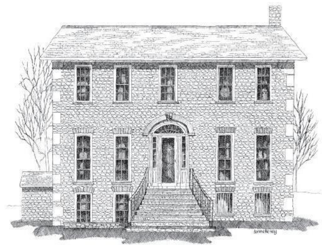

ON THE HORIZON...
NEWS, NOTES, AND COMMENTARY
FOR CLIENTS AND FRIENDS OF THE HORIZON GROUP

November 9, 2009

MAXIMUM CONFUSION

Words can't describe the events of the past 15 months. We've lived through the collapse of the housing market, a market crash, a polarizing presidential election, severe recession, bank failures, record unemployment, and a major drop in the dollar. Imagine if I predicted ten years ago that the USA would be waging war on two fronts, rank 33rd in the world in education, would nationalize the banking and automotive industries, and that you could buy the average house in Detroit for $7,100. Unthinkable events seem to be occurring weekly. Is it any wonder that so many people are feeling confused, anxious, or are even depressed?

At times like these, it's natural to want to know what the future holds. It's comforting to have a view of the future and appropriately tailor our investment strategy and spending patterns accordingly. Helping people to do this is the essence of my job as a retirement advisor. To do this effectively, I monitor the economy, financial markets, interest rates, client behaviors, and various forecasts as guideposts to determine what's appropriate for each individual situation. But recent events appear to have turned the world upside down, challenged many of our core beliefs, and brought a level of uncertainty I've never thought possible. It's as if we're driving down the road and hit a bank of fog so thick we can't see any of the signs or markers we count on to guide us when the going gets tough. Panic is a natural reaction when this occurs – but stopping dead in the middle of the road is dangerous. In reality we should slow down, make sure we're safe, and crawl forward until the fog lifts. We've been helping clients do just that since last fall.

For our retirees, the one guidepost that provides clarity through all this uncertainty is our "two bucket approach" to providing income from a lump sum of savings and investments. Because very few people have enough money to live solely off predictable interest earnings, most retirees have to invest a portion of their money in the market to grow over time. This strategy, outlined on the next page, allows our clients to mentally split their investments into an income bucket (#1) and a growth bucket (#2). Based upon their risk tolerance and financial situation, all the income needed for a period of 6 to 14 years is invested in relatively safe assets (money markets, bonds, CD's) in bucket one. Bucket two is filled with a diversified portfolio of domestic and international stock mutual funds, as well as a slice of real estate, commodities and other long-term growth investments. Clients draw monthly income from the first bucket, and the second one is monitored at reviews for opportunities to skim gains and replenish the income bucket.

Two Bucket Example
$520,000 IRA

Bucket #1	**Bucket #2**
$250,000	**$270,000**
Invested securely to provide $25K plus inflation for first (next) 10 years of retirement.	Asset allocated to provide long term growth for retirement years 11 and beyond.

Skim Annually if Possible

A key element of this process is using the relatively stable investments in bucket one for monthly income. Selling shares of volatile funds when the market is down is a surefire way to hasten the vicious cycle of eating principal after a market drop. Interest earnings in bucket #1 are used to increase income and offset inflation. Another aspect of this approach is providing an appropriate time horizon to invest in riskier stock investments – as well as a mental buffer from declines. Drops in value are easier to take when you intellectually know "I don't need *that* money for __ more years". Monitoring the buckets allows us to maintain appropriate time horizons and withdrawal rates for each client.

Ever since the dramatic bounce off the March 9th market low, I've been double checking the number of years of income left in bucket one. In many cases I've skimmed and replenished a year or two of income. My biggest frustration (and probably yours as well) is the lack of good alternatives for supposedly safe money. Money markets that pay no interest and CDs at fractions of a percent? Many clients are reaching for yield out of frustration, and historically it's a recipe for disaster. I'll share an important example.

George - a great guy and good client – came in for a review recently. I was shocked to learn that a large CD held outside of me (which I suggested he renew a review ago) was switched to municipal bond fund because the bank advised him they paid better "interest". I was upset for several reasons. I reminded George that bond funds don't pay interest – dividends are paid but the share price can fluctuate greatly. I reminded him that I could have sold him that fund but I deemed it not in his best interest. The job of that money was safety. But because he couldn't bear the thought of renewing a CD at 0.7%, he exposed that money to countless risks. Unwittingly, he made a wager on the direction of interest rates and the fiscal responsibility of David Paterson and our state legislators.

I understand impatience. When confronted with uncertainty, we're wired to want to do "something". **Don't confuse motion with action**. We are doing something very important every day, and every review, by adhering to our bucket strategy and the wisdom of its forced diversification. Be patient. We are at a crossroads for the economy, the markets, and our country. This is the point of maximum confusion. Anything could happen over the next year and frankly, nothing would surprise me. For the sake of your portfolio and your sanity, take the long view. Look out over the valley. Sometime in the not-too-distant future, the fog will lift and we'll see the road clearly again. My gut tells me we'll be on a path to higher interest rates, higher stock prices, and the challenges of inflation. I stand ready and we'll meet those challenges together. In the meantime, make the most out of each and every day. Focus on things you can control. Spend more time on people and activities that bring joy and eliminate those that don't. Be good to yourself!

