

THE HARBOR ADVISOR

Time – Your Best Asset

Each New Year brings opportunities, obstacles, challenges and the possibility for growth. We all have the same opportunities, face the same economic hurdles and share the realization that we have limited time to accomplish what we want and need for the coming year. How will you choose to spend your time? What will you choose to learn? To accomplish? How can you effect the change you might like to see in 2011?

Consider creating a personal plan for 2011 much like a business plan. Creating a written plan greatly increases the odds of success in that you know what you want to accomplish and how you plan to get there.

First, determine what you want to accomplish, this becomes your destination for the end of 2011. Personal growth and health or career driven goals are all possibilities.

Next, realize that your time is your most valuable asset. Parcel it out effectively and keep some for yourself. Don't forget that your time belongs to you and you are in charge of how you spend it.

Then arrange to revisit your plan. Consider incremental goals that can be monitored each month. As you reach your incremental goals, celebrate your progress towards your destination for the 2011 year.

My plan includes time for my work at Harbor, for my family, time for friends and for volunteer work. Last but not least, I plan to enjoy my hobbies; these are pursuits that I do not make a living from but that I enjoy nonetheless. My goals include reading and learning more each day, maintenance of my athletic activities, and trying something new. For 2011, I have recently taken up golf.

The motivation is to spend the year as you choose to so that at this time next year you can look back with a sense of accomplishment and the realization that you used your most valuable resource wisely. The ultimate gift of your time benefits you, your family, friends and the community.



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Investor IQ

Q: In what year did the first exchange-traded fund (ETF) launch and what was it called?

A: 1993, SPDR



Q4 2010 Market Recap

Domestic and foreign equity markets finished a volatile 2010 on a strong note. In the fourth quarter, the S&P 500 was up 10.20%, NASDAQ up 12.00%, Dow Jones Industrial average up 7.3% and the MSCI EAFE index up 6.23%.

In November, the Fed announced it would purchase an additional \$600 billion in government securities as a part of a new round of quantitative easing designed to lower real interest rates and stimulate growth in the economy. Domestic bonds, particularly longer dated maturities, reacted negatively to the news with the Barclays Aggregate returning -1.30% for the quarter.

Commodities continued their rally through the end of 2010 as investors believed strong demand from the global economy would continue. Certain commodities such as copper, cotton, gold and silver traded to all time highs during 2010, partly assisted by a decreasing US dollar.

US lawmakers deferred the debate on income and estate tax legislation as President Obama signed into law the Reid Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 on December 17th, thereby extending all the Bush era tax cuts for two more years.

"You've got to be very careful if you don't know where you are going, because you might not get there" – Yogi Berra

Fund Focus: Hussman Strategic Growth (HSGFX)

With the equity markets on a steep upswing this quarter, it seems appropriate to take a step back and shed some light on the alternative strategy and philosophy of the Hussman Funds.

Led by founder Dr. John Hussman, this independent firm manages three diversified funds for clients, including the Strategic Growth Fund, with an emphasis on capital protection during unfavorable market conditions.

While staying fully diversified in the equity markets, Strategic Growth has the ability to range between a fully hedged portfolio and one that adds up to an additional 50% market exposure through call options. The exposure varies according to the team's evaluation of the market climate. They are currently defensive with their positions and have been for some time.

A detailed description of the fund's investment process is available online at www.hussmanfunds.com, along with a wealth of research and market commentary. The overall quality of disclosure and transparency are among the best in the industry.

2011 Economic Outlook

Equity markets rang in the New Year on a brighter note than in more recent years, due to increasing evidence that the economic recovery is gaining strength. Many economists, including Federal Reserve chairman, Ben Bernanke, predict the recovery to be "moderately stronger" this year. Key signs of recovery in manufacturing and shipping began to pick up during the fall of 2010 and are expected to expand in 2011.

After a healthy dose of deleveraging and the implementation of cost saving moves during the recession, corporations have seen their profits soar. U.S. corporations are sitting on nearly \$2 trillion in cash and are looking for ways to spend this cash, whether by expanding operations, increasing research and development outlays, and even hiring. Their decisions are clouded by uncertainties in the global economy, such as the cost of raw materials and restrained consumer spending.

Since the recession began, U.S. consumers have been paying down debt and increasing their savings. U.S. consumers are now saving nearly 6% of their disposable income, whereas in 2005, the savings rate was closer to 1.4%. Current savings rates are expected to decrease somewhat, as consumers begin to relax their purse strings and purchase more discretionary items. However, spending is not expected to return to pre-recession levels in the near term, as consumers remain cautious.

While the news is positive in many areas of the economy, we are not out of the woods, especially for the millions of unemployed. The economy added 1.3 million jobs last year, but that increase was not enough to absorb people entering the work force, let alone reduce the number of unemployed.

The housing market continues to struggle with no real indication of a strong recovery in 2011. With home prices declining and mortgage rates remaining low, housing should be more affordable in 2011.

