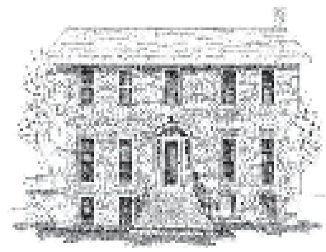

ON THE HORIZON...
NEWS, NOTES, AND COMMENTARY
FOR CLIENTS AND FRIENDS OF THE HORIZON GROUP

November 21, 2008

Many clients have called this week seeking perspective on the latest market drop. I'm certain yesterday's plunge to 7,552 on the Dow has only heightened everyone's level of concern. The broader S&P 500 has actually breached the lows reached in 2002 and is now trading where it was eleven years ago, in the spring of 1997.

My goal today is to update you on the markets, provide some historical perspective, provide practical advice for dealing with this mess, quell crazy rumors of government confiscation of IRA's, and share some scarce positive thoughts. I'll start with the damage to date:

Year-to-Date Returns through Thursday, November 20th: (Source: Wall Street Journal)

MARKET INDEXES		LIPPER FUND INDEXES	
Dow Industrials	- 43.1 %	Multi-Cap Growth	- 52.8 %
Nasdaq Composite	- 50.4 %	Multi-Cap Value	- 49.9 %
S&P 500	- 48.8 %	Equity Income Funds	- 46.6 %
MSCI EAFE	- 53.3 %	International Funds	- 54.4 %
DJ Euro Stoxx	- 50.9 %	Intrmdte Corp Bonds	- 9.4 %
Russell 2000	- 49.7 %	Small-Cap Growth	- 54.3 %

The losses have been substantial and widespread - affecting municipal and corporate bonds as well. Even before yesterdays drop, 101 stocks in the S&P 500 were trading below $10 per share. According to Reuters, 186 stocks in the index have market caps under $4 billion, the minimum value for S&P 500 membership. And the bad news just keeps coming, with no end in sight. It's perfectly normal to want out, right now, at any cost.

I completely understand the stress and anxiety this meltdown is causing most people. I'm feeling it with you, and experiencing it anew twenty times a week during client reviews. But we must deal with it. The first step I recommend is to disengage for awhile and take stock of your situation. I'm not only talking about your income, bills, and assets, but analyzing your anxiety level and how you are mentally framing important financial and investment decisions. Can you stay committed to investing for the long haul, or are you at the breaking point consumed by fear? It's imperative to establish where you are before going any further.

The next step is to take a rational look at these irrational markets. I can't possibly tell you if or when they will recover. But I can tell you that every other time in history they have dropped from all time highs like the last one reached Halloween 2007, they have recovered and soared to new highs. I can also tell you that historically, the initial phase of the recovery has occurred rapidly and unexpectedly, and for no apparent reason. You have to ask if pulling out now, as we now sit on the second largest market drop ever, makes any sense whatsoever. My fear for people that do is that they'll be left behind with the market timers should a recovery surprise us.

Could it be different this time? Could this be the time the market never recovers? Of course it is a possibility. But think of what you are accepting if you invest with this as your primary theme. You are betting against capitalism, the United States as a country, and the entrepreneurial spirit of the American people. I've long said it will be the private sector that will lead us out of this mess, and I believe it more than ever today. One more thought. We are watching the coordinated actions of governments and central banks around the world trying to restore stock and bond markets. They are firm in their resolve to fix this crisis. From these low levels, does it make sense to bet against them?

Yes the market can go lower. Theoretically it could go to 0. But please consider what that would mean – that the stock of the 500 largest U.S. corporations goes worthless. What would the world look like? Most importantly, would even money in a mattress hold any value? Probably not.

The rational way to proceed is to make sure you understand your game plan going forward. For most of our clients, it has been to mentally separate your investments into two "buckets". The first bucket held all the money you could need for the next 6 – 12 years in relatively safe, fixed investments. The balance was invested in a diversified portfolio for long term growth (bucket #2). How much was invested in each was dictated by your withdrawal needs, coverage ratio, and risk tolerance. During client reviews – when times are good – we attempt to replenish bucket #1 to try to keep a buffer of years between your income needs and the stock market. Throughout my 22 year career, this approach has served clients well. That's not to say we haven't seen times of huge losses or suffered a sleepless night or two.

At this extraordinary time, it's important to take stock of your fixed bucket – counting the years of income you have before we must sell equities in bucket #2. This is the key for both of us sleeping at night. I'd prefer to see at least five years of income relatively safe – but ultimately the decision is yours. I'd urge you to fight the tendency to be overly safe. Keep in mind that selling plunging shares may feel better right now, but the losses are locked in and kept from a possible recovery.

I personally believe the country will emerge from this mess – a little worse for the wear- but still a vibrant nation full of opportunity. How do we come out of it? If I had the answers I'd be taking Mr. Paulson's place. With the benefit of an economics degree, my educated guess is that the Federal Reserve (along with other Central Banks) will turn on the printing presses and ultimately inflate us out of this debacle. Inflation is a debtor's best friend. But first, we must still work through some final deflationary pressures as banks, consumers, and hedge funds unwind the leverage in the system. This is what has caused the drop in stocks, real estate, and oil. But in the meantime, the various bailouts and Central Bank interventions aimed at reflating financial assets could take hold. This will have a number of investment implications. Investors who locked into fixed investments not only miss a potential recovery, but may also see the value of supposedly safe investments eroded by inflation. We will address this at January's Fair (Saturday 24th) and individually during reviews.