LESSONS FROM THE RECENT CRASH So far this year, the market is up 18% as measured by the S&P 500. While this appears to be a steady gain after the disaster of last fall, nothing could be further from the truth. Massive fluctuations have caused investors more than a few sleepless nights. After plunging in the fourth quarter last year, the market dropped an additional 25% by March 9th. Commentators were speculating on DOW 3,000, a total collapse of the global financial system, and whether America would survive. Our phones were ringing off the hook with worried clients, many pleading with us to pull what was left in the market to the safety of cash. I'm extremely proud that Tim and I managed to keep all but two people in equities (bucket #2). In the months that have followed, the markets have rocketed up an improbable 60% in the face of terrible economic news. This downturn followed the same pattern as those that preceded it, only with greater magnitude. While it's fresh in our minds (and still stings a bit) I'd like to reinforce lessons from the second worst market crash ever ….

DIVERSIFICATION IS PARAMOUNT At the market high on Halloween 2007, the average investor was pouring money into stock mutual funds – only to get clobbered in the downturn. During the crash, people paid a premium for Treasury Bills, accepting negative interest in return for safety – only to miss out on the unexpected 60% rally in stocks. Rather than betting on stocks or bonds, own both. Instead of speculating on a particular type of stock or industry, spread your investments over various sizes and styles. The same goes for bonds! During the crash corporate and high yield bonds suffered, while Treasuries and International bonds buoyed portfolios.

TEMPERING LOSSES IS CRITICAL Diversification by nature dampens the fluctuation of a portfolio – helping to shave off the peaks and fill in the valleys of market gyrations. While this limits return, it also tends to lessen losses. As aggressive investors found out in 2003 and again this year, smaller losses and gains tend to translate to better returns due to the cruel math of large losses. A moderate investor who lost 25% last year and clawed back 20% so far this year is still down 10%. An aggressive investor who was down 50% last year and up 50% this year is not even – they're down 25%! A portfolio cut in half needs to double to get back to even.

YOU CAN'T TIME THE MARKET Jumping in or out of stocks is a fool's game. It's akin to hitting a trifecta, since you have to correctly call when to get in, get out, and get back in again. It makes far more sense to commit a portion of your account to equities – preferably based on the bucket approach – and skim gains when the market dictates.

UNDERSTANDING STRATEGY TEMPERS YOUR EMOTIONS It's hard to accept that equities go up over time when you're in the throws of a relentless bear market. But clients who utilized and understood the "two bucket" approach were much calmer knowing their next ___ monthly checks were set aside and could be counted on.

RECOVERIES ARE RAPID AND UNPREDICTABLE By mid-March there wasn't a single reason to own stocks. Many clients wanted to pull investments to the side until things "looked better". Instead of improving, the economy deteriorated, earnings collapsed, and the government fumbled around. Those who reacted and pulled out watched helplessly as the market inexplicably shot up 30% in just weeks amid bad news.

OPTIMISM IS THE ONLY STRATEGY THAT MAKES SENSE The near future is uncertain. Risks remain, and incompetent politicians inserting themselves deeper into our lives and private enterprise do nothing to improve our mindset. But we'll make it. Leadership will emerge, we'll face our challenges, and America will prosper once again. I truly believe that. Look across the valley like Warren Buffet did this week when he bought Burlington Northern Railroad for $34 billion – a big, bullish bet on the future!

ODDS AND ENDS ………

We say goodbye and congratulations to Carrie on Friday as she leaves to have her first child. She'll be coming back sometime in January …… Special thanks to Sue Simpatico for agreeing to come back and help us out in Carrie's absence …. I will be out of state in early December at the Sudden Money Institute for comprehensive training on helping clients deal with stress and change ….NOW is the time to be pulling your taxes together for April and planning for next year …. No minimum distributions are required from any type of IRA or retirement plan this year; however, they will not be waived for 2010!.... Snow birds please make sure we have the dates you'll be gone and current contact information before you leave. Keep in mind you may use us as an emergency contact for neighbors or alarm companies while you're gone…. The Horizon Group team of Terry, Tim, Mark, and Carrie's husband Don won in the Chances & Changes charity golf tournament this fall…. Tim is deep into research for the purchase of an advanced system for fund analysis….Our efforts to finish the Underground Railroad and Civil War museum have taken a back seat to client needs and market events. If you have any unique donations – or know someone who might like to spearhead the effort – please give us a call. We've struck out trying to locate an intern from History departments at local colleges….Client Appreciation 2010 is less than a year away at Letchworth State Park. Because we're all getting older (which is better than the alternative), the big buffet will be a late lunch rather than a dinner. We're planning on the dessert competition again and welcome your input ….The Financial Fair is less than 60 days away!! We moved it up to accommodate one of our featured speakers, Mayor Bob Duffy. READ ON ……………..

MARK YOUR CALENDAR!

THE HORIZON GROUP
PROUDLY PRESENTS

THE 17TH ANNUAL FINANCIAL FAIR
"GETTING YOUR HOUSE IN ORDER"

SATURDAY, JANUARY 9TH
8:45 AM

RIT INN & CONFERENCE CENTER
WEST HENRIETTA ROAD

SPECIAL GUEST, MAYOR ROBERT DUFFY

This series of informative presentations which will include the recap of 2009, new Roth IRA rules, dealing with stress and uncertainty, the forms and records everyone should keep, and much more! The mayor will share his vision for Rochester and provide a frank assessment of New York State. Invitations will be mailed in early December – save the date!