

Horizon Notes

Our director of investment research and portfolio design, Owen Murray and wife, Suzanne, just welcomed a new, first addition to their family. Adell Frances Murray was born on October 12th and weighed in at just over 8 pounds. Mother and daughter are doing well and father, Owen, is trying to figure out what hit him! Please join us in our best wishes for Suzanne, Owen and baby Adell.

We are also pleased that Henry Bragg has agreed to join our firm next summer. He will serve as a relationship manager, focusing on client service, development, and administration. Henry worked as an intern with Horizon this past summer and we are very pleased that he's agreed to come on board full time after completing his MBA degree at the Jones School at Rice University. Henry is a CPA and will hold masters degrees in both accounting and business. Before attending graduate school, Henry worked for five years with Ernst and Young, one of the large national accounting and consulting firms.

Avoiding "Financial Fragmentation"

The term "financial fragmentation" does a good job of describing an issue which affects far too many people. Financial fragmentation happens when financial strategies are not properly coordinated and integrated with a person's goals and objectives, or when the strategies are not coordinated with one another.

Many people, even those with relatively complex circumstances, handle their financial matters largely by themselves. Now, that doesn't mean that they don't get advice. Many have received advice regarding their financial circumstances from various advisors, such as: attorneys, accountants, insurance

agents, bankers, brokers and (of course) their friends and family! For example, the attorney handles wills and estate planning, a CPA does the taxes, the human resources group at work helps with employee benefit plans, the insurance agent arranges insurance, and the broker sells stocks or investment plans. None of this advice is necessarily bad, it's just limited. And, this limited advice can result in what we call financial fragmentation.

The reasons for this fragmentation are twofold:

The first reason is the nature of folks' relationships with their advisors. Much of the advice received is either periodic or transitory. Periodic advice might come from your tax preparer who prepares your tax return each year. Transitory advice might come from an insurance agent who sold you a policy when your children were born, or it could take the form of a will which was drafted at a time when your life and financial circumstances were much different than they are today.

The second contributor to fragmentation is that many of these advisors only need to consider part of a person's circumstances in order to do their jobs. For example, your tax preparer only needs the tax records for a particular year in order to properly prepare your tax return.

People get pieces of advice at various times from different people. Steps which were taken many years ago may not be desirable in your current circumstances. But, unless you realize this and take steps to change your strategies, the results may be

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"Give without remembering and receive without forgetting" - Anonymous

what you planned for long ago and not what you would intend today. In fact, many of our financial decisions and arrangements have very broad and long-lasting implications. The solution to financial fragmentation is comprehensive advice provided on a regular basis.

At Horizon Advisors, we help our clients avoid the problems of financial fragmentation, providing continuity and helping coordinate their financial arrangements to make sure they are reviewed and revised in a timely manner. We take the multiple disciplines of asset management, estate planning, and tax management and weave them together into a single efficient process so that our clients can have a high degree of comfort that they will be able to achieve their goals.

Manager Spotlight— Baron Growth Fund

In almost every diversified portfolio there is a place for investments in the equities of small companies. The small company portion of a portfolio can provide some of the biggest gains, but can also be the source of the greatest risk. We have chosen the Baron Growth Fund as one of our small company managers because there are many unique aspects of this fund we find to be very appealing. The fund manager has a unique background, his approach is uncommon, and the fund's track record is outstanding.

The portfolio manager of the Baron Growth Fund, Ron Baron, studied chemistry at Bucknell University and then law at George Washington University. He began his professional career as a teaching fellow of chemistry at Georgetown and went on to work for the U.S. Patent Office. His patent office experience significantly influenced his approach as an investor. Baron looks to invest in companies with niche products and services that will experience high levels of growth and cannot be easily replicated or substituted by competitors.

Many small company funds conduct a minimal amount of research on each individual security they buy, but spread the portfolio's risk out by purchasing 200-300 companies. Ron Baron's approach is different; he limits the fund to roughly 100 companies and conducts very in-depth research before he buys them. He evaluates these companies with a strict fundamental approach that includes visiting with the company's management and competitors. He then patiently waits for opportunities to purchase these companies at attractive prices. As a result of this thorough research process and strict price discipline, he is comfortable buying large positions in companies that he really likes.

Baron's core philosophy is to become a long-term owner of the companies he buys. He will wait out the short-term fluctuation in the market and look to reap the rewards once the company has met his expectations. This ownership philosophy limits the turnover in the portfolio which makes the fund very tax efficient.

Baron has managed the Baron Growth Fund with great success since its inception in 1995. Over that time period, it has been one of the best performing mutual funds in the small cap growth category. As with all of our recommended investment managers, we will continue to monitor the performance and process of this fund to assure that it delivers the quality and performance we expect for our clients.

Disclaimer: This manager (Baron) is responsible for managing one or more investments recommended in the past by Horizon Advisors. A complete list of all investment recommendations Horizon Advisors has made in the past 12 months is available upon request.

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"The art of being wise is the art of knowing what to overlook." William James

Market Review

The following table shows market index returns for the 3rd quarter, trailing 12-months, and past 3 years.

