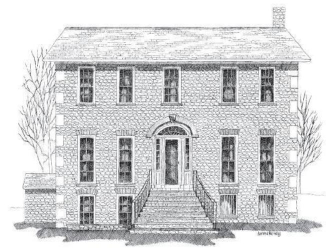

ON THE HORIZON...
NEWS, NOTES, AND COMMENTARY
FOR CLIENTS AND FRIENDS OF THE HORIZON GROUP

July 15, 2007

INVESTORS BEHAVING BADLY

This was a watershed week for the market, as the S&P 500 index finally surpassed the peak reached on March 24th, 2000. Itôs taken just over seven years for investors to come full circle in the endless cycle of fear, hope, and greed. The truth of the matter is that this little known emotional cycle has more impact on investor return than the comprehensive economic upon which everyone dwells.

This week Dalbar, the Boston-based financial services research firm, released their 2007 Quantitative Analysis of Investor Behavior. Since 1984 the firm has been measuring the effects of investor decisions to buy, sell, and switch among mutual funds. For over 20 years the results have been the same. Quoting the Wall Street Journal, ñReturns are far more dependent on investor behavior than on fund performance, and fund investors who hold their investments are far more successful than those that time the marketò.

Whatôs staggering is how poorly the average investor does. For the past twenty years the markets have averaged double digit returns, while Dalbar calculates the average investor made just 4.3%! How can this be? Itôs because, left to their own instincts, most people are far more comfortable investing *after* the market has *proven* itself with a big rise. These same people tend to sell in a fearful frenzy *after* a substantial decline. Once out of the market, they swear off investing forever at the worst possible time - just before the recovery starts. After a few years of explosive returns, they jump back in to perpetuate the fear-hope-greed cycle. Regardless of where we are in the cycle, one of the most valuable services I provide my clients is managing the inevitable emotions surrounding their investments.

But Dalbar finds that even confident investors who ride the markets tend to have bad habits that severely undermine performance. Itôs commonplace to chase returns by switching into funds that appear to be performing better or are more popular. Usually these funds have experienced tremendous recent returns. But the fact is, the return that puts a fund on the cover of ñMoneyò magazine has already happened and is unlikely to be repeated. This was backed up by a study several years ago that showed that the lowest ranked Morningstar funds as a group outperformed 5-star funds a year later by a significant margin.

Iôve dealt with self-defeating investor behavior for most of my 21 years in the business. The purpose of sharing this study is that Iôm battling ñgreed cycleò behaviors with greater frequency of late. Many reviews and phone calls are starting with, ñWeôre doing great except for _____ fund, letôs get rid of itò. I can fill in the blank - for the past few years bonds, foreign bonds, growth funds, and commodities have failed to keep pace with value and international investments. Should we throw in the towel and move them? Not unless our asset allocation or ñtwo bucketò approach has changed. Furthermore, they probably offer greater opportunity going forward ï weôll only know for sure by looking back a year from now. In hindsight, pulling from an underperforming group most often turns out to be a mistake.

By nature, asset allocation tempers these self-defeating tendencies. Although you may sacrifice a bit of return in the short-run by committing an exposure to all asset classes, history has shown youôre far better off over time. Again, holding you in what appears to be a ñdogò fund is another important function I serve. Regulators even see the need to keep people without advisors from hurting themselves. Thatôs why theyôve made lifecycle and asset allocation funds a qualified default alternative in the Pension Protection Act. The Dalbar study supports this decision by demonstrating that asset allocation funds ñimprove investor behavior, lower risk, eliminate switching, and deliver returns for the investorò. Sound familiar? These are the same functions we perform for you, as well as provide account reviews, comprehensive planning, tax ideas, distribution strategy, and a host of ancillary services.

On the opposite end of the spectrum, a number of people have become nervous with the level of the market. Has the stock market gone too high? Should we harvest some gains? These are both reasonable questions. Whatôs not reasonable is pulling money off the table because you ñfeelò the market is too high. Letôs review when you should make a change. The most important reason to move money is that the risk profile of your portfolio is out of line with your needs. This can happen by a surging stock market or even a change in life circumstances. Thatôs why our regularly scheduled review meetings are so important ï the conversational questions I ask are really probing to see whatôs changed and if a strategy shift is necessary. It also gives us an opportunity to review your allocation, rebalance, and replenish your income ñbucketò if appropriate.

WHATôS NEXT FOR THE MARKET?

Six and a half months into 2007 the S&P 500 index is up 9½%. Both the Dow and S&P 500 have topped their high water marks reached in 2000. However, the Nasdaq is still **46% below** the high reached seven years ago! It will take an additional 85% gain to reach the peak of March 10, 2000. This provides a history lesson as to why we diversify.

But where do we go from here? If history teaches us anything, itôs that making predictions about the future is useless. Economic fundamentals bode well for investors at this time. There are a number of positives and negatives that I have summarized on the following page ï Iôll let you draw your own conclusions. Please keep two things in mind. First, itôs never the bus you see coming that kills you. Finally, if youôre armed with a diversified portfolio, employ the ñtwo bucketò approach for retirement income, and maintain a long term perspective, the markets weekly direction should not concern you.

