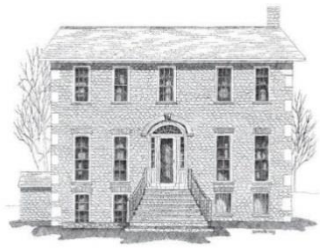

ON THE HORIZON... NEWS, NOTES, AND COMMENTARY FOR CLIENTS AND FRIENDS OF THE HORIZON GROUP

BY MARK CONGDON, SENIOR PARTNER

HOW LONG CAN THIS LAST??

JULY 18, 2017

When we flipped the calendar to July a few weeks ago, the United States economy was starting the ninth year of an economic expansion. 96 months. That's a long period of uninterrupted growth that needs to be put in perspective. There have been twelve of these recoveries since World War II, and the current one is the third longest. It is exceeded only by the tech boom that began in 1991 and lasted for 10 years, and a 109 month period of growth that started in 1961 which was fed by expansive monetary policy to facilitate the Vietnam War.

The reason these periods are often referred to as recoveries is because they usually follow some painful recession caused by a market excess. You certainly remember the bursting of the internet bubble from 2000 to 2003, not to mention the mortgage meltdown and collapse of the housing market that spawned the current recovery. Another excess that can cause a recession is the tightening of money by the Federal Reserve. The Great Depression happened in part because the Fed forbid member banks to loan on margin anymore. Remember Jimmy Carter's "economic malaise"? It was caused by Fed Chairman Paul Volker's decision to jack interest rates to combat inflation.

The current cycle of growth will undoubtedly end at some point. One of my favorite expressions is that "trees don't grow to the sky". Take comfort in a regular and predictable pattern that has been around as long as our country: boom (expansion) → bust (contraction); repeat indefinitely. So when will this particular good time come to an end? That is impossible to know, but it will be easy to recognize when it happens. That's because it will be marked by a recession – typically caused by market excess or restrictive policy by the Federal Reserve.

And here's the best part. Neither cause of a market killing recession appears to be anywhere on the horizon. We certainly have a cautious and accommodative Federal Reserve, and they have committed publicly to remain so. As for a market bubble, we are nowhere near the unbridled enthusiasm and widespread speculation that tend to punctuate market tops. In fact, one could argue we are in the midst of the most hated bull market … ever!

This is evidenced by the record levels of cash on the sidelines. Twelve and a half trillion dollars are parked safely in vehicles like savings accounts and money markets. Ironically, this amount increased by nearly half a trillion after Trump was elected – only to miss out on the unexpected market jump since November. Investor sentiment is a contrary indicator which also points to an underappreciated stock market. Last week's AAII Investor sentiment survey registered 28% bullish sentiment, 30% bearish sentiment, and 42% of respondents were neutral about the prospect for market returns. As Sir John Templeton once said, "Bull markets die on euphoria". This is certainly not the sentiment of a euphoric market. Keep in mind a healthy market correction would be typical, and I certainly would welcome the pause. However, it would be unlikely to mean the end of the economic expansion feeding this bull market. If it should happen, stick to your plan and keep the faith!

ACCOLADES FOR THE INVESTMENT POLICY COMMITTEE

Under our fiduciary money management framework, our Investment Policy Committee meets every Wednesday morning at 7:00 under the direction of Chief Investment Officer Ken Blazick. I am extremely proud of the evolution and results of this four member panel that proposes, researches, reviews, and approves changes to our model portfolios. As you may recall, we made two changes last month to our equity models – a slight shift from domestic to international and the replacement of AMCAP fund with the more concentrated Lord Abbett Growth Leaders. Below please find our performance versus benchmarks through last week:

	YTD to 7/14/17
FIXED INCOME:	
Barclay's Aggregate Bond Index	2.27%
Horizon Advisory G7A Fixed Model	3.45%
Horizon Advisory G7S Fixed Model	2.96%
EQUITIES:	
S&P 500 Index	9.8%
Horizon Advisory G7A Equity Model	10.85%
Horizon Advisory G7S Equity Model	11.19%

The returns above do not reflect a deduction for fees, but in fairness that same deduction would have to be made from the benchmarks if you were a client of our firm looking to us to provide advice and counsel about all other aspects of your financial life. Your particular return would depend on your own personal mix between the fixed model and the equity model (bucket #1 and bucket #2) as well as the timing of any withdrawals you've taken. Also keep in mind that we have two models – G7A for accounts over $250,000 and G7S for those under that threshold. The primary difference is the number of holdings in each model.

Ken deserves much of the credit for our performance. He tirelessly researches ideas and methods to blend investments in order to reduce risk inside of your portfolio. Several weeks ago he was listening to a podcast by William F. Sharpe, father of the Capital Asset Pricing Model and the Sharpe ratio. His work won him a Nobel Prize in economics. Mr. Sharpe has created a new model for distributing retirement assets. It's a series of matrices that determines your best chance for a successful retirement – defined by not running out of money. Ken reached out to him to question several of his assumptions. Mr. Sharpe explained he wanted to test this model on real life retirements but was in a quandary. Big time wire house brokers who understood the math rarely focus on retirement because it's labor intensive and often emotional. Independent advisors who excelled in retirement almost always have small practices and lack a "financial engineer" who could navigate his mathematics. Sensing that such a model could be a game changer for our industry, Ken volunteered that our clientele consists exclusively of retirees and an MBA with two finance degrees on the payroll (my son Mike).

