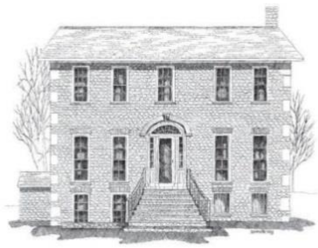

ON THE HORIZON...
NEWS, NOTES, AND COMMENTARY
FOR CLIENTS AND FRIENDS OF THE HORIZON GROUP

BY MARK CONGDON, SENIOR PARTNER

HOLDING STEADY CAN PAY BIG DIVIDENDS…….

MAY 10TH, 2018

As of the close this past Monday, May 7th, markets are down slightly for the year. The Dow is down 1.5%, the S&P 500 is virtually flat, and the overseas equity index is off about a percent. The biggest loser has been the Barclays aggregate bond index which has shed 2.3% so far this year. By comparison, our well diversified fixed income model is down just .2%, and our equity model is off .17%. Although we are outperforming our benchmarks, we understand few people are excited with their returns for the year. Many people ask, "What moves will you be making to get us more return?" I understand the nervousness.

Humans are impatient by nature. We are built for action – continually seeking opportunity and relatively quick to flee perceived danger. Our hormonal "fight or flight" adrenaline response saved more than a few of our hunter-gatherer ancestors. Yet this hardwired self-preservation response often works against us when it comes to our investments – especially when we're retired and more interested in protecting what we have. Long-term strategy can be thrown off course by the desire to react to current events, or fears that are fed constantly by 24 hour cable news feeds. Almost always, these big events turn out to be non-events - mere bumps in the road.

That is why I was fascinated by CNBC's tremendous interview Monday with Warren Buffett and Charlie Munger. Unlike traders, these partners are seasoned investors who have rung up impressive long-term returns for Berkshire shareholders. They explained how they really don't care about next quarter, or even consider what returns will be over the next year when making an investment. They don't always agree and certainly have different levels of patience – but their differences complement each other and generate results. Mr. Buffett expressed his desire to act quickly on opportunities, but Mr. Munger needs to fully research the downside and make sure the probable return is worth the risk being taken. Warren credited Charlie's patience to his 94 years of age, saying "he needs to be right, measuring 3 times before he cuts into something". Buffett said the hardest thing in the world for him to do is to sit on his hands and "do nothing" with the portfolio, even at 87 years old. He conceded that,"quite often, it turns out it was the right thing to do".

I can relate to Mr. Buffett's frustration, although I don't believe patience is a function of age. I can't help thinking about our own Investment Policy Committee (IPC) here at The Horizon Group, where I have well over 20 years of age on every other member. I'm constantly bringing ideas, theories, and opportunities to our weekly IPC meeting. This is where our Chief Investment Officer Ken Blazick often turns into a more conservative version of Mr. Munger. With a keen eye on the risk/reward tradeoff, I've seen him measure a dozen times before making a cut. To illustrate what I'm talking about, I'll share what happened when I first suggested we add Treasury Inflation Protected Securities (TIPS) to our model portfolios last summer.

By May of last year, the stock market had posted substantial gains since the November election, and talk of a tax cut was gaining steam in Washington. I was sensing inflationary pressures, and was convinced we should add TIPS to our fixed income models. We voted to research the idea, and Ken began combing through historical data and interviewing managers with TIPS expertise. After nearly 8 weeks of research – and mathematical modelling by my son Michael – Ken concluded it was the right idea but the wrong time. By their calculations, inflation would have to run at an annual rate of 2.18% to break even on the average TIPS fund. Hindsight has proven their analysis to be spot on – the core inflation rate has run at 1.8% since then, and the average TIPS fund has lost money over that same period. We continue to watch a host of inflationary data points which could signal the proper time to enter the asset class. Behind the scenes, we have similarly investigated a host of other theories and ideas in an attempt to either improve performance or reduce the risk of our portfolios.

One such theory we acted on was the normalization of interest rates. After months of study, we voted in December of 2016 to make several moves in our models in anticipation of higher interest rates. Because small-cap stocks have been historically strong in periods of rising rates, we voted to initiate a position in the Fidelity small cap index fund. For the same reason, we also moved out of the real estate index and into the more direct ownership offered by the Griffin Real Estate fund. Both moves have been very good long term calls. Through Monday, Griffin has returned a positive 1.25%, while the index has dropped a whopping 5.6%. Such performance is well worth the annoying "action required" letter you receive for a tender offer every quarter! (and every quarter we tell you to ignore it!) Except for fund switches, we've made only two allocation changes to our models since 2016 – the call on higher interest rates and the move to a slightly more international equity exposure.

Clients are sometimes surprised at how few moves we typically make over the course of a year. Please don't confuse motion with meaningful action. While it looks like we are making few moves in your portfolio, I can assure you a lot of midnight oil is being burned evaluating possible improvements. Ken and the committee are deliberate and cautious when considering changes. And once our research confirms a theory, a host of factors have to be considered before trades are actually executed. The fact is that we will only make moves in your portfolio when the research and data warrant a change. And we are constantly monitoring data and conducting research. Every week your portfolio remains the same, it was an active decision to keep it that way. In short, that is what we are doing to get you more return. Until a clear cut improvement to our models emerges, the decision to hold steady is an easy one. It has worked well for billionaires Warren and Charlie, and the same prudent strategy is working well for you!

WELCOME ASSOCIATE ADVISORS!

