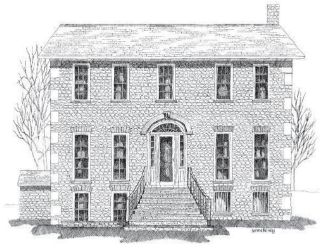

ON THE HORIZON...
NEWS, NOTES, AND COMMENTARY
FOR CLIENTS AND FRIENDS OF THE HORIZON GROUP

June 9, 2011

DÉJÀ VU

About this time last year, investors became nervous and started to flee the stock market. After a solid start to the year that had seen the major averages up over 7% by late April, the market retreated rather quickly. By the long July 4th weekend, we were down 14% from the April high.

What spooked the herd and sent everyone running for safety? Headlines of a weakening economy, the possibility of a double dip recession, the collapsing Euro, Greece in financial chaos, and looming downgrades of debt from Spain, Portugal, and possibly even Italy. All this as politicians everywhere failed to seriously deal with our own massive federal and state debt and deficits. I find it amazing that the headlines are ***exactly*** the same a year later. Newspapers could cut staff and run the same stories – even the details haven't changed! The possible exception is our New York Congressional representation. Instead of tickling male staffers and evading taxes, they've learned to flush their careers efficiently by phone. *Now that's progress*!

Being serious, I'd like to remind you of how dark and worrisome it felt this time last year. Most people had finally recovered to acceptable levels from the depths of 2009 and wanted to protect against a repeat at all costs. And what did the market do? From the 4th of July weekend it rallied 20% to give us solid returns for 2010. This occurred in spite of all the negative headlines, and with serious political and economic headwinds. Contrary to popular opinion, it didn't pay to "sell in May and go away".

I can't assure you of a repeat of 2010 where a second half rally generates another year of solid returns. Anyone who thinks they know the direction of the market – especially with all of the crosscurrents, variables, and uncertainty – is deluded. Instead I make the point that anything is possible. It would be very foolish to make an emotional move out of the market based on headlines or a pessimistic guest on CNBC. It would be just as foolish to be excited by a perceived buying opportunity and go "all in" to the market (or gold, or against the dollar, etc.). This heightened state of uncertainty will probably be a constant for the rest of our lives. America can no longer impose its will without consequence, and we'll likely battle global forces beyond our control as the rest of the world chips away at our economic influence and standard of living.

This makes it nerve-wracking to be an investor, or for that matter, an advisor charged with the financial well-being of over 300 families. Taking a middle-of-the-road, one leg over each side of the fence approach is the only strategy for uncertainty. It really is as simple as diversifying your portfolio and letting the world carry on around you. If done properly, you'll own both winners and losers at any given time in any possible environment. The key is to have a *strategy* that tips the odds of success in your favor, *over time*.

For our retirees that strategy is our bucket approach to retirement income. Having one pool of money set aside for eight to twelve years of retirement income insulates you from monthly volatility and the headline noise that spooks most investors. That leaves our well diversified growth bucket undisturbed to grow with a long-term time horizon. But the key ingredient to this strategy is the regularly scheduled reviews where we monitor your spending, adjust withdrawal rates, and skim winners from the growth bucket to replenish our years of guaranteed income. And if you're properly diversified, there are usually winners regardless of how bad the market is. In the depths of 2002 we were able to skim gains in small value and real estate. This is why most clients are slightly ahead of where they were in 2000 – one of the worst 10 year time periods in market history – even after withdrawing 4-5% of their account each year to live on.

Significant challenges lie ahead. One of the smartest portfolio analysts I know, Justin Bourgette, CFA, dropped by the office this week. He had a lot to say, and Terry and I listened intently as he mapped out his short and long-term views of the investment landscape (Justin co-authored a white paper in 2005 that foretold the entire mortgage mess). He believes we'll see a deflationary scare, followed by more easing and currency debasement by desperate politicians and a politically pushed Federal Reserve, followed by inflation. The key for us as a team is not to get scared out of traditional inflation hedges in the short-term if they drop in value, since we believe inflation or stagflation is likely to follow. In addition, we'll be introducing more tactical funds to our portfolios.

