

THE HARBOR ADVISOR

Irrelevance Avoidance

If you only do one thing in January of 2014 make it to set one goal for yourself. Why only one you say? Is this a resolution you ask? One because multiple goals can be hard for some of us to accomplish; not calling it a resolution is a form of trickery I admit. Maybe a goal is less daunting. In any event I advocate 2014 as the year of simple, and one goal seems simple to me. How to choose is quite another matter, what is most important to you? Cultivating your friendships? Creating a sense of adventure in your life? Taking control of your destiny?

I will choose one goal this year and monitor my progress because I found that it works for me. As I move through my year with all of the trials and tribulations we all face I look at my goal progress and am mollified in times of stress, satisfied in times of fatigue and quite simply let myself off the hook when I am overwhelmed. That is if I am making progress towards my goal for that year.

This is a satisfying endeavor since I believe who better to control my life and how I spend my time than me? Who better to determine what is important to me, what will satisfy me? I also think the process of winnowing down to just one thing is a good exercise in itself. It can be disarmingly hard to do this. Spoiler alert, you can't use the process of choosing one as your goal.

I also like the annual nature of this process because it encompasses change, that's right we all change or in my opinion we should. What was important to me last year might be permanently embedded or just isn't as important. Thinking of new things each year has kept me relevant in the area of technology, enervated in terms of personal growth and connected to the people who matter most to me. So go out there and choose and then monitor your progress, I write mine down and review as a calendar item.

You might be pleasantly surprised at the result, and you won't have to respond affirmatively when someone asks you if you have a New Year's resolution, you have gone one step better.

Happy New Year to you and yours!



January 3, 2014

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Investor IQ

The U.S. Federal Reserve, which recently celebrated its 100 birthday, is responsible for setting monetary policy and monitoring unemployment and other economic markers. Janet Yellen, the first female chairman, will take over from Ben Bernanke beginning in 2014.



Q4 2013 Market Recap

Equity markets continued to deliver impressive gains through the fourth quarter as global economic growth is increasing and corporations are back to reporting record profits and earnings growth. US equity markets had one of the strongest years since the mid-1990s. The Dow Jones Industrial Average posted a 9.56% return for the quarter and +26.5% for the year. The S&P 500 performed slightly better at 9.92% for the quarter and 29.60% for the year. Small capitalization companies were also rewarded as the Russell 2000 returned 8.37% for the quarter and 37% for the year. International equities also performed well as

the MSCI EAFE was up 5.36% for the quarter and 19.42% for the year.

Not all financial assets did well in 2013. Investors began to see interest rates rise from stubbornly low levels beginning in May 2013 and subsequently experienced price declines in their bond investments. The Barclays Aggregate Index returned -0.14% for the quarter and -2.03% for the year. We view rising rates as a mean reverting, positive trend for the economy over the long term and would welcome meaningful interest rates on our savings accounts again!

*"Everything comes to him who hustles while he waits."
– Thomas A. Edison*

Fund Focus: Templeton Global Bond Fund (TPINX)

This quarter's fund focus highlights Templeton Global Bond Fund (TPINX). This fund focuses on bonds of governments and government agencies located throughout the world. The fund relies on leveraging the resources of local analysts around the world to identify investment opportunities and risks that US based managers may miss. Templeton's research focuses on country specific analysis to identify economic imbalances, which in turn lead to value opportunities. Risk is continually evaluated based on the course of global economic and credit cycles. This fund has the benefits of geographic diversification, a global platform that is analyzed through multiple perspectives, and a highly experienced management team. This bond fund has specific risks due to its focus on foreign investments. These risks include currency fluctuation, economic instability, and political developments, among other things. The lack of overall diversification may also increase the risk of price fluctuation of TPINX. Despite these risks, the fund has a strong track record and has an overall Morningstar Rating of four stars.

The Case for Diversification

An essential component of a wealth management plan is a well-diversified investment portfolio. The goal of diversifying is to smooth out returns in volatile markets by lowering the correlation between investments in the portfolio.

What strategies does Harbor employ to diversify your portfolio? After much research and testing, we build our portfolio models with a wide array of holdings which are diversified across the broad investment categories. We look for a combination of top quality investments that maximize returns without taking undue risk. The diversification of your portfolio is reflected on your TAS™ and organized in 3 main sections: Core, Tactical and Strategic. The Core section includes bond funds, both international and domestic, and large cap, mid cap and small cap equities, both international and domestic. The investments we place in the Tactical section of your TAS™ are sector specific or in a strategy that does not fit neatly into a Core investment category. We believe these types of investments will provide alpha (excess return relative to the benchmark's return), reduce downside risk, and help boost returns based on current economic trends. Currently, clients own an "All Asset" type of funds, a real estate choice and an emerging market bond fund as Tactical investments.

Historically, Harbor has branched out to other types of investments, such natural gas and real estate partnerships to include in our clients' portfolios. Annuities also belong in this category. These investments are included in the Strategic section of your TAS™ because they are normally not held in your Schwab portfolio and act as stabilizers against market volatility.