There are silver linings in any crisis. I think Americans will focus more on what's important. I think we'll have fairer and better regulation of financial markets. I think more light will be shed upon the activities in executive offices and boardrooms nationwide. I've recently seen a number of other positive developments we can take as small victories. I've been highly critical of our politicians; however, I was awed by some of the intelligence and business acumen displayed by Senators during the Auto hearings. Although I didn't support Barak Obama, I have been encouraged by the tone of his early appointments as well. Warren Buffet indicated last month he expected to have his entire net worth deployed in the stock market. (*For added perspective, I have attached the entire New York Times editorial he published October 17th, 2008*) Mr. Buffet isn't the only investor sitting on cash that could fuel a rally. Today the Journal reported Money Market Funds' total assets at $3.596 trillion as of Tuesday- a new all time record.

Fear begets more fear. During these trying times, take media reports and internet stories with a grain of salt. Over a dozen clients have called with concerns that the Obama administration is going to confiscate IRA's and 401k's. The source of this rumor was testimony given by Teresa Ghilarducci at a House committee hearing, where she suggested the government should confiscate retirement plans and convert them to Guaranteed Retirement Accounts (GRA's) paying 3%. She was one of many people testifying. Her views are extreme and she is very actively pushing for wealth redistribution. Her plan for "shared prosperity" claims retirement accounts promote inequality and has the same chance of acceptance as Rush Limbaugh landing in Obama's cabinet.

I know how frustrating it is to watch your savings dwindle. I understand the need to do "something". But don't confuse motion with action. These are stressful times – and certainly we'll face more setbacks and challenges in the days ahead. It is imperative that you take care of yourself and do all you can for your physical and mental health right now. Actively manage anxiety. I find that clutter – the pile of bills and other "issues" that need to be sorted through raises my base level of angst. Having a 24 hour news channel on heightens my anxiety as well. Turn it off. Exercise, walking, stretching, and meditation can make you healthier and calmer. Lastly, do all you can to improve the quality of relationships that are important in your life. I recently read a tremendous article on the positive health effects of forgiveness – there's no better time to reach out than the holidays! (I love that Oprah magazine) Hang in there, and have a wonderful Thanksgiving!

Mark

The New York Times
nytimes.com

October 17, 2008

OP-ED CONTRIBUTOR

Buy American. I Am.

By WARREN E. BUFFETT

Omaha

THE financial world is a mess, both in the United States and abroad. Its problems, moreover, have been leaking into the general economy, and the leaks are now turning into a gusher. In the near term, unemployment will rise, business activity will falter and headlines will continue to be scary.

So ... I've been buying American stocks. This is my personal account I'm talking about, in which I previously owned nothing but United States government bonds. (This description leaves aside my Berkshire Hathaway holdings, which are all committed to philanthropy.) If prices keep looking attractive, my non-Berkshire net worth will soon be 100 percent in United States equities.

Why?

A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful. And most certainly, fear is now widespread, gripping even seasoned investors. To be sure, investors are right to be wary of highly leveraged entities or businesses in weak competitive positions. But fears regarding the long-term prosperity of the nation's many sound companies make no sense. These businesses will indeed suffer earnings hiccups, as they always have. But most major companies will be setting new profit records 5, 10 and 20 years from now.

Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month — or a year — from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over.

A little history here: During the Depression, the Dow hit its low, 41, on July 8, 1932. Economic conditions, though, kept deteriorating until Franklin D. Roosevelt took office in March 1933. By that time, the market had already advanced 30 percent. Or think back to the early days of World War II, when things were going badly for the United States in Europe and the Pacific. The market hit bottom in April 1942, well before Allied fortunes turned. Again, in the early 1980s, the time to buy stocks was when inflation raged and the economy was in the tank. In short, bad news is an investor's best friend. It lets you buy a slice of America's future at a marked-down price.

Over the long term, the stock market news will be good. In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497.

You might think it would have been impossible for an investor to lose money during a century marked by such an extraordinary gain. But some investors did. The hapless ones bought stocks only when they felt comfort in doing so and then proceeded to sell when the headlines made them queasy.

Today people who hold cash equivalents feel comfortable. They shouldn't. They have opted for a terrible long-term asset, one that pays virtually nothing and is certain to depreciate in value. Indeed, the policies that government will follow in its efforts to alleviate the current crisis will probably prove inflationary and therefore accelerate declines in the real value of cash accounts.

Equities will almost certainly outperform cash over the next decade, probably by a substantial degree. Those investors who cling now to cash are betting they can efficiently time their move away from it later. In waiting for the comfort of good news, they are ignoring Wayne Gretzky's advice: "I skate to where the puck is going to be, not to where it has been."

I don't like to opine on the stock market, and again I emphasize that I have no idea what the market will do in the short term. Nevertheless, I'll follow the lead of a restaurant that opened in an empty bank building and then advertised: "Put your mouth where your money was." Today my money and my mouth both say equities.

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