategies and long-held firm tenets.

This success prompts me to share what we know about risk and what we have recently learned in this newsletter and in educational sessions to come for 2010. We will also focus on risk assumed, risk reassigned and techniques for risk avoidance in our financial plans this year. We believe a combined focus on risk containment and the leverage of its potential will be a valuable component of our success in 2010 and beyond.

Also in this issue are unique opportunities for local winter entertainment, our quarterly fund focus and an investment article on the calculation of quarterly performance and why the obvious answer is not necessarily the best.

We have received positive comments regarding our educational web presentations and are expanding our offerings for 2010. We will also continue our educational sessions at the office, with a presentation in February from prominent local attorney Chuck Sisk on trusts and asset protection. If this sounds like risk transference, you are correct. We also plan to host our first educational event in Denver to allow for less travel for our Denver clients. Stay tuned for future topics and dates.

We encourage you to join us online for one of our webinars or here at the office for the more personal feel of our educational sessions. In addition, our website has a number of educational sections (www.harborfin.com).

We join in wishing you and yours a 2010 filled with wonder, fulfillment, prosperity and a bit less excitement than in 2009.

January 13, 2010

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Investor IQ

Q: What was the best performing S&P 500 company over the past decade?

A: Southwestern Energy



Q4 2009 Market Recap

As 2009 comes to a close, several leading economic indicators, from existing home sales to industrial production, seem to show an improving picture for the US and global economy as the recession lingers.

investors embraced foreign currencies and commodity assets through the end of 2009 with the future of the US dollar as the standard international currency reserve under scrutiny.

Global markets continued to rally from multi-year lows seen in early March 2009 through the end of the year. Fourth quarter returns for the S&P 500, DJIA, Russell 2000, NASDAQ and MSCI EAFE were 5.50%, 7.40%, 3.50%, 6.90% and 1.80%; year-to-date returns were 23.50%, 18.80%, 25.20%, 43.90% and 27.75% respectively. In a sharp reversal from the flight to quality in 2008 where investors sought US government bonds, treasury bills and the US dollar,

As we enter 2010, we remain concerned about corporate balance sheets, primarily how highly-levered institutions are servicing debt and the effects it could have on earnings and investor confidence. The probability of sustained GDP growth is debatable as unemployment likely will remain elevated for the foreseeable future and the outcome of the massive US stimulus spending is uncertain.

“Take calculated risks. That is quite different from being rash.” – General George Patton

Fund Focus: Yacktman Fund (YACKX)

Returning to brief overviews of funds a typical client might see in his investment portfolio, our subject this newsletter is the Yacktman Fund (YACKX). What makes this fund stand out from the pack? For starters, the fund was up 180.7% for the ten-year period ending on September 30, 2009 versus -1.5% for the S&P 500¹. For 2009, the Yacktman fund returned 59.3%, handily beating the S&P 500 by over 32%².

Eponymously named for the fund’s father/son leadership team, Yacktman is a large cap value fund that seeks long-term capital appreciation and current income through companies that meet three qualifications: good fundamentals (high market share, high cash return on assets, etc), shareholder-oriented management and low purchase price³. The fund is non-diversified, reflecting the managers’ commitment to their best investment ideas. We have been pleased with the performance of the fund since including in our models. Please contact us if you wish to learn more.

¹Total return, Yacktman Q3 Letter

²Total return, Morningstar.com

³Yacktman Funds Prospectus, April 30, 2009

Quarterly Performance Calculations

If your portfolio’s value was \$100,000 at the beginning of the quarter and \$85,000 at the end of the quarter, would your return be -15%? Maybe, but don’t hang your hat on it. There is more to calculating performance than determining the percent change between beginning and ending market values for the time period. For example, you may have withdrawn \$20,000 during the quarter, which would actually mean that your performance was positive. The “Portfolio Activity Summary” on the first page of your quarterly report is a good recap of the transactions that affect performance. It summarizes contributions, withdrawals, realized and unrealized gains and losses for the period. Interest and dividends are added and fees paid for assets under management are deducted from your account value.

We rely on Advent software as our portfolio accounting system to accurately calculate performance and to maintain compliance with industry standards. Advent calculates performance using two different methods for your quarterly reports, although one is more accurate than the other.

As an example, when reviewing your quarterly reports, you have probably noticed that the return on the “Performance by Security” report sometimes varies from the time-weighted return (TWR) on the summary page. This is due to the manner in which cash flows are accounted for in the calculation. The “Performance by Security” report calculates an internal rate of return using a formula that divides total profit by the average capital base of a portfolio. We believe this report is useful in showing you the performance of the individual securities in your account, but the total return does not always give you the whole picture.

The more accurate TWR on the summary page accounts for significant cash flows to minimize their impact on the portfolio return. In the example above, the TWR would calculate the performance from the beginning of the time period to just before you withdrew the \$20,000 from your portfolio. It then calculates the return from the date of the withdrawal to the end of the time period, as long as no other significant transactions occurred. These returns are then combined to provide a more realistic snapshot of your portfolio’s performance.

If you have further questions about how the performance of your portfolio is calculated, please contact our office.