Market Positives	Clouds on the Horizon
A ñGoldilocksò economy ï low inflation, stable interest rates, strong employment	Longest period ever without a major correction ï over four years!
Corporate profits have increased by 129% from the third quarter of 2001	Slowing rate of corporate profit growth, high expectations for 4th quarter of year
The falling U.S. dollar has re-ignited manufacturing activity and spurred an increase in exports for U.S. firms	The decline of the dollar could intensify driving up interest rates and spook foreign investors from our market
Worldwide economic growth is expected to exceed 5% for both 2007 & 2008	Threat of terror attacks, oil disruptions from a desperate and violent enemy
High energy prices and borrowing costs have failed to slow consumer spending	Declining home prices in previous ñhotò markets could affect the consumer
Record global liquidity chasing investments -$2.54 trillion in U.S. money markets alone	Record levels of home loan foreclosures - subprime losses loom as loans reset
Mergers, takeovers, stock buybacks, and private equity shrinking supply of stock	Looming tax increases for individuals ï U.S. corporate tax now worldôs highest
Market fairly valued by P/E ratio, a bargain by historic price-to-sales ratio	Politics ï For sale and corrupt on both sides of aisle. Incompetent and a risk

WELLS REAL ESTATE UPDATE

Our clients collectively own over $10 million of Wells REIT I, and we are watching recent developments very carefully. On May 23rd, 2007, Wells applied to list shares of REIT I on the New York Stock Exchange. Unfortunately, that puts Wells in what is known as a ñquiet periodò. This legal term restricts the company from making public statements about its plans, prospects for the future, or speculate on timing of events. Because filings are public, it also alerts vulture investors that something is about to happen. This is why you have received, and probably will continue to, unsolicited offers to buy your shares. As we have previously advised everyone, ignore these offers! If one is worthy enough to warrant action we will contact you immediately. The most encouraging sign is that the last ñvultureò offer exceeded the $8.93 current share price.

So what if Wells goes public or is ñtaken outò by a private equity firm at a premium price? The proceeds will be available to reinvest. In what? The answer will depend on a number of factors and wonôt be the same for everyone. Possibilities will include; replenishing cash positions, CDôs, diversified bond funds, dividend income funds, and a new generation of annuities with guaranteed *living* benefits.

Many clients will need to look at alternatives for replacing real estate exposure. An exciting possibility is a sub-sector of REITs that invest in timberlands, the top performing asset class for the past 25 years. Unlike many other real estate sectors, valuations are still attractive and may hold superior growth potential. Iôve written an exciting workshop on the benefits of timberland investment and will hold 2 sessions on both Wednesday, September 19th and Thursday, September 27th. Watch the mail for your invite!

ADVANTAGE ONE

AdvantageOne continues to be the best option available to our clients to view a summary of account holdings online. Unfortunately, Carrie and Tim have been uncovering a number of issues recently that reflect inaccurate data. We are working diligently to correct these items. Cadaret Grant has assigned a specialist to help us review and correct the inaccuracies. Please remember that AdvantageOne is only a data collection and reporting tool - these problems have no impact on the actual value or accounting of the specific investments you own.

One particular glitch involves the reporting of dividends and fund purchases. It appears that money actually leaves your account on settlement day and is put right back in the next morning. Of course this doesnõt actually happen ï but it can be a bit alarming if you check your account on the day it occurs. We will continue to work with Cadaret Grant to eliminate these problems. Thank you for your patience and understanding.

WE NEED TO REACH YOU!!!

Please make sure we have your current cell phone number and e-mail address in our records so that we can reach you should a situation arise with your account. In addition, weõd appreciate it if you would let us know if youõre leaving town for an extended period. To that end, Carrie is mailing all known ñsnowbirdsò a contact sheet to mail back to us. Please call Phyllis at our office (334-3600) to update your contact information.

HOUSEKEEPING

Congratulations to our operations manager Carrie LaDue who accepted Don Siglerõs proposal last month! The happy couple is planning an October wedding next yearé é Terry & I will guest host our old show this Sunday morning (7/22) at 7 on 1180 WHAM. Iõll make an appearance Sunday night 9/23 for ñAsk the Expertsò as wellé é Phase III of our landscaping plan at the Rochester office is now complete and looks terrific! A special thanks goes out to Brighton Landscape for their great design and implementation é é My goal is to have a museum in the basement opened by late fall. It will feature Civil War, anti-slavery, and farm implements from the 1800õs. I have a great interest in and have acquired several valuable documents from Abraham Lincoln. Iõd ask everyone to keep their eyes out for any Civil War era items (even reproductions) at flea markets and auctions. Donõt hesitate to buy anything unique or treasures under $150, I will reimburse you sight unseen (china, muskets, bullets, posters, money, uniforms, etc)é é . The upcoming Timberland workshop September 19th is a perfect way to refer us to a friend, relative, or co-worker. It gives them a chance to take a look at us in a group setting and will be very educational and enlighteningé é Weekly Iõm reminded of how fragile, fleeting, and unfair life can be. Iõve lost a number of clients I cared deeply for so far this year. Thereõs six more weeks of summer ï live and make the most of them!

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