

THE HARBOR ADVISOR

1988 – 2013 Harbor Financial Group Celebrates Our 25th year!

2013 brings the prospect of a battle between our elected leaders over our national budget ceiling, continued economic uncertainty in Europe, anemic economic growth throughout the world, increased taxes in the face of decreased services, a new health care system and widespread distrust in most of our financial systems. It is enough to make one consider shuttering the windows, locking the doors and hiding until a new year dawns. Harbor is celebrating its 25th year as Harbor Financial Group in 2013 and I can't help but reflect on all of the trials, near catastrophes and true disasters we have lived through over the years. Some are global as in the great tragedy of 9/11 and the near collapse of our financial system followed by a great recession; others are more personal, divorces, deaths of loved ones, business failures. The triumphs stand out as well, professional success, promising marriages, births of children, launches of successful businesses and life goals met.

As I look back I am reminded that we have the tools to face and indeed meet head on the challenges that face us this new year. An acknowledgement of this along with leadership, focus and confidence in our collective abilities will take us far.

We intend to use this new year to face the challenges we meet, to continue to provide solutions and to communicate those solutions to you so that you can be effective in your personal and professional lives.

I am also reminded that while it is very rewarding to have accumulated valuable knowledge and have experienced success in the face of adversity that it is the importance of relationships that rise above all else. I count the friendships developed with individuals and families I have had the privilege to know and work with as my greatest assets. Many of the once professional relationships have become personal as well and while this job carries big responsibility it also comes with a satisfaction and sense of accomplishment that is difficult to express. It is truly an honor to be in a position to help you in your financial and personal lives. I think about the trust that is placed in me and others at Harbor every day and intend to continue to earn that trust as we face the challenges this year will bring.

And because I think we all need to drink more champagne, we will be celebrating our 25th anniversary throughout this year. Be on the lookout for group and more individual celebrations to come. I send a special thank you to all of you that have made our years in business successful, rewarding and a daily pleasure. Many of us have grown up together and I cannot thank you enough for your support.

Here is to a challenging and undoubtedly rewarding 2013.



January 15, 2013

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Major Events Of 1988

The first documented computer worm is written and launched via internet from MIT.

Wildfires rage through Yellowstone Park.

CDs outsell vinyl for the first time.

Harbor Financial Group, Inc. is formed in Cherrv Creek, CO.



Q4 2012 Market Recap

Markets showed a fair amount of volatility with the November election and Fiscal Cliff dominating the news. Uncertainty was the driving force in both cases. After the election, all eyes turned toward lawmakers to see if they would reach a compromise on the scheduled tax increases and spending cuts that were set to become effective on January 1. Although no decisions had been solidified by year-end, a deal was on the table that showed some progress. Aside from politics, there were other important events during the fourth quarter. Hurricane Sandy's destruction wreaked havoc with peoples' lives on the east coast and also negatively impacted the economy.

Meanwhile, the US economy pressed on with its recovery. Employment and the housing market continued to be encouraging signs during the quarter. In Europe, markets were relatively calm as moderate progress was made toward resolving its debt crisis.

Index returns were mixed for the quarter. The DJIA's return was -2.48%, Wilshire 5000 -0.33%, Russell 2000 +1.42%, and MSCI EAFE +6.18%. The BarCap Aggregate was also positive at +0.22%.

*"Prediction is very difficult, especially if it's about the future."
– Niels Bohr*

Fund Focus: First Eagle Overseas Fund (SGOIX)

In our increasingly fast paced global economy, it is more important than ever to have foreign positions within a diversified portfolio. In order to make global investment easier, mutual funds and exchange traded funds have created targeted funds to lower the expensive price tag to individual investors. This allows our portfolio to hold hundreds of international positions at a reasonable price.

First Eagle Overseas Fund is able to invest in small and mid cap companies, however they primarily hold large cap foreign companies. This strategy invests mainly in mature markets overseas, with the ability to take some positions in developing and emerging markets. Primarily invested in equities, this fund has proven to be a conservative, well managed approach to foreign exposure. The fund has exposure to many different industries and companies outside of the United States with 167 holdings. First Eagle also holds a position in gold in order to hedge against extreme market conditions. This fund has earned its place in our model as a core holding because of its conservative management style and broad diversification.

Back from the Cliff

On the first day of 2013, Congress passed the American Taxpayer Relief Act of 2012. This bill was born out of the drama and debate surrounding the Fiscal Cliff that loomed at year-end. Without action by lawmakers, deep cuts in government spending and tax rate increases would have automatically become law, negatively impacting an already struggling US economy.

