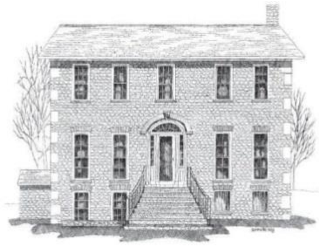

ON THE HORIZON...
NEWS, NOTES, AND COMMENTARY
FOR CLIENTS AND FRIENDS OF THE HORIZON GROUP

BY MARK CONGDON, SENIOR PARTNER

WINDS OF CHANGE

September 12, 2016

Late last month Ken and I were invited to Boston where the SSN Senior Management team was meeting with NFS. This division of Fidelity Investments is the custodian for all of our brokerage and fee-based IRA's – many of you will recognize them from your statements. As you can imagine, the looming April 1st deadline for complying with the Department of Labor's Fiduciary Rule dominated the discussions.

At The Horizon Group, we have been working continuously since May 2014 to put ourselves - and our clients - out ahead of the coming industry upheaval. Today we're facing an avalanche of regulatory complexity and cost increases as we strive to comply with this ambiguous rule. Our move from Cadaret Grant to the larger and more proactive Ladenburg Thalmann group of broker-dealers was an important first step in that process. So was developing a top-notch investment process and advisory firm which met every fiduciary requirement – Horizon Advisory Services (HAS). October 1st will mark the two year anniversary of that extremely important division of our firm, with Ken Blazick at the helm as Chief Investment Officer. I'm thrilled with the two year track record of our HAS model portfolios overseen by Ken and his team on the Investment Policy Committee. To date, 297 clients have converted to our advisory models. This means nearly 2/3 of client IRAs are now managed under our fiduciary engagement model. Fortunately, my industry involvement in Washington led us to make these meaningful changes in anticipation of the rule. Ken and I arrived in Boston feeling like we'd already won the World Series.

After a few short hours it became clear that, across the country, everyone from advisors to broker-dealers, fund families to custodians, have done little to comply with a rule unveiled over 5 months ago. Why are they waiting? The answers are numerous; lack of clarity, the need for interpretation, a host of legal challenges, and hope the election may stall implementation are just a few. Everyone seems to be waiting for someone to make the first move. I believe this is a grave mistake. Although this rule has severe unintended consequences and may force a host of cost increases, it should vastly improve the quality of advice and investment management for those who can afford it. Certainly our firm and investment process has been sharpened to the cutting edge. Embracing this evolution, although costly and a ton of work, has been beneficial for both our clients and our firm. It's important for you to know I would not turn back even if the rule was somehow reversed.

In just two weeks I'll be heading to Dallas to participate in an industry advisory panel at the national conference of the Financial Services Institute (FSI). My trip to Boston confirmed my fear that I'll likely leave the conference with more questions than answers. But it's important for me to attend these meetings, voice my concerns, and propose win-win solutions to the Fidelitys of the world. They need to hear a reasoned perspective that represents the needs and concerns of advisors in the field, rather than dictate expedient and profitable changes, often without regard for the cost or confusion they cause our clients.

So back to my baseball analogy - we haven't won the World Series. It's like the whole industry is stuck back in training camp. But it is fair to say the preparation of The Horizon Group, as well as that of our partners at SSN and Ladenburg, have all but assured us a spot in the playoffs. There will be more hard work ahead as broker-dealers and custodians change their policies, procedures, pricing, and even trading platforms to bring themselves into compliance. Although we've proactively embraced the spirit of the new rules by making vast improvements to our firm, I'm certain "tweaks" will be necessary as the technical aspects of the law are interpreted by the courts and competing regulators (DOL, FINRA, SEC, IRS).

Over the coming months you'll hear confusing advertisements and unsettling news coverage of the personal finance industry. I assure you nobody knows what our industry will look like a year from now. However, one promise I can make is that we will still be here to serve you. Together, we've put ourselves in that position. You can count on us to be actively involved and on the cutting edge, advocating for our clients and keeping you informed along the way. Most importantly, we'll cut through all this noise and distraction to help you with what matters most – **<u>your</u>** individual investment strategy, **<u>your</u>** retirement income, and the financial security of those you love. As always, we thank you for granting us that privilege.

The Demise of Long Term Care Insurance

The foundation of any financial plan is the protection of the assets you've worked so hard to accumulate. That's why we take a good look at Long Term Care Insurance when we develop a retirement income strategy.

When I started my career 30 years ago this Thanksgiving, long term care insurance was an almost automatic purchase prior to retirement - if you had assets to protect and the health necessary to get coverage. I became an expert in this area, training agents for other firms and working on the rollout of the NYS Partnership for Long Term Care. In fact, clients of The Horizon Group represented almost 2% of all policies issued in the early days of the Partnership. Over a dozen clients have preserved their life savings for loved ones because they owned these tremendous policies when they fell ill; several required care for nearly eight years!

Unfortunately, I can rarely recommend these policies for people contemplating retirement today. And I'm certainly not alone. In the year 2000 some 750,000 individual LTC policies were purchased. Last year that number dropped to just 105,000. There are a number of reasons for the plunge in sales of long term care insurance.

