



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

September 14, 2006

A WORD ABOUT FEAR

This Thanksgiving I will complete my 20th year as a financial planner. Reflecting upon two decades of client interactions I can tell you - with certainty – managing money is far easier than managing the people who own it. That’s because we’re all human and tend to let our past experiences, emotions, desires, and fears affect our behaviors and judgment. Although understanding a client’s emotional makeup and relationship with money is my greatest challenge, it is most often where I can make the biggest difference in their lives. During the past year I’ve noticed a deeper level of anxiety – far beyond normal market concerns – in a growing number of clients.

There is always a danger writing to hundreds of people and making generalizations, as there are always exceptions. But I must deal with the growing lack of faith in “the system”, with a fair number of people expressing distrust of the government, corporate management, and the financial markets. Many have even shared real *fear* about terrorism and the future of our country. Market anxiety is perfectly normal. I understand concern for the futures of children and grandchildren. I respect healthy skepticism. Fear, however, has to be dealt with. It paralyzes people, stealing the peace of mind necessary for rational investment and spending decisions, and can have a profound affect on your quality of life. Enron, 9/11, energy prices, terrorist threats, Iraq, Iran, Katrina, and a host of fiscal issues have created a “perfect storm” of fear and uncertainty.

Many fears are unfounded – but they are always real to the person experiencing fright. Take flying, for example. All of us have valid concerns when we step on a plane. Is the pilot alert and the equipment maintained? What about the weather? A person with a true fear of flying obsesses over all the negative things that could cause a crash – even though on an intellectual level they know the odds of an accident are miniscule. Such fear can affect behavior. Someone too scared to fly may miss an exotic vacation or funeral, but still enjoy life. The consequences of being scared away from investing are dire. Failing to allow a portion of your money to grow and outpace inflation can mean running out of money in retirement, or leaving behind an impoverished spouse.

There is certainly valid cause for concern in America today. We're all feeling great uncertainty in this era of global competition. For most of our lives America has set the pace when it comes to ingenuity, prosperity, innovation, healthcare, monetary policy, and standards of living. Technology and the free flow of capital around the world have exposed us to competition on a level we've never faced before, and we're all feeling the consequences. Corporations aren't downsizing, ditching pensions, and dropping healthcare plans because they're greedy – it's a matter of survival against aggressive foreign firms. Our schools were caught flatfooted for this fierce competition, failing us in math and science at a time when such skills are critical for global success. In turn, this fuels a major gap between the incomes of the highly educated and the unskilled mass of Americans left behind. And as we look to Washington for help, all we see are politicians focused on retaining power, not fixing problems. Yes, I'm concerned - but not fearful.

It's easy to let concern build to fear when it comes to our physical safety or our financial security. Although I'm concerned about our country and the challenges we face today, I am eagerly investing for the future – as we all should *without fear*. We can put our money to work knowing that our capitalistic system works. It is the model for India and the most successful emerging economies in the world. It toppled communism and its acceptance in name only is why we truly don't need to fear the Chinese. The promise of massive economic rewards will drive a company to find an alternative fuel or the cure for cancer. Intense global competition will only make it happen sooner. Does it matter if a Dutch chemical company or an Irish pharmaceutical gets there first? Society as a whole, and investors in the winning firms, will benefit greatly. So long as your portfolio embraces the reality of a global marketplace by investing worldwide, you'll be far more likely to maintain your standard of living by owning the world's best companies.

A final thought about America – betting against the U.S.A. is a good way to end up broke. The greatness of America lies in the entrepreneurial spirit of its people. We'll rise to meet the challenges of corporate reform, education, and poverty, with the private sector leading the way. Politicians would be hard pressed to do as much to address social issues over the next four years as Warren Buffet did with the stroke of a pen (gifting his personal fortune), or create as many jobs as Bill Gates did with an idea from his garage. During international turmoil this past summer, investors worldwide flocked to the safety of U.S. Treasuries. Our government bonds and mutual funds of U.S. companies will always play an important role in portfolio strategy.

So, invest with certainty that the system works. Yes, it has imperfections – it's subject to human excesses and greed. Wherever there are vast sums of money you'll find the executive suite and politicians gorging themselves at the trough. There will be bumps in the road and shysters looking for shortcuts along the way. It's the way it has always been. And through World Wars and global unrest, it's the only way wealth has been created and maintained by the masses. Profit from the changes and innovations that lie ahead. Have a plan, stick to it through good times and bad, and make sure your portfolio is always well diversified. Tune out the media hype and negativity, count your blessings, and live life. In the long run, it's the only strategy that makes sense.

BACK TO BASICS

For the first time in nearly four years, you probably opened a quarterly statement (July) that was noticeably lower than the last one. Not a great way to reduce anxiety given current events. As of today we've recovered – the major U.S. indexes are all in the black and the international (EAFE) index is up over 10% for the year. It's important to note (although you wouldn't know it from media reports) our economy is doing well by virtually every measurement. Employment and spending are strong, with corporate profits showing solid gains. This is great news since stock prices follow earnings, and why most investment professionals view the glass as half full!

