Is It a Matter of Perspective?

'**Per.spec.tive**-a particular attitude toward or way of regarding something; a point of view.'

We pride ourselves on our individuality, especially in the United States. So it is no wonder that our individual experiences and learned attitudes pour over into the financial plan we create for ourselves and our attitude towards investing and money. Individual perspective becomes an important aspect and component of our success and investment results.

Synonyms for perspective - outlook, viewpoint, position, frame of reference and interpretation - tell a story as well. We soon see the meaning morph towards the individual's attitude. To be successful one needs to gain a true understanding of the relative importance of the different elements and a sense of proportion; this is where we at Harbor come in. We try to bring facts, a frame of reference and clear thinking into the equation attempting to add clarity to individual perspective.

Looking back on 2014, history will say it was a great year to be an investor. Missing will be how uncertain the journey felt right up to the last day of a year that saw the S&P 500 close at a record level on 53 different days. Your perspective may have been affected by a bias called loss aversion which in turn could have caused you to react inappropriately.

Normally when the U.S. investment markets have posted six consecutive years of gains, five of them in double-digit territory, you would expect to see a kind of euphoria sweep through the ranks of investors. But for most of 2014, investors in the aggregate seemed to vacillate between caution and fear, hanging on every economic and jobs report, paying close attention to the Federal Reserve Board's pronouncements, seemingly trying to find the bad news in the long, steady economic recovery.

One of the most interesting aspects of 2014—and, indeed, the entire U.S. bull market period since 2009—is that so many people have questioned portfolio diversification. When global stocks are down compared with the U.S. markets, U.S. investors tend to look at their statements and wonder why they are lagging the S&P index touted on the nightly news. This year, commodity-related investments were also down significantly, producing even more drag during what was otherwise a good investment year. We welcome questions and believe open communication is always good. Our perspective tells us that diversification, keeping risk in mind and a steady investing plan are the best antidotes to market volatility, uncertain government policies and economic troubles both home and abroad. This is not to say that we are not looking at the facts, we constantly refresh our data and endeavor to keep an open mind.

(continued on page 3)

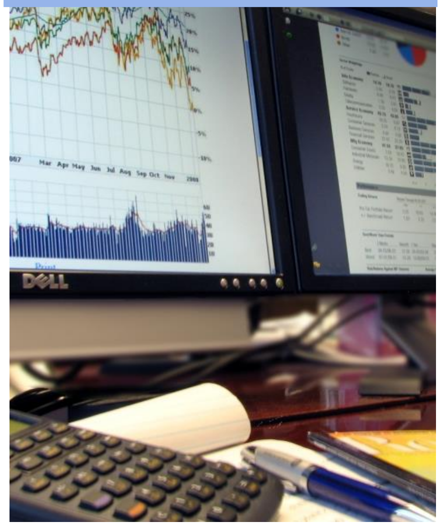
Contents

Main Articles

Individual Highlights

2015 Anniversaries

40 Years Ago – "Tramps like us, baby we were born to run. " "Born to Run" by Bruce Springsteen hit the air waves.



Q4 2014 Market Recap

Markets continued to experience considerable volatility during the 4th quarter. The drop in oil prices took center stage, sending markets and investors on a roller coaster ride. Prices dropped due to a slowdown in global demand and the oversupply of oil. Russia's economy was significantly impacted by the combination of the drop in oil pricing and trade sanctions. Europe's economic growth stalled in anticipation of the upcoming elections in Greece. Yet in the US, the economy continued to gain strength. While the drop in oil prices is expected to hurt workers and states reliant on the oil industry, lower gas prices promoted consumer spending during the quarter. Job growth was strong, wages improved and inflation remained low. Because of improving economic conditions, the Fed ended its quantitative easing program in early October and eased fears by stating it would be patient in increasing rates.

Returns were mixed for the quarter. The Barclays Aggregate Bond index increased 1.79%, the S&P 500 was up 4.39%, the Russell 2000 rebounded 9.35% and the MSCI EAFE was down 3.86%.

"For last year's words belong to last year's language. And next year's words await another voice." — T.S. Eliot

Fund Focus: Blackrock Strategic Income Opportunity Fund (BSIIX)

Blackrock Strategic Income Opportunity Fund (BSIIX) is the newest addition to our portfolio. BSIIX falls into the non-traditional bond category. We chose this particular strategy to hedge against interest rate risk. While we believe traditional fixed income investments still have a place in every portfolio, this position adds a more sophisticated strategy which incorporates futures contracts, currency trades as well as long and short trades to achieve its total return. BSIIX is designed to perform strongly in a rising interest rate environment. The fund has the ability to achieve very low or even negative durations to minimize volatility. BSIIX is a total return strategy and seeks to produce returns in varying market cycles. It is also relatively uncorrelated to the overall bond market, providing a benefit to the diversification of the overall portfolio. BSIIX is managed by Rick Rieder and Bob Miller who both have excellent track records in fixed income strategies as well as with this particular fund. BSIIX is managed on a team basis with many different analysts who specialize in varying markets across the world.

Market Timing & Investor Behavior

Market timing is a natural instinct. Human nature wants to remove assets when they aren't doing as well as other assets and replace them with the stronger performers. The first problem with this instinct is that one would end up selling low and buying high, the exact opposite of what we want to do. The second problem with this is no one can predict the future. We don't know what assets will do in the coming months or years. A strong asset today might have several years of poor performance. If it makes up your entire portfolio, it will be extremely detrimental on long term returns.