I'm proud to say we're now working with an industry legend to bring real life perspective to his academic models – and deepening our knowledge as we go. Ken and Mike have been provided the documentation for his matrices including the MATLAB formulas. Whenever they whine about the complexity, I respond with, "Of course it's complex, he's a Nobel Prize winner!" We're blessed that Mike and Ken have this level of quantitative talent – and are managing our portfolios. Having Professor Sharpe eager to work with us is a tremendous compliment.

POLITICS & THE DOL FIDUCIARY RULE

Famous investor Richard Bernstein recently boiled down his concerns about the stock market to 3 P's – politics, profits, and probabilities. His thoughts on politics – ignore it. Politics is about *what should be*, and investing is about *what is*. And after spending several days last month on behalf of the Financial Services Institute up on Capitol Hill meeting with members of Congress, I can assure you not much change is in the wind. I realize this sentiment defies conventional wisdom. The stock market ran up in part on anticipation of President Trump slashing regulations, stimulating the economy, and lowering both corporate and personal taxes.

Washington is as divided as ever. In all my years meeting with representatives, I've never seen them so resigned to gridlock along party lines. There are rays of hope – mostly found in younger, less entrenched members of the House. In fact, the most impressive person I've met with in some time was a Democrat from New Jersey named Josh Gottheimer. He's co-leader of the Problem Solvers Caucus with Tom Reed, a Republican from Corning. This group consists of 20 Democrats and 20 Republicans who have pledged to work together in a bi-partisan manner for the good of the country. But even they were formed to block the Freedom Caucus. And President Trump is being neutralized by bickering within his own party. The end result is gridlock and the preservation of the status quo – just what the market loves to see.

Since the market has run up on the thought of what Trump will do, it would be natural for it to pull back on the disappointment that the Trump agenda appears to have stalled. But the market has been saved by corporate profits that continue to rise and beat expectations. Oddly enough, I believe the lack of progress in Washington is starting to be viewed as a positive for the stock market. Historically, gridlock has been a catalyst for market gains. And we have gridlock!

As for the DOL Fiduciary Rule, I was in Washington to support the Financial Choice Act which passed the House on a party line vote the day after I left (June 8th). This bill will never reach the floor of the Senate because it repeals the DOL Fiduciary Rule as the NY Times reported. What the Times failed to mention is that it did so to let the Securities and Exchange Commission (SEC) take the lead on developing and enforcing a fiduciary rule for advisors.

Real advisors support and embrace fiduciary standards – we all do here at The Horizon Group. If only it were as simple as putting a client's needs first (which we've always done). The issue is that the DOL rule is onerous, punitive, and needs clarification. It adds a third regulatory bureaucracy that our entire industry must answer to – in addition to FINRA and the SEC. These rules affect every aspect of our business. Recently I received a letter from SSN, asking patience with glitches as software, systems, and procedures are updated everywhere they interact with us and our clients. For the first time since the rule took effect June 9th I opened a new account. The volume of paperwork and depth of intrusive questions offended me, not to mention the client. I gave up and brought Tim and Kristin in to complete the mountain of required forms. You've lived through frustration as well – changing broker dealers, custodians, and the recent update that knocked Albridge offline for two days. Certainly there will be more heartburn as regulators and industry participants wrestle with interpretations of the rule for years to come.

Is all this pain worth the gain? Absolutely. This rule is the reason we spent years developing the manpower, systems, risk controls, and procedures that evolved into our fiduciary firm, Horizon Advisory Services. For years we used the possibility of this rule to improve every aspect of our business – especially our money management - which led to the great returns we're enjoying now. This transformation was recently acknowledged in a white paper authored by Fidelity Investments entitled, "Step Up to a Fee Based Model". I was one of three advisors across the nation featured as an example to follow in the transition to comply with the Fiduciary Rule. It was a huge honor that belongs to my dedicated team at The Horizon Group and the best group of clients an advisor could hope to serve. Thank you all very much.

I give SSN, NFS (Fidelity), and us a great deal of credit for hitting this new mandate head on, years in advance. Many firms are frozen, hoping this will be repealed by executive order before year-end when the grandfathering of existing clients expires. My hope is that it's just tweaked to eliminate contradictions and unnecessary forms and reporting. Although the execution has been painful, we're far better for it. It feels right, and I wouldn't turn back even if the law allowed it.