I'm fortunate to have access to the industry's best and brightest minds. Each year after extensive discussions and research, I weigh and consolidate opinions into my investment outlook and strategy for the year. Since many of you are interested in the forecast, I share it each year at our annual Financial Fair. Here's a recap of my ten assumptions for 2006 and *their investment implications* from this past May's Fair:

The economy slows to 3% growth as higher rates & energy prices weaken the consumer.
Interest rates should peak soon, steady economic growth is good news for market!

Corporate earnings show solid gains but fail to meet the double digit growth expected.
This is an environment likely to produce respectable, but unspectacular, returns.

The inverted yield curve we started the year with flattens at 5.25 – 5.50%.
It's time to use bonds and bond funds again in our fixed investment bucket

The U.S. equity market experiences its first major correction since 2002 and recovers.
It cycles every 4 years, don't get scared out of the 2nd half of the bull market.

Growth outperforms value, large caps beat small caps for the first time since 1999.
Market rotation is possible, skim small funds, move to neutral on growth.

The U.S. dollar resumes its downtrend this year.
Last year was a fluke. Good news for international stocks and bonds.

Led by Asia, non-U.S. markets outperform for 5th year in a row.
International funds may provide the bulk of return again, Japanese recovery real.

Commodities to average higher in 2006 than in 2005
A diversified commodity fund can provide an inflation hedge in a portfolio.

Republicans retain control in November election but relinquish much of their advantage.
Markets hate uncertainty, bulk of gains for year could come after outcome clear.

Strong cash flow spurs dividend increases, share buybacks, and a flurry of takeovers.
Great things can happen for investors when companies are swimming in cash.

I saved the best for last. U.S. corporations will generate **one and a half trillion** dollars of free cash flow this year alone. There are only 5 possible uses for this money (not including stealing it or a Tyco toga party): pay down debt, expand production capability, increase dividends, buyback stock, or acquire competitors. This is why we've seen a slew of mergers, stock dividend increases, and share buybacks - all market positives. The fall election may cause short-term volatility, but market fundamentals warrant optimism.

DON'T BE SURPRISED....

There are a host of requirements that fund companies, brokerage firms, and financial planners must fulfill in regards to client contact and recordkeeping. We often get calls from clients asking, "What is this?" wondering if action is needed on their part, or worse yet, why someone is asking verification of personal information. Carrie urged me to explain that securities regulations (NASD) and the Patriot Act (U.S. Treasury) require us to update suitability information and copy drivers' licenses every three years. The NASD mandates Cadaret Grant verify net worth, income, tax bracket, and employment as well. Occasionally they will mail you the information they have on file and ask that you update it or call to verify their records. Our failure to produce this information in an audit can result in fines, censure, and even the loss of our securities licenses. Your help is truly appreciated.....If you are of minimum distribution age, each company must inform you of your required withdrawal amount. This can cause great confusion since Tim and I have already calculated it and adjusted your withdrawals accordingly. Don't blindly sign and return any form to a company! *Please mail it to us* instead to avoid duplicating withdrawals (and taxation)...We've hired a staffing and efficiency consultant to help us.

ATTENTION XEROX EMPLOYEES!

If you are contemplating retirement or are on salary continuance, it's imperative that you analyze the difference between retiring using the 2006 PBGC rate (4.46%) or next year's projected 4.995% for settlements after December 1, 2006. The difference could mean as much as \$60,000 for some retirees. If your estimate currently shows an "excess benefit" from the RIGP plan, time is of the essence. Hewitt will be overwhelmed with separations – I would make every attempt to have all paperwork in and in good order for a November 1st plan valuation. This leaves a month to straighten out any mistakes that may occur.

WELLS UPDATE

In July Tim and I had the pleasure of participating in an advisory board for the Wells REIT. We spent several days with various departments from Wells and portfolio manager Donald Miller. Currently the portfolio consists of 86 properties located in 24 states. There are 301 tenants with an average A+ credit rating. The properties are 96.1% leased and the average remaining lease term is 6.5 years. The board is making progress with the exit strategy that must be made public by prospectus on or before February 2008.

WE APPRECIATE YOU

I'd like to thank the 300+ clients who joined us for a day of music, food, fun, and friendship in Letchworth State Park this past Friday. The weather finally cooperated – the day was perfect for rafting and we even got the balloon up after eight years of trying! This special day is our gift to thank you for the trust and confidence you've placed in us. We really missed those of you who couldn't make it. We're considering alternatives for our next bash – your comments, ideas, and feedback would be truly appreciated!

TRIP INSURANCE

So far this year several clients have been saved by trip insurance, one quite literally. There are several types – some give refunds if you can't make the trip, others pay for medical services and evacuation (one client was transported by a Lear medical jet from a cruise to California for brain surgery). Keep it in mind when planning your next trip!