Risk (Part 1 of 4)

Probability or threat of a damage, injury, liability, loss, or other negative occurrence, caused by external or internal vulnerabilities, and which may be neutralized through pre-mediated action. – BusinessDictionary.com

There are many definitions of risk that vary by specific application and context. Risk concerns the expected value of one or more results of one or more future events. The value of those events may be positive or negative but general usage tends to focus only on the potential harm that may arise from a future event. The etymology of the word 'risk' traces back to a Latin word for 'cliff'. Certainly in the financial arena, if 2008 was experienced by many as falling off of a cliff, 2009 was a scramble to catch our balance, assess the damage and begin an ascent to regain lost ground. In the first quarter newsletter of 2008, we briefly explored the topic of risk as it relates to investments. That article, which included a discussion of capital risk, interest rate risk, currency risk, liquidity risk, financial risk, and market risk, is available on our web site (www.harborfin.com). In 2010, we would like to turn our attention to a more in depth look at risk from the planning side including personal risk tolerance, risk management and insurable risk.

Harbor's process of financial planning analyzes risk in many forms and recommends strategies to avoid the risk entirely, insure against it or in some cases take advantage of its potential. Given the last years' economic events many of us are re-evaluating our definition of risk and what we can personally tolerate on the exposure side relative to taking advantage of the upside.

Perhaps of most import in the discussion is an individual's personal risk tolerance. Can you sleep at night? Are you too risk averse or not averse enough? The development of your personal financial plan helps to identify the kinds of risk you are subject to and develop ideas and strategies for effectively dealing with that risk. While risk is an inevitable part of life, particularly in the financial world, planning for it can help us be at ease with it and sometimes turn it to our advantage. Throughout 2010, we will continue to explore each client's risk tolerance in his or her planning and advisory process.



2009 IRA Contributions

One of the strategies highlighted in Harbor's recent webinar on reducing your tax bill is maximizing your contributions to a retirement plan. Funds put into a company sponsored retirement plan or the various individual retirement vehicles can lower your taxes as well as continuing to grow tax-free until your retirement. A notable exception is a ROTH IRA, which is funded by post-tax contributions.

Maximum contributions to traditional and ROTH IRAs may be up to \$6,000 for 2009 when the catch-up amount for contributors over 50 is included. In general, contributions are due by the date that you file your 2009 tax return or April 15th, whichever comes first. For SEP IRAs your contribution is due no later than the date that you file your 2009 return including extensions.

Check with your accountant to determine your eligibility and the correct amount for any contributions that you would like to make for 2009. Checks should be made payable to Schwab and mailed to Harbor Financial Group Inc. with a note indicating for which year the contribution is being made. We are also able to journal funds for you from an individual account into an IRA or other retirement plan if both accounts are held at Schwab. Contact your Harbor team if you have additional questions about contributing to your retirement plan.

Living Well

The winter weather outside is not always frightful, and there is certainly a lot to do along the Front Range. Winter activities can be active, hearty and possibly chilly, or fascinating, curious...and indoors!

Outdoor fun:

Besides skiing, most mountain resorts also offer sledding, snowshoeing, sleigh rides and snowmobiling.

www.colorado.com

Lace up your skates at indoor and seasonal outdoor rinks.

www.colorado.com/IceSkating

Relax in a hot spring.

www.coloradodirectory.com/Hotsprings

Toastier options:

Take a tour of Celestial Seasonings.

Tours, tasting, Gift Shop and café.

www.celestialseasonings.com

Prefer something (slightly) stronger?

Head to Golden to Coors Brewery.

Tours and tastings available.

www.millercoors.com

The mountain towns of Blackhawk

and Central City offer gaming,

restaurants and western flair.

www.visitbhcc.com

You can always enjoy the many

galleries and museums throughout

Denver. [www.denver.org/what-to-](http://www.denver.org/what-to-do/museum-art)

[do/museum-art](http://www.denver.org/what-to-do/museum-art)

Living Smart

Are you planning to travel anytime soon and looking for a nice bargain?

Check out Travelzoo

(www.travelzoo.com), the largest

publisher of travel deals on the

internet.

The Travelzoo Top 20 is the definitive list of the week's best travel deals.

Every week, Travelzoo researches,

evaluates and recommends hundreds

of airfare, hotel, vacation package,

cruise and rental car deals from more

than 1,000 leading travel companies

from around the world. Only the

most competitive make the Top 20.

Sign up to receive the weekly emails

and see where they take you. Happy

travels!

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Harbor Happenings

WOMEN'S MAGAZINE

Elyse Foster will be highlighted in the February 2010 issue of *Women's Magazine* featuring inspirational businesswomen. This article will also be on *Women's Magazine's* website (www.womensmag.com) or contact us if you would like a copy.

OFFICE EVENTS

We continue to receive positive feedback regarding our Webinars. Our most recent Webinar "How to Lower your Tax Bill in 2009 and Beyond" was a success. We appreciate your feedback and would be interested to know of any topics you are interested in learning more about.

Next, Harbor will be hosting a seminar on asset protection with a guest speaker, prominent local attorney Chuck Sisk on February 2nd. Stay tuned for details.

LOWER EQUITY TRADING FEES IN 2010

Effective January 19, equity trading fees of \$8.95 will apply to all clients enrolled in Schwab's "eDelivery" service. This service provides a paperless alternative to our clients for secure access and fast delivery of regulatory reports through email. If you are not currently receiving your statements and trade confirmations via email, please contact us to sign up.

2010 Closures

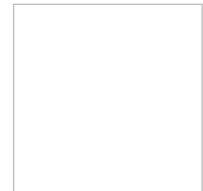
Our office will be closed on the following New York Stock Exchange holidays in 2010: MLK Day-Jan 18, President's Day-Feb 15, Memorial Day-May 31, Independence Day (observed)-July 5, Labor Day-September 6, Thanksgiving Day-November 25, and Christmas (observed)-December 24.

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

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