Excessive debt in the developed world is another issue yet to be resolved. The risk remains high in the Eurozone that their economic crisis may escalate. Policymakers have temporarily fixed short-term issues, but long-term debt still needs to be addressed, as declining tax revenues, overextended public services and underfunded pension plans burden the system.

If one thing is certain, 2011 will contain its share of surprises.

Helping Harbor Help You

For 2011 we would like to explore some ways in which you as a client can get the most out of your relationship with Harbor, how you can help us to help you reach your goals. One of the first, and most appropriate to this time of year with its tradition of New Year's resolutions, is to know what your goals are and communicate those goals to us. Knowing what is important to you as a client helps us to appropriately advise you and disseminate information that might be pertinent to you, not just in the realm of financial decisions, but also in the areas of your life on which your financial decisions touch.

A Google search on goal setting will elicit 80 pages of possibilities, link after link to definitions, worksheets, workshops, tutorials, videos, blogs, books, and articles all on the subject of establishing direction in our personal lives and careers. Despite this flood of information, the actual process of goal setting involves only three main steps. Starting with the big picture, you identify what is important to you and isolate the large scale goals that you want to achieve. These goals can encompass many areas including career, finances, education, family, health, and others.

Next, break down the larger goals into smaller, more manageable pieces. These can be items for a personal to-do list that can be put in your calendar. Last is a periodic review to update both the long term plan and the short term steps as changes in your life bring different areas into focus.

Setting goals can serve as an energizer, a springboard for action, as well as focusing attention and persistence towards what you have determined is important. They allow us to become engaged and take responsibility for our hours and days, helping us mindfully choose our activities rather than being caught up in the tyranny of what seems most urgent at the time. And coming back to the subject at hand of how to get the most out of your relationship with Harbor, if you as a client know where you are headed we are more confident of how to help you arrive.



Oil and Natural Gas – Part Two

As a follow up from last quarter's newsletter, Harbor's portfolio models include strategic investments such as oil and gas partnerships. While the tax benefits have been previously outlined, these partnerships also offer excellent gifting and estate planning opportunities.

The reason for such opportunities comes from the IRS valuation guidelines. Designed as the standardized measure for determining a valuation for oil and natural gas properties, PV-10 estimates the discounted future net cash flows based on production from proven resources using an annual discount rate of 10%. Partnership unit holders can also apply a lack of marketability discount of 30% since there is no major trading exchange for the shares. This valuation metric works best three to five years after investing in the partnership as generally production levels have tapered off and thereafter remain fairly steady.

It is a great estate planning strategy for people who may be subject to estate tax in the future as they can benefit from the upfront tax deduction, retain tax advantaged cash flow for several years, then gift the units and allow their heirs to receive continual cash distributions for the life of the wells. Since utilizing this valuation method significantly reduces the face value of the partnership units, the investor can often gift the shares to his heirs while staying under the annual exclusion amount.

If you would like to learn more about this strategy, please contact Kevin McCulley, CFP®.

Living Well

Green Goals – Resolve to Not Resolve

If you are already overcommitted as many of us are, or are satisfied with all the eco-positive community measures you're a part of, resist the urge to add yet another item to your already long list.

It is a paradox, but resolving not to make a resolution — that is, to keep things manageably simple, balanced, and focused — can make you more effective and committed to achieving the planet-furthering goals you have already set for yourself.

This will be one New Year's resolution that you can keep and feel good about!

Living Smart

The Harbor Blog

We are putting the final touches on our new website and one big new feature (pending compliance approval!) will be a blog with great content from our staff and across the web.

This has been a frequent request from many of our clients and we are thrilled to bring it to fruition for you.

We plan to share topical articles on the economy and investing, planning tips and tricks, market commentaries, resources to further your financial learning, updates on staff, event announcements and more.

Look for regularly updated content after our new site launches.

We hope you will send us feedback on what you enjoy reading about on the blog and what we can improve on to provide a better experience for you.

As Elyse mentioned in her opening article, your time is your most valuable asset and our goal is to make the blog a worthy resource for you to visit.

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Harbor Happenings

NEW EMPLOYEE

Please join us in welcoming Susan Smith as Harbor's new office manager. Her duties include overall office management and organization, maintenance of day-to-day operations and support for the Harbor staff. Susan is a member of Harbor's marketing and public relations team, coordinates client events and assists in maintaining Harbor's website.

HARBOR'S NEW WEBSITE

We are busily preparing to unveil Harbor's new website. This is not just a fresh coat of paint! There are a lot of changes and new content that we are looking forward to sharing with you in the next few weeks. Stay tuned for an official announcement soon.

2011 Closures

Our office will be closed on the following New York Stock Exchange holidays in 2011: MLK Day – January 17th, President's Day – February 21st, Memorial Day – May 30th, Independence Day – July 4th, Labor Day – Sept 5th, Thanksgiving Day – November 24th, and Christmas (observed) – December 26th.

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

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