Translating how diversification affects model returns, let's consider broad market returns from previous years as examples. As you know, US equities performed very well during 2013. The S&P 500 had a positive return of 29.6%. On the other hand, bonds did not have the best year. The Barclay's Aggregate Bond index had a negative return of 2.03%. Conversely, in 2008, the S&P 500 had a negative return of 38.49%, the Barclay's Aggregate Bond index posted a positive return of 5.24%. While a model may not perform as well as its top performing asset class during a time period because of its diversification, neither will it perform as poorly as the worst performing asset class for the same time period. During both time periods, allocations to US equities and bonds were important in lowering risk and tempering returns. We continue to believe that being patient and remaining vigilant with a balanced and diversified approach to asset allocation generates wealth in the long-term.

Wealth Accumulation: Human Capital

“The illiterate of the 21st century will not be those that cannot read and write, but those who cannot learn, unlearn and relearn.” Alvin Toffler

Last year we focused on retirement and the later years of a productive life. This year we'd like to focus on the opposite end of the spectrum, the earlier years, although it seems that much of the wisdom targeted toward 20 and 30-somethings applies evenly across all age groups. Before re-inventing ourselves in the later years of our lives it seems we must first discover and invent ourselves in the early ones. The same skills apply: self knowledge - knowing and making the most of your strengths, taking calculated risks, defining our core values and prioritizing our time based on those values, gratitude and a positive mindset, lifelong learning. In short, continually investing in yourself and building your human capital.

In his memoir of his life [Education of a Wandering Man](#), Louis L'Amour wrote *‘No matter how much I admire our schools, I know that no university exists that can provide an education; what a university can provide is an outline, to give the learner a direction and guidance. The rest one has to do for oneself.’* The sum total of our innate strengths, everything we gather from our formal education, each experience, each job, each career, each person we come in contact with become the assets that we take with us through our lives and are the tools we use to build that life.

While most of the offerings in this space during the next year will be about important but possibly mundane topics such as saving, insurance, company benefits, cash flow and the like, we wanted to start the year with a call to taking thought to the larger picture. What changes need to be made? Are you satisfied with your career? Would more education move you closer to your objectives? What can you do to expand your perspective? Take some time early this year to focus on the more personally fulfilling aspects of investing in yourself as your greatest asset.



Putting your Charitable Dollars to their Best Use

During this time of the year, many people feel inclined and find themselves in a position to donate money to charities. We as a nation are incredibly charitable, donating more per capita than any other society in the world. This is a wonderful title to have, but also comes with immense responsibility. It is more important than ever to understand where your money is going, and how it is being spent. We have outlined some items to look for before you donate your hard earned dollars.

First, make sure you are donating to a charitable organization with a tax-exempt status. Believe it or not, some are for-profit even though they hold themselves out as a charity.

Secondly, do some research on where they spend the donations. Some charities are significantly more efficient than others, for example, a well run charity typically has more than 80 cents per dollar go to their mission, with 20 cents or less going toward administrative or fundraising efforts. This should be taken with a grain of salt, as some smaller organizations have less economies of scale. You can find these metrics at websites such as www.charitynavigator.org.

Thirdly, never give to a charity via a telemarketer who calls or solicits you. These companies can take between 40-80% of your donation, leaving as little as 20% for the charity. If you wish to give, find a way to give to the charity directly, either through their website or a phone call instigated by you.

One last trick is to check with your company or the charity directly to see if any organizations are matching donations at the time you give. This can double or even triple the amount of money that goes to the charity.

Living Well & Smart

Financial Resolutions Worth Keeping

New Year's resolutions typically involve losing weight, but here's another idea: Why not plan to get your finances into shape, too?

To set yourself up for success, break down each goal into manageable portions. Focus first on short-term fixes, then work on longer-term goals. You may find that getting your finances in shape this way is a whole lot easier than swearing off fries.

For the short term: Wipe out credit-card balances. Pay as much as you can on your highest-rate card each month, and the minimum on the others. When the first card is paid off, start on the next-highest interest rate card. Repeat until your credit-card debt is history.

For the long term: Target your mortgage. Consider your mortgage payments relative to your income as you near retirement. You may wish to pay off the mortgage or downsize and although rates have been rising, you may still be able to cut your mortgage debt by refinancing. You can also make extra payments toward your loan principal.

For the short term: Consolidate your accounts. Bringing your accounts together at as few financial institutions as possible has many advantages. For one, less paperwork and with all of your money in one place, required minimum distributions from IRAs will be easier to calculate. Also, your bigger total balances should entitle you to reduced fees and more personalized service.

For the long term: Sock away more for retirement. You might find boosting your retirement savings rate from, say, 7% to 15% difficult or even impossible. But nudging it up to 9% probably isn't. Putting your extra savings into your 401(k) plan, if you have one, is the best place to start.

See this entire article in the January 2014 issue of Consumer Reports magazine. Contact us for advice on your personal situation.

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Harbor Happenings

Wreath Making Fun

Thanks to those of you that were able to join us for our 3rd annual wreath making event at Sturtz and Copeland. We had a great group and enjoyed a fun evening. Check out our blog for pictures. We are already looking forward to next year!

Harbor Recognized

Once again, 5280 Magazine identified Elyse as a 2013 Five Star Wealth Manager award winner. The Five Star Wealth Manager award identifies the top wealth managers in Denver in terms of customer service, knowledge and expertise, communication, value for fee charged, performance, and overall client satisfaction. This level of excellence is achieved by less than seven percent of wealth managers in the Denver area.

2014 Office Closures

Our office is closed on the following New York Stock Exchange holidays: February 17, Washington's Birthday; May 26, Memorial Day; July 4, Independence Day; September 1, Labor Day; November 27, Thanksgiving Day; December 25, Christmas.

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