I have asked Justin to headline our 19th annual Financial Fair on Saturday, January 28th at the RIT Inn & Conference Center. If he accepts, you won't want to miss it. His message on our government debt bubble and its implications is so compelling I'm willing to make him the keynote speaker even though he is soft-spoken, has a thick Boston accent, and at just 31 looks as old as Justin Bieber. However, he has just co-authored another white paper entitled "All Along the Watchtower" which is a fairly sobering read.

These are trying times, to say the least. We're in our sixth straight week of market declines. And if you survey the political, social, and economic landscape, you probably don't feel any better. But I wrote to tell you there are reasons for hope. Corporations are awash in cash and making record profits. Biotech firms are closing in on customized cures for cancer and many other diseases. And we're finally having a discussion about our bloated debt and state payrolls. I truly believe we'll rise to meet the challenges and come out better for the experience.

In the meantime, control what you can control, and be aware of what you can't. We can't control the markets, but we have a solid strategy to deal with all the possibilities. We can't control tax rates, but we can harvest gains, maximize brackets, and proactively plan for inevitably higher rates. You can't control your health, but we can make sure you have insurance and strategy for long-term care (and *you* can eat right and exercise). You can't control the news, but you can turn off the TV and do something fun or connect with somebody. Most importantly, you can count on us to help you any way we can!

AN EXCITING NEW INSURANCE PROGRAM …….

that provides a death benefit and generous long term care coverage in return for a single premium payment is now available in New York. The amount of coverage is a function of how much you deposit and your age. Underwriting is a streamlined process – just answer 14 simple questions and have a telephone interview. No medical records, physicals, or tests are necessary. Best of all, you can receive 100% of your deposit back **without penalty**, **at any time** (with possible tax consequences).

This product works extremely well in three particular cases. For those of you who have older whole life policies with substantial cash value, it's a way to consolidate policies, maintain a death benefit, and get a substantial sum to use toward long term care should it be necessary. If you have a large amount of cash making a minimal return, this policy can provide a resting place that will generate a tax free death benefit and long term care coverage should you become infirmed. Finally, it is a great product for those feeling a little underinsured with their current LTC insurance benefit. Please call the office at 334-3600 if you're interested and we'll get you a customized proposal right away!

THIS SUMMER AT THE HORIZON GROUP …….

I will be scheduling just two and a half weeks of appointments throughout July and August, although the office will be fully staffed and open regular hours for the entire summer. Tim will be handling emergency appointments in my absence, and Carrie and her team are looking for new ways to exceed your service expectations. There are numerous reasons for the light schedule: a week-long installation of a new server and upgrade of our computer system, extensive electrical work, and the repaving of the parking lot. Based on your comments we will also be installing a light at the end of the driveway to mark the turn off West Henrietta Road at night.

From a business standpoint, I'm locking myself away to understand the implications of the Dodd-Frank financial regulations, as well as various SEC and FINRA proposals. Vast changes are proposed for our industry – the bill requires regulators to pass 385 new rules. To date, only 24 requirements have been completed and 28 deadlines have been missed. It would be laughable, but some aspects may dramatically change the way we advisors interact with clients, the services and products we're able to provide, and limit or dictate the ways we're compensated. I've been reading, attending conferences, and giving this a great deal of thought for quite some time. I feel it's prudent to develop a strategic plan for The Horizon Group and our clients given the two most likely outcomes. Of course I'm rooting to keep the status quo (if it ain't broke, don't fix it!), but that seems unlikely. I'll give you a full update at the Fair, or sooner should it become necessary.

On a personal note, my youngest son David is graduating from Geneseo Central School and is off to Oswego to hopefully become a sports broadcaster. I'll also be trying to catch up on some family time this summer - I've spent more than a few weekends in the office so far this year. I'm fairly certain a lot of fish are happy about that!

XEROX ……….

has offered an early retirement package once again. Unique timing aspects of the Xerox Retirement Income Guarantee Plan (RIGP) make it imperative for retirees to fully understand the process. We'll be running our Xerox retirement workshop this fall on 9/28, 10/5, 10/6, and 10/18 in the carriage house. Please tell all your friends at Xerox!

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