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# THE HARBOR ADVISOR

## The Greatest Determinant to Investment Accumulation: How much you save!

Earlier this year I wrote an article outlining successful investor's habits. One of the biggest contributors to successful investing and accumulation is to spend less than you earn and to develop a regular and consistent savings and investment plan to which you deposit a percentage of your earnings. Regular saving acts as a safety net as it provides a steady increase in one's investment pool. Many people plan to invest in larger, periodic chunks from a bonus or the sale of a company and sometimes this does work. However the regular savings habit has a much higher success rate. We provided suggestions for monitoring cash flow to the extent that you can save and invest regularly in our January 2014 newsletter. Please see the planning article in this issue for suggestions on where to save.

Another common thought is that one can earn their way out of too little saving, opting to take greater risks with their investments assuming a higher return. Unfortunately this strategy is not as effective as simply saving more.

For example - you are 30, earn \$45,000, get 2% annual raises, save 8% of your salary in a 401(k), and plan to retire at 65.

If you earn 7% on your 401(k) investments you would have just under \$645,000 at age 65

If you earn an 8% return, you would have roughly \$795,000

If you earn 7% but increase savings to 10%, you would end up with over \$805,000

If you increase savings to 12% (somewhat easy with employer matching), you would have just under 1 million dollars at age 65

If you have an appropriate asset allocation based on your age and risk tolerance, boosting returns without increasing risk is unlikely. Increasing risk will also increase the potential for setbacks known as "market turbulence". It is more likely you will achieve higher balances by boosting the amount you save (something that is controllable) rather than counting on a higher rate of return (something that is not).

We are in the process of contacting Harbor clients to review how well you are saving and if you are on track to meet your goals. Increasing the amount you save in January will have the greatest effect on your investment account balance when you check it at the end of the year.

Happy New Year to you and yours!



January 8, 2016

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## 2016 Anniversaries

100 Years Ago – The National Park Service was created as an independent body to oversee the country's parks and monuments.



## Q4 2015 Market Recap

October yielded a strong rally for the fourth quarter, but weak oil prices and geopolitical uncertainty left the markets stumbling over the year-end finish line. Markets spiked in October due to a strong third quarter corporate earnings season and a Chinese Yuan devaluation. Oversupply of oil left crude prices at record lows of \$36 a barrel and weighed down market returns for the final months of the year.

After months of uncertainty, December marked the first time since June of 2006 that the Federal Reserve had increased interest

rates, indicating a strong U.S. economy with a strong dollar and low unemployment. Rates are expected to continue to rise slowly over the coming quarters.

Fourth quarter index returns were mixed. The Barclay's Aggregate Bond Index was down 0.56% but developed market equities posted a strong quarter. The S&P 500 increased 6.45%, Russell 2000 increased 3.20% and the MSCI EAFE increased 4.37%.

*"Your success and happiness lies in you. Resolve to keep happy, and your joy and you shall form an invincible host against difficulties." – Helen Keller*

### Fund Focus: Goldman Sachs Global Income (GSGLX)

2015 marks the 20<sup>th</sup> anniversary of the Goldman Sachs Global Income Fund. GSGLX is a fixed income mutual fund, meaning at least 80% of the money allocated in the fund is in fixed income securities, i.e. bonds made by governments and corporations. The fund seeks to invest in both U.S. and foreign markets by allocating at least 30% to U.S. denominated securities, but mandating investments in at least three other countries. Currently, the fund has investments in Japan, Italy, Cayman Islands, Germany, France, Canada, Spain, Belgium, and the U.S. to name just a few. This ensures diversification across currencies and markets, positioning the fund well for fluctuations in currency exchange rates. The fund's strategy, which includes a low exposure to emerging markets, complements the portfolio's overall allocation to global fixed income. The average duration of the portfolio, a measure of price sensitivity to changes in interest rates, has ranged slightly between 4.8-6.4 years over the life of the portfolio. Having a strong track record, this fund provides great global fixed income exposure at a competitive 0.7% expense ratio.

### Oil Prices (The Good, the Bad and the Ugly)

After dropping nearly 50% in 2014, oil prices continued to decline 30% during 2015<sup>1</sup> due to an oversupply of oil and weakening global demand. The U.S.'s robust production of oil and OPEC's flooding of the markets by stepping up production drove prices down to lows not seen in 11 years. In addition to the glut in production, slumping demand in Asia and European countries has increased downward pressure on the price. The drop in prices has had far-reaching consequences and has contributed to market volatility. Companies in the oil industry have reacted to lower earnings by cutting back on spending, postponing research projects and laying off employees. In regions that experienced an oil boom over the past several years, employment has declined sharply. In North Dakota, more than 17% of the jobs in the oil and gas industry have disappeared.<sup>2</sup>

Repercussions across the world have varied. Economies in oil-producing countries have been squeezed. Venezuela, a country with an extremely high dependence on oil exports, has experienced severe inflation, a shortage of basic goods, a devaluation of currency and a strain on the country's infrastructure as less funding is available for such programs as healthcare, education and housing. In Russia, oil and gas revenues make up a substantial portion of its federal budget revenues. Low oil prices in addition to sanctions have caused a collapse of its economy.