By far the primary reason is cost. Insurers have taken huge losses on their long term care business and have raised rates sharply. Retirees are living far longer than they were just 30 years ago, which ups the number of claims insurers face. The original LTC pricing was lapse supported, which meant that profits from clients who lapse their policies were used to subsidize benefits for those who hang on to them. However, lapse rates have been far lower than insurers have projected, putting pressure on them financially. To make matters worse, extremely low interest rates have made it virtually impossible for insurers to make money on their reserves. This perfect storm has led to dozens of companies leaving the business – only Mass Mutual and Genworth are still issuing NYS Partnership Policies. The other firms that have remained in the non-partnership business have effectively priced themselves out of the market.

More concerning to me is the pace of price increases for those with existing policies. Increases weren't even a thought when most of these policies were purchased – they were extremely rare and were supposed to be restrained in the Partnership program. But jumps in premiums are industrywide and substantial. Recently the Office of Personnel Management announced an average increase of 83% for the 270,000 workers enrolled in the Federal Long Term Care Insurance Program administered by John Hancock. Officials voiced concern that possibly no bidders will emerge when the program comes up for renewal next time around. I've been helping clients make difficult decisions individually as firms announce increases and alternatives for tempering them. So far we've been fortunate that most increases have been manageable.

So how do we protect your life savings if insurance is an unaffordable option? We're forced to turn to an array of legal options at our disposal. We are very fortunate to have found an extremely sharp and aggressive attorney who has already helped a number of clients – some already receiving care! Terrance Emmens is a partner with Lacy Katzen in Rochester, with an efficient team trained to protect your assets. I'm pleased to announce he will be giving a talk "It's Never Too Late to Address Long Term Care" for our clients on Wednesday, November 2nd at the RIT Inn & Conference Center. If you'd like to learn the basic asset protection strategies that can be utilized, even at the time care is needed, don't miss this informative presentation!

A Word about the Market

We've come to the time of year that historically sees the stock market rather unsettled. Over the next few weeks, natural volatility may be compounded by election rhetoric and speculation about the next Federal Reserve interest rate increase. The media will do its best to alarm you – please keep in mind this is all just noise to a long term investor. As I've said a million times, stock prices follow earnings – regardless of who is in the White House. Even if the Fed hikes rates, it will likely be a "one and done" scenario. Given global economic forces, a prolonged series of rate increases seems unlikely. A month from now real analysts will be focusing on what truly matters – quarterly earnings announcements.

One thing that has rattled more than a few clients lately is coverage of the market being "overvalued". It started mid-summer when Goldman Sachs made that proclamation and wasn't helped by an article last week which claimed "this bubble has legs". Never one to take things at face value, Ken set out to determine if the market was indeed too pricey. Over five weeks he read 102 academic research papers on market valuation methods and took aspects of the three most predictive to design our own Horizon Group market valuation model. We look forward to sharing it with you at our Client Update Saturday, October 15th at Roberts Wesleyan.

For now, I'll tell you our model indicates the market is currently undervalued by a whisker. Like most models, it has little predictive value until readings reach the extremes. Said another way, markets don't care what analysts think. Yet it is important to keep track of market valuation – exactly why weekly our Investment Policy Committee tracks this model and the three others looking for extreme readings. Severe overvaluation or undervaluation would certainly be consideration for making adjustments to our models.

WE NEED YOUR HELP …….

As we prepare for our client update, rework our website, and help clients with the various notices they receive, we'd ask you to shoot us an e-mail (clientservices@horizonadvisors.net) or note if you can assist with any of the following:

1) WE NEED YOUR QUESTIONS AND CONCERNS FOR THE MODERATED ROUNDTABLE WITH OUR INVESTMENT POLICY COMMITTEE AT OUR CLIENT UPDATE OCTOBER 15th! Please submit any questions you may have about investing, the markets, or the economy that could be asked by the moderator. In fact, feel free to ask any financial planning question that may be addressed elsewhere in the day. Send questions and concerns to clientservices@horizonadvisors.net

2) WE NEED YOUR FEEDBACK. We would be grateful if you could describe the value we bring to the table as your advisor. In other words, what makes it worthwhile for you to pay us to help manage your money? We're also in the process of making changes to our website and your comments and suggestions are welcome. Please keep in mind we are highly regulated and all content must be pre-approved – anything like spontaneous market commentary is not possible.

3) PLEASE DO NOT PAY ANY INVOICES FOR ACCOUNT OR CUSTODIAL FEES YOU RECEIVE IN THE MAIL. Companies are sending more disclosures and notices than ever. Many clients are confused by bills and forms they receive. Many times we don't receive a duplicate as you might assume. You should never have to fill out and return a form or write a check to a fund company or custodian. Ignore them – most of the time these blanket mailings don't apply to you. Never write a check - always let fees be taken from your account so they can be reversed easily if they are incorrectly taken. Proceeds from a cashed check are much harder to recover. If you are ever confused or feel compelled to respond to mail, please contact us first!