SWEEPING TECHNOLOGY UPGRADES

One of our management initiatives for this coming quarter is a sweeping upgrade of our technology. We're focusing on communication; a studio for out-of-town reviews with split screen capability, a recording studio for podcasts, and touchscreens for in-person reviews to display statements. We're also exploring a Horizon Group Facebook page. Recently I purchased a wonderful little home in Clayton on James Street (the main road). Our "Clayton Chart House" will have a studio wired for remote emergency appointments and regularly scheduled team meetings when I'm on vacation across the river at the family camp. It will also serve as a fully functional office should a regional disaster affect our Rochester/Dansville operations. We look forward to sharing these improvements with you soon!

ODDS & ENDS …….

EMPLOYEE NEWS

The Horizon Group is a challenging place to work – our processes are exacting and the pace is quick. Constantly changing regulatory requirements and compliance procedures don't make it any easier. It takes a special person to relish serving in a client service position – it's certainly not for everyone. So it wasn't a complete shock that at six months Tess accepted another position outside the industry. We wish her well; she was a great person. Don't be shocked to see new faces at our group – we've offered her position to a May graduate from the University of Buffalo's management program.

This makes us appreciate our dedicated team even more. I'd like to congratulate Kristin on her 10 year anniversary with us. You've all gotten used to her smiling face at the front desk as well as her cheerful phone demeanor. Carrie marks her 13th anniversary this month as well – quite a rise from receptionist to running the firm as operations manager. And last month Tim Hammond celebrated 21 years as the anchor of our group. Here's to many more years together!

WHEN'S THE PARTY?

Since the DOL Fiduciary Rule appears to be here to stay, we are going to stick with my original plan to have a major client party *every other* year. That's because in years past we'd accept a partial reimbursement to help offset the cost from firms we did business with. Not so anymore. As a fiduciary, I accept *nothing* from anyone. I pay my own way at lunches, reimburse the cost of tickets if I go to a company event, and don't even accept boxes of pens for client meetings.

That said, I'm still itching to throw another one of my famous client shindigs at Letchworth State Park. From responses I received to previous e-mails the overwhelming majority of clients want to return to the park as well. We have targeted early September 2018; for our party, the exact date won't be finalized until after the first of the year when State Parks start taking reservations. I'm very excited at the thought to throwing another one of our special "thank you" parties.

MARK YOUR CALENDARS!!!

Our **2017 Client Update** will be held Saturday morning, October 14th at Roberts Wesleyan College. This year we are thrilled to have Dr. Richard Brooks, a famed psychologist and Harvard professor, speaking on resilience. Of course we'll be updating you on the markets, tax planning issues, and a variety of topics. I'm positive you'll find it a morning well spent.

The last big wave of retirements will occur at Xerox later this fall. That's because interest rate increases may negatively impact lump sum retirement amounts for employees that have the old pension plan that was frozen in 2012. We'll be explaining all this in our **Xerox Retirement Workshops**; the first one will be held on Wednesday evening, September 27th. If you know of anyone still at Xerox who is eligible for or contemplating retirement, this workshop is a must! Have them call our office at 334-3600 for a seat, or go to the seminar page under our events tab on our website (www.horizongroup3600.com).

Over →

NEW ADVISOR ON BOARD

Some of you have had the privilege to meet Don Kwarta, our newest addition to the team, as he's been sitting in and observing Tim and me during client reviews. If you haven't met Don, you'll get to meet him at the October Client Update! His expertise in employee benefits and retirement plans has already proven to be a wonderful asset to the team. We're excited that once Don passes his Series 65 exam this Fall he will begin building his clientele and assisting us in a greater capacity with client service.

GRIFFIN CAPITAL REIT

Many of you have been calling about a mailing you received from Griffin Real Estate. On several occasions I've written e-mails instructing everyone to ignore their continuous mailings, but their last looked different and spawned another flood of calls. You can ignore these mailings – but it might help if I explain them. Griffin is a real estate investment fund that is currently held in our portfolios. Because of the nature of real estate investments, the fund is not liquid on a daily basis. For a period every quarter Griffin, opens up the fund for redemptions. This means that if we wanted to sell the fund we would have to do so in one of these quarterly liquidity windows and Griffin would redeem our shares at the market price as determined by the NASDAQ (Griffin themselves do not set the price). Opening up this liquidity window in the investment world is called a "material event" by the lawyers. The law states that any shareholders must be notified *in writing* of any material events that occurs with any investments they own. That is why Griffin has to send out these letters to clients. They have no choice. If our Investment Policy Committee decides to remove the investment from our portfolios, we'd do so following our normal procedures. So for now, please ignore these mailings from Griffin. We have you covered.

REQUIRED MINIMUM DISTRIBUTION (RMD) LETTERS

Within the next few weeks Brian will be sending out letters to everyone who must take a minimum distribution from an IRA or 403b account this year. There are three possible letters; your RMD is completed, it's on pace to be completed by year end (a monthly distribution is most likely in place that will fulfill it by December), or that your RMD hasn't been met or you're not on pace to fulfill it. If you receive either of the first two, it's simply telling you that you're all set. The last one requires action, but Brian will be following up with phone calls to everyone who receives the shortfall letter. As always, you can count on us to contact you if action is required!