Lower oil prices have also had positive consequences. Average consumers have benefitted by paying less to fill up their gas tank and heat their homes, leaving them with more money to save and spend elsewhere. Additionally, these lower energy prices disproportionately benefit lower income households, as they tend to spend a higher percentage of their wages on energy. Lower oil prices have also resulted in lower inflation. The cost for agricultural products has declined since it much less expensive to produce and transport products to market. Countries such as Malaysia have taken advantage of lower prices, shifting funding for fuel subsidies to finance social programs. Lower prices are also making the more expensive, heavier polluting methods of oil extraction less profitable, although it also makes further development of clean energy sources less urgent.

How long will these low prices last? No one knows, but oil prices are expected to remain low in 2016.

<sup>1</sup> "U.S. Oil Prices End 2015 Down 30% for the Year", [www.wsj.com](http://www.wsj.com), December 31, 2015.

<sup>2</sup> "Recession, retrenchment, revolution? Impact of low crude prices on oil powers", [The Guardian](http://TheGuardian.com), December 30, 2015.

## Where to Save for 2016

Our cover article explores the need to save regularly in order to meet your accumulation goals.

Where you save is important as well. We suggest the following:

- First, sign up for your company retirement plan and if possible contribute the maximum. At least set aside the maximum amount your company will match as an employer contribution. This is free money!
- If you do not have a company retirement plan fund an IRA every year. Increase your contribution until you are at the allowable limit.
- Set up an emergency or cash reserves fund. Setting aside a sum monthly will make the accumulation of these reserves easier.
- Fund an investment account. Once you have a retirement and emergency fund, begin depositing to an account devoted to longer term investments. We have a number of low cost investment choices we can recommend. Regular deposits will take advantage of dollar cost averaging.

Depending on your savings history an overall 15% savings of your post tax income is ideal.

We will be reaching out to each of our Harbor clients early this year and discussing your current savings strategy and reminding you to save regularly, even a small amount. If you are in the habit of saving regularly, we will encourage you to increase the amount for the new year.



## Tech Notes

### Harbor is now on Facebook!

Our page offers a variety of timely news, relevant tips and strategies, and fun stuff too like restaurant recommendations, recipes and updates about our Harbor team. We welcome you to check it out – and check back often!

### Electronic delivery provides fast, secure access to account documents

Did you know that electronic delivery is available for your account documents, such as statements and trade confirmations? Some of the benefits of electing online delivery are:

- Faster delivery – Receive documents as they become available rather than waiting for them to arrive in the mail.
- Better security – Minimize the potential for lost or stolen documents.
- Convenient access – Easily search and retrieve up to 10 years of documents on the Schwab website anytime and from anywhere or simply save a copy to your own computer or removable disc or drive.
- Lower Online Equity Trade Commissions – Lower pricing on electronic equity trades if you are enrolled in eConfirms and eStatements.

It's simple to sign up. If you already have an active schwaballiance.com Login ID and password then you can go directly to the Paperless Enrollment Page. If not, then you can either call Schwab Signature Alliance at 800-515-2157 or register online at [www.schwab.com/sa\\_webactivate](http://www.schwab.com/sa_webactivate). You will need to have handy your Schwab account number(s), SSN, birthdate and phone number.

### eBay Valet Sells Items for You

I'm sure many of you have experimented with selling items on eBay at one time or another. It is a great way to sell unwanted or unused items for top dollar. However, listing items can be a bit of a hassle and time consuming with taking multiple photographs, writing accurate and helpful descriptions, determining the value and getting it all entered on eBay's site.

But have you heard about eBay Valet? It is a professional selling service that does most of the work for you. Once you set up your eBay Valet account online you are ready to get started. To sell items, you only need to request a free, prepaid shipping label, send your item to them and they take care of the rest. If your item sells, they ship the item to the buyer and put the cash in your PayPal account (eBay Valet keeps 20-40% depending on the sales price). If your item does not sell, eBay Valet will return it to you, free of charge.

So, no excuses! Open up those closets and drawers where you have stashed away unwanted items and start your spring cleaning now!

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## Harbor Happenings

### **5<sup>th</sup> Annual Wreath Making Event**

This year marked Harbor's 5<sup>th</sup> annual Wreath Making Event at Boulder's Sturtz and Copeland Florist. A fun evening with some very creative clients! If you weren't able to join us, we hope to see you next year.

### **Harbor is on Facebook**

Did you know that Harbor is on Facebook? Look us up – *Harbor Financial Group*, and keep up with the latest Harbor news and conversation.

### **Get the year off to an organized start!**

Review your 401k deferral and W2 exemptions with your HR department.

Begin gathering documents for your 2015 tax return and get them to your accountant. If you prepare your own taxes be aware that TurboTax is available for a discount through your Schwab account.

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.

Check your credit reports at [www.annualcreditreport.com](http://www.annualcreditreport.com).

Clean out your personal files.

### **2016 Office Closures**

Our office is closed on the following New York Stock Exchange holidays: February 15, President's Day; May 30, Memorial Day; July 4, Independence Day; September 5, Labor Day; November 24, Thanksgiving Day; November 25, half day; December 26, in observance of Christmas.

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