Harbor uses a common strategy to avoid the pitfalls of market timing. We rebalance the portfolios based on preset allocations that historically have shown to be the most optimal mix of assets. When something falls precipitously, unless there is a fundamental problem, we will end up purchasing more of this asset class while it is priced well. Likewise, if a market value increases above the model allocation, we will generally trim it back to lock in gains. This strategy naturally creates a system where we buy low and sell high. Markets are cyclical; typically each year a different asset will float from among the top performers to the very worst performers of the year. By rebalancing, we capture more long term returns with less risk.

Human nature also has a tendency to go through see-saw effects of news or sudden market movements. People have a tendency to be overly optimistic when the markets are preforming well and overly pessimistic when things turn less bullish. Another natural response is to take only the most recent news reports into consideration and ignore all other events that may paint a different story. We see this almost every day in the very volatile market state we are currently experiencing.

Studies have shown that people generally rate themselves as being above average in their abilities, which include stock picking and investing. Overconfidence becomes a problem, particularly when people believe they have the ability to consistently time the market. This idea leads us back to the pitfalls of market timing.

Overall these behaviors are natural and very difficult to avoid when it comes to our own personal investments. Harbor's investment committee is aware of these tendencies and uses them to our clients' advantage. We take into consideration various expert opinions which we believe to be unbiased. We also spend a great deal of time researching and reviewing the facts, statistics and opportunities to make sure we are maximizing our clients risk adjusted returns.

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(continued from page 1)

Clear thinking reminds us that the point of diversification is to rationally protect one's portfolio from uncertainty. When the year began, none of us knew whether the U.S., Europe, both or neither would finish the year in positive territory. Holding some of each is a prudent strategy, yet the eye inevitably turns to the declining investment which, in hindsight, pulled the overall returns down a bit. At the end of this year we may be looking at U.S. stocks with the same gimlet eye and feeling grateful that we were invested in global stocks as a way to contain the damage; there is no way to know in advance.

In looking to 2015, is a decline in U.S. stocks likely? Will foreign stocks recover? Will oil prices rise? We can't answer any of these questions, of course. What we do know is that since 1958, the U.S. markets, as measured by the S&P 500 index, have been up 53% of all trading days, 58% of all months, 63% of all quarters and 72% of the years. Over 10-year rolling time periods, the markets have been up 88% of the time. These figures do not include the value of the dividends that investors were paid for hanging onto their stock investments during each of the time periods.

Our advice is to observe events and the effects on your financial plan and investments, gather the facts, get advice on your perspective and make decisions accordingly. Interested in more information? In our newsletter during 2015 we will be dealing with common investor biases and strategies for dealing rationally with your particular predispositions.

Best wishes for a happy and fulfilling new year!

January 12, 2015

Password Management: A Necessary Precaution

Over the past few years cyber hacking and internet fraud has become increasingly prevalent, with recognizable events such as the Heartbleed Bug and Target data breach panicking the public. The advent of password managers, companies who offer sophisticated log-in information support on a cloud-based platform, have become a highly recommended service for anyone who values their online security.

Password managers store your user-name and password information, either entered manually or uploaded from a server, in a secure location, and offer encryption, cross-browser synchronization, credential sharing, and even mobile device support services. The software can randomly generate passwords to ensure adequate variability from one site's password to another's, and automatically fills in the information upon entrance to any programmed site. The managers protect against dictionary, rainbow table, and brute force attacks. It can also be accessed remotely from anyone's computer and maintains security of your information at all times. If you value your information stored online, this is a necessary precaution to take.

Many recommended companies offer the service for free, such as Amazon, LastPass, and Intuitive Password. Companies like Dashlane 3 offer a more premium support system for an upfront cost of $30.00 and can be used for Android, iOS, Windows, or Mac platforms.

With internet privacy issues becoming more apparent, the need to change passwords more frequently and have more diversity in password selection is imperative. Password managers give users the ability to do this effectively and easily.

Living Well & Smart

Do you have a Home Inventory?

If you don't, you should! Creating a home inventory of all of your belongings will make the process of replacing items through your insurance company much easier in the event you should ever fall victim to a natural disaster, fire or burglary.

Be thorough! You own a lot of stuff. You use some of this stuff daily and some of it very seldom. Be sure to include items inside and outside of your home and don't forget those items in storage both in your home and off-site. It will take some time to make a thorough inventory and document with photos, receipts and serial numbers. However, the good news is that once you've done it, the future updates will be a breeze.

Use a method that will outlast any natural disaster or fire. A digital version stored in the cloud would be best. This could be a Word or Excel document with photo attachments or even a video. However, if you prefer an old-fashioned paper list, be sure to store it off-site.

Many insurance companies have information and resources on their websites. Some even offer checklists, tips and free online tools for helping to create your inventory.

If you have any questions about your inventory process, just give us a call.

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Cover image: Jesse Varner

Harbor Happenings

Welcome Tonya!

We are happy to announce that Tonya McDaniel has joined Harbor's team as a Client Service Manager. She is responsible for overall client service, account maintenance and financial planning updates. Please join us in welcoming her to Harbor.

Annual Wreath Making Event

In December Harbor hosted its 4^{th} annual Wreath Making Event held at Boulder's Sturtz and Copeland. It is always such a fun evening and this year was no exception. If you have never joined us for this event, you should consider it for 2015!

2015 Office Closures

Our office is closed on the following New York Stock Exchange holidays: February 16, President's Day; May 25, Memorial Day; July 3, market holiday in observance of Independence Day; September 7, Labor Day; November 26, Thanksgiving Day; November 27, half day; December 24 half day, Christmas Eve; December 25, Christmas.