The American Taxpayer Relief Act is substantial. While it addresses many of the tax increases, it delays decisions regarding many of the spending cuts. Below is a recap of some of the more significant details of the bill:

- Many of the Bush era tax cuts were extended indefinitely for singles earning less than \$400,000 and couples earning \$450,000. For those earning above the threshold amounts, marginal tax rates increased and they are now subject to the Medicare surcharge.
- The payroll tax holiday expired, meaning that employee withholding for FICA reverted from 4.2% to 6.2%.
- While the maximum exclusion for estate taxes remained at \$5 million permanently, the tax rate on the amount in excess increased from 35% to 40%.
- For those earning less than the threshold income amounts, the qualified dividends and long-term capital gains tax will remain at 15%. For those who earn more than \$400,000 single/\$450,000 joint, the rate increases from 15% to 20%. Additionally, the Medicare tax surcharge of 3.8% applies, increasing the rate to 23.8%.
- The Alternative Minimum Tax (AMT) patch was made permanent. The patch allows larger AMT exemptions and tax credits to offset the AMT and indexes with inflation.

While the bill addresses some of our fiscal issues, more work needs to be done. Several laws were extended through 2013, which means that Congress will be debating them again at the end of this year. Decisions such as across the board reductions in military and other domestic and discretionary programs such as Medicare were "kicked down the road" and will be revisited in March.

However, in February, look for another round of political fireworks when all eyes turn to the next round of the debt ceiling debates.

Retirement: It's the Spending

When can I retire? How much will I need to save in order to retire early? When should I begin taking Social Security? These are questions we hear often in our office and this year we will be focusing this portion of our newsletter on retirement issues - spending, budgeting, spending, Social Security, spending, Medicare, spending. This quarter we will be focusing in on – you guessed it – spending.

While we have all heard the phrase 'it's not what you earn but what you spend', this can be applied to retirement savings as well in the form of, 'it's not what you save but what you spend'. For most of our clients, it is their lifestyle choices that will have the greatest effect on the timing of their retirement and how much they will need to save to maintain their current standard of living. With this in mind, one of the key questions we look at when preparing a retirement projection for a client is how much spending the projection shows to be available for our client's chosen retirement ages compared to how much their current lifestyle is costing. Ideally, financially motivated lifestyle changes in early retirement should be kept to the minimum. In most cases, it is in the years leading up to retirement that adjustments such as downsizing, closer budgeting and decreased spending should be made in order to boost savings for retirement and ease the financial transition.

Retirement calls for many changes and while finances are only a part of the whole picture, our goal for our clients as they approach and move into retirement is to lessen the impact finances have with adequate planning. This will allow for the focus to be on the more important aspect of how you want to live the next 20 to 30 years of your life rather than how you are going to pay for it. We offer comprehensive personal retirement planning here at Harbor; contact our office if you would like to have a projection run or to discuss your retirement with one of your team members.



Get the year off to an organized start!

Review your 401k deferral and W2 exemptions with your HR department. Also be aware that there are new IRA contribution limits in 2013.

Begin gathering documents for your 2012 tax return and if applicable getting them to your accountant.

Take a few minutes to update (or begin working on) your Personal Financial Organizer. Contact Harbor if you'd like us to provide one.

Begin budgeting and tracking expenses. Sign on to Mint.com or download a copy of Quicken for your personal finances.

Begin saving by setting up an automatic deposit to a savings or brokerage account or increase the amount you currently save.

Check your credit reports at www.annualcreditreport.com.

Develop and write out some annual personal goals (you don't have to call them resolutions if you don't want to).

Clean out your personal files (See the Q1 2012 column Living Smart - Shred or Keep? <http://www.harborfinancialgroup.com/Newsletters/Harbor-1st-Quarter-2012->

Living Well & Smart

Welcome 2013!

What are you going to do to make this year your very best yet? We asked our office staff to share their resolutions and got some interesting responses.

- Try a new cookbook recipe each month
- Call (not email) parents and grandparents more often
- Start each day with expectation and end each day with gratitude
- Have good posture while sitting and working at computer
- Try something new - Skate Skiing this year
- Slow down, stop talking, and be grateful everyday
- Incorporate new technology – iPad!
- Work less ☺
- Finally set up my password management software/app
- Write more handwritten letters and notes
- Anytime a family member gets crabby, someone can say "crabby" they have to do 5 push-ups (character and muscle building)
- Think twice about multi-tasking
- Talk less, listen more
- See more of your friends
- Invite people into your home more often
- Start a conversation group
- Remember to use the library

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Harbor Happenings

Get your "Martha Stewart" On!

Thanks to those of you that were able to join us for our 2nd annual wreath making event at Sturtz and Copeland this year. We had a great group and enjoyed a fun evening. Looking forward to next year! See pictures at <http://www.harborfinancialgroup.com/news-views/>

Performance Webinars

Our next quarterly performance webinar is scheduled for January 24 at 12:15 p.m. Invitations will be emailed this week. Please let us know if you have any questions on registration.

2013 Closures

Our office is closed on the following New York Stock Exchange holidays in 2013:

Monday, Feb. 18, Monday, May 23, Thursday, July 4, Monday, Sept. 2, Thursday, Nov. 28, Friday, Nov. 29 is a half day closure, Tuesday, Dec. 24 is a half day closure, Wednesday, Dec 25.

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