Index	3rd Qtr	12-Mo.	3-Year
S&P 500 (Large Stocks)	3.15%	10.25%	50.72%
Russell 2000 (Small Stocks)	4.40%	16.56%	84.34%
EAFE (International Stocks)	9.79%	22.82%	75.90%
Lehman Bond Aggregate	-0.56%	1.63%	11.41%

The third quarter began with a bang as the equity markets staged an impressive rally in July as strong consumption numbers and solid job growth data fueled investor optimism. August saw investors give back some of July's gains as the Federal Reserve continued its campaign to raise interest rates and evidence began to surface that higher fuels costs were dampening consumer spending. Strong September performance helped the markets end the quarter in positive territory despite a second interest rate increase and the devastation and disruptions caused by hurricanes Katrina and Rita.

While the country was still trying to cope with uncomfortably high energy prices, the two Gulf coast hurricanes created supply disruptions which resulted in even higher energy costs. Gas station lines reminiscent of the 70's appeared in some areas and gasoline prices rose to over \$3.00 a gallon. Gasoline now remains in the high two dollar range for most of the nation. Production delays in the natural gas rich Gulf promise to drive up heating and electricity costs in the coming quarter. The energy cost increases to consumers and businesses could potentially lead to inflationary pressure and reductions in consumer spending.

The Federal Reserve once again raised short-term interest rates by 0.50 to 3.75% from 3.25%. There has been no indication from Alan Greenspan or any of the Federal Reserve members that the tightening will stop any time soon. Analysts now believe that

the tightening cycle will extend longer than initially expected. The Fed's concerns about inflation have been aggravated by the recent spike in energy prices. There will likely be two additional 0.25% rate increases before the end of the year and further increases in 2006. The replacement of Alan Greenspan in 2006 as the Fed chief may serve as a catalyst to slow down the interest rate hikes.

With the Dollar showing weakness in previous years, many U.S. investors turned their attention overseas for better investment opportunities. We have seen very positive performance in the international investments of our clients over the last few years. The Dollar has shown resilience so far this year and has come off its lows. Further strength in the U.S. Dollar may make international equities less attractive and serve to dampen investor enthusiasm for foreign investments.

Our expectations are that U.S. equities will be flat for the calendar 2005 year, which would mean that the 4th quarter will be flat. Disasters in the Gulf, high energy prices, and increasing borrowing costs will cut into both the top and bottom lines for many domestic companies. Many of these concerns have been priced into the market and equity valuations remain low. However, there does not appear to be a clear catalyst to cause a meaningful rally in the U.S. markets before year end. The market will surely bounce back at some point; the difficult part is predicting exactly when that might happen. We have no reservations about investing in domestic equities, but it is difficult to project when stock prices will better reflect the gains in corporate earnings that have occurred in 2004 and 2005.

Thank you very much for your continued confidence in our service and advice. If you have any questions, comments, or would like to schedule some time to come by and review your goals and objectives, or to just visit, please call.

Making Cents

Investment and Portfolio Matters:

As we enter the last three months of 2005, our thoughts turn to year end tax planning. While we do not recommend that you allow the "tax tail to wag the investment dog," we do suggest a regular review of your portfolio to make sure that you are being tax-wise.

Portfolio tax loss harvesting - Review your holdings and consider selling securities which are in loss positions. You can use these losses to offset capital gains, either in your investment portfolio or from other activities.

Income Tax:

Tax relief for Hurricane Rita victims – The IRS has postponed the usual deadlines for tax returns, tax payments, or tax deposits with an original or extended due date between September 23, 2005 and February 28, 2006. The new due date for payment and filing will be February 28, 2006. In addition to the delayed filing and payment, the IRS will abate interest and penalties which would otherwise apply. If you have questions about how this might affect you, please contact your tax professional or our office here at Horizon.

We suggest that our clients prepare an estimate of their 2005 tax liability before the end of the year. By preparing this calculation in advance, a taxpayer

will be able to identify any potential issues which will allow time to plan to avoid unnecessary taxes. Many of our clients are subject to the Alternative Minimum Tax ("AMT") and this sort of tax review may identify planning measures that can be taken to reduce or eliminate this tax as well.

Estate and Gift Taxes:

For 2005, the first \$1,500,000 in value of a decedent's estate is exempt from estate tax. In 2006, this amount will rise to \$2,000,000 where it will remain through 2008.

The annual gift tax exclusion, or tax free gift amount, is \$11,000 per person for each donor. So, a husband and wife can each make gifts of \$11,000 for a combined total of \$22,000 to each child or grandchild. If you have not made your annual gifts, they should be made before the end of the year. This gift tax exclusion amount is expected to rise to \$12,000 per person for 2006.

Finally and Most Importantly:

With the holiday season approaching, don't forget to COUNT YOUR BLESSINGS!

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"Most human beings have an almost infinite capacity for taking things for granted." - Aldous Huxley

Estate Planning

Tax Planning Services

Investment Management

Private Foundation Administration



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