We have added a new position here at The Horizon Group – Associate Advisor! Since last month Financial Advisors (Mark, Tim, Terry, and Don) are being accompanied by an Associate Advisor in every appointment. The role of this new position is to assist the lead advisor by taking and inputting all notes, following up on all forms and changes generated from review appointments, and researching and responding to any client requests that arise from the meeting. Much like a resident physician, they are very competent and capable but work closely under the supervision of a seasoned advisor and serve at their pleasure. Currently we have two such Associate Advisors – Jon Blazick and Amanda Heagerty. Jon is in his 8th month with us and is serving in the position until he gains the experience necessary to become a Financial Advisor with us. Given his MBA and wealth of corporate experience, that could happen as early as later this year. Amanda joined our group in January and has chosen the Associate Advisor position as a career path. It fits well with her previous role as a bank relationship manager, and allows her the freedom to get personally involved helping clients. We are thrilled to have added both of these great people to our team. While I'm on the subject of advisors, congratulations to Don Kwarta, who recently earned his Behavioral Financial Advisor (BFA) designation.

BIG CHANGES CONTINUE

While it is expected that the U.S. Court of Appeals for the 5th Circuit will issue a mandate in the coming weeks that will effectively vacate the entire Fiduciary Rule, all of our hard work was not in vain. That's because on April 18th, the SEC passed its own "Best Interest Rule" which will take its place and become the standard for fiduciary conduct within the financial industry. The SEC proposal is now in a 90 day comment period. Although we may have to make a few slight tweaks to remain fully compliant, I'm confident we'll be in great shape when the final rules are set in stone. That's because we've been on top of all this change from day one. All of our money management policies and procedures exceeded the requirements of the original DOL rule, and we've been held out as an example for fiduciary compliance. As I've said several times before, this is simply a better way to manage your money, not to mention run a business.

We are not resting on our laurels, though. We are continually striving for constant improvement, looking for operational efficiencies and ways to improve our client experience. To that end we've just completed an analysis of how technology could improve the client review process. We have committed to a suite of planning software that will model retirement cashflow and let us run unlimited "what if" situations. We have a dynamic new client management database that allows us secure remote access to all client information - great should an after hour emergency arise with you. Most importantly, Ken and I are traveling the country once again looking at best practices and procedures as well as ways to reduce the cost of investing for our clients. In the coming weeks he'll be at a number of high level industry conferences, as well as take part in a Ladenburg technology summit in Silicon Valley. I'm heading to Washington to get a read on pending regulation, and am proud to represent your interests to representatives on Capitol Hill and as an advisory board member of the Financial Services Institute.

TWO FACTOR AUTHENTICATION – IT CAN'T BE AVOIDED!

In case you haven't yet experienced it, two factor authentication is often being required as a security mechanism for website and purchase protection on the internet. Typically you are asked for an e-mail address and/or mobile phone number when logging into a website. A pin number is then e-mailed or texted to you to which you must enter to proceed with your business. Although it enhances security, it frustrates people like me who wrestle with technology. The fact is that technology is here to stay – it will be required soon for all government benefit websites as well. We have been notified that, starting this weekend, users of Wealthscape will have to enter a phone number and e-mail address to access their accounts with us. This is information collection only at this point, but will be used when two factor authentication (2FA) is deployed permanently later this year. It is our hope that once your device has been authenticated using 2FA, it will be remembered as an authenticated device and you won't have to repeat the process.

While we're on the subject of annoyances, I'd like to remind you that it was three years ago this June we moved from Cadaret Grant to SSN. There is a regulatory requirement that suitability verification letters must sent every three years for clients to review and update if necessary – expect this mailing soon. **If your information is correct**, **no action is necessary on your part**. In addition, it's the time of year that custodians will be sending you their privacy policies. Just what everyone needs and wants – more shredding! Speaking of which, I'd like to thank the hundred or so of you who visited with us last Friday. We disposed of several tons of shredding and had a great time in the process. Three clients picked the derby exacta and received prizes – congratulations to Gerry, Mary Jane, and Cindy!

PERSONAL NOTES!

Congratulations to Tabitha on the birth of daughter Jemma, born February 1st of this year. Congratulations are also in order for Brian, who recently announced his engagement to his sweetheart, Nicole. Lastly I'd like to let everyone know daughter Elizabeth had a tremendous first year at LeMoyne, collecting a host of honors. She took her finals early to facilitate a rather complicated surgery to repair damage sustained during her senior soccer season at Geneseo. This week Dr. Goldblatt and an extremely talented and caring team at Strong performed a 2 ½ hour surgery that included a bone graft and screws. It went extremely well, although it will be a grueling recovery this summer. Sue and I are extremely grateful for the fabulous care and compassion she received at Strong. We are so very fortunate to have such great medical care available to us all here in Rochester!

SAVE THE DATES

Xerox Retirement Workshop	Cobblestone Classroom	Wednesday, May 30th, 6:45
Retirement Alternatives Workshop	Cobblestone Classroom	Tuesday, June 12th, 6:45
Client Appreciation & 25th Anniversary Celebration	Letchworth State Park	Friday, September 14th
Client Update	Roberts Wesleyan	Saturday, October 27th

WE WELCOME YOUR INPUT ….

My first client appreciation party was a snowy night in November 1994. Bob Lonsberry told a fable and roasted me in front of 80 people at the Glen Iris. In the years since, we've had some fabulous parties. This year will mark the 25th year of The Horizon Group, and the party will be a worthy celebration. I've arranged some fantastic food & music, but would like your thoughts on your favorite activities over the years. You certainly won't want to miss this one! Save 9/14/18.