HORIZON ADVISORS

On the Horizon

Fall 2007

Horizon Notes

San Felipe Construction is finished! (at least in our area). While this has made it easier to get to our offices, our parking situation has not improved. Our building management has instituted restricted access to the garage, so visitors will no longer be able to park in the building's garage.

Visitors will still be welcome to park in the surface lot on the west side of our building, which is accessible from San Felipe. We're sorry for this inconvenience and we expect plenty of surface parking to be available to accommodate our clients. If you intend to visit us when it's raining, you have options: bring an umbrella, call our office when you arrive and we'll arrange to meet you, or reschedule for a sunny day (we'll understand!)

Staff Notes—Allison Crosswell has returned from maternity leave and will be working on a regular, but reduced schedule of hours. Henry Bragg is taking courses and studying to become a certified financial planner.

Portfolio Activity—Part of our job as investment advisors is to implement our clients' portfolio investments at the lowest possible investment and administrative costs. With that in mind, we are in the process of changing mutual fund share classes in many of our clients' accounts. These changes save relatively small amounts of money in the short term, but these savings add up over time. We have posted a more detailed discussion on our website. If you would like to learn more, please visit www.horizon-advisors.com and look under *Picking the Right Mutual Fund Share Class* under "Articles of Interest."

Do-it-Yourself! Today's Retirement Planning

For most of our clients, personal savings have always played a part in providing for retirement income. In addition, many have been covered by some type of employer sponsored retirement plan. Over the past 25 years, there has been a dramatic shift in the form and structure of employer sponsored retirement plans, with much of the responsibility shifting to the individual, rather than his or her employer.

In the not-too-distant past, many retirees' financial future was primarily funded by their company. People worked for many years for the same company and were rewarded for their loyalty by receiving, in effect, a guaranteed income for life. This retirement income was provided by a company's "Defined Benefit Plan," which provided income based on years of service and compensation levels. The investments in these plans were managed by the company for the benefit of their employees and a retiring employee knew what he would receive, based on the plan's provisions. While this was not an "iron-clad" guarantee, as it was subject to the continuing financial health of their employer, it provided many folks with the financial resources that they needed to retire comfortably and securely.

As the accompanying chart shows, there has been a dramatic shift in the past 25 years, in the form and funding of these company sponsored retirement accounts. The majority of plans these days are not "defined benefit" plans, but "defined contribution" plans. These defined contribution plans are generally structured in the form of a 401K plan or a profit sharing plan, into which workers contribute from their own earnings, often with a matching contribution from their employer. These contributions are deposited into an account which is controlled by the employee, not the company, leaving people responsible to manage their money and to provide for their own retirement.

The following chart shows the changes in plan types from 1979 through 2005.

Type of Plan/Year	1979	2005
Defined Benefit (Pension)	**62%**	10%
Combo Defined Benefit/Contribution	22%	27%
Defined Contribution (401K)	16%	**63%**

As you can see, the percentages have virtually flipped, moving the responsibility for retirement savings directly onto the shoulders of the employees. This shift in responsibility has resulted in dramatic changes in the investment landscape. Today, we have a myriad of resources to help manage the process – everything from mutual funds, to investment magazines and investment advisors have sprung up to help people solve the retirement puzzle.

And, it is a puzzle. The pieces involved are investment risk, investment returns, inflation, longevity, lifestyle, and savings. Each of these factors play a critical role in retirement planning. Everyone's puzzle is a bit different depending on their individual circumstances. Today, however, there's not much question that most of us need to assemble our retirement plans on our own, or by enlisting someone to help us through the process.

Meanwhile, the process of investing has not changed. Investment risks and returns continue to be uncertain and volatile. In addition, inflation has an enormous impact on the future buying power of retirement savings. These continue to be the predominant drivers of wealth accumulation and security in retirement. The big change, is that we now have "do it yourself" retirement planning. Now, more than ever, retirees have to understand and make decisions about their own financial well-being.

If you haven't asked yourself this question, "Do I have enough to retire?" or if you have, but you're not sure of the answer, give us a call. We'll be glad to help you review your personal circumstances and piece together your retirement picture. We can either confirm that you're on the right track or help you to take the necessary steps to a comfortable, worry-free retirement.

Thank you very much for your continued confidence in our services. We look forward to the coming years and continuing to work with our clients and friends.

COLLECTED THOUGHTS

"The secret of getting ahead is getting started. The secret of getting started is breaking your complex overwhelming tasks into small manageable tasks, and then starting on the first one." - Mark Twain.

Market Review

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

Index	3rd Qtr	1-Year	3-Year
S&P 500 (Large Stocks)	1.56%	14.29%	36.98%
Russell 2000 (Small Stocks)	-3.39%	11.00%	40.58%
EAFE (International Stocks)	1.69%	22.02%	74.53%
Lehman Bond Aggregate	3.08%	5.57%	13.14%

There is an old Wall Street adage that says "…the best way to reduce volatility in your investments is to look at your portfolio less frequently." The third quarter was a case study for following this advice. With the sub-prime mortgage crisis coming to a head, market volatility returned with a vengeance. July started strong with the Dow Industrials Index touching 14,000 for the first time. But then, as if on queue, bad news relating to sub-prime mortgages swiftly dropped the major indexes—with the S&P 500 dropping more than 9% over the course of a few weeks.

The market slide ended when the Federal Reserve stepped in and lowered interest rates for the first time in more than four years. This move spurred a rally that brought most market indices back into positive territory for the quarter. At this writing, the Fed has again lowered interest rates by an additional 0.25% and it is expected that this "easing" cycle will continue.

The normally quiet bond market was anything but quiet in the third quarter. The revelation that default rates for sub-prime loans were increasing sent tsunami-sized waves crashing through the credit markets. Anything mortgage-related was sold indiscriminately and many lower quality mortgage-related bonds were hit very hard. The fallout from the sub-prime turmoil has yielded three significant outcomes. Risk premiums widened, as risk was reconsidered across the board, the yield curve returned to its normal form, and consumer lending (mortgages in particular) became much more restrictive.

Although there have been fewer high-profile problems related to the sub-prime debacle in recent weeks, it is too early to say that the worst is behind us. There are still many homeowners who are in deep financial trouble and there are surely more defaults on the horizon. Added to these concerns is the real estate market, which has slowed in many markets and is ripe for steep declines in others. Not to mention the fallout that has severely affected many major financial institutions as evidenced by the recent resignations at Merrill Lynch and Citigroup.

Once headlines about the trouble in the mortgage market began to subside, news about the declining dollar and rising oil prices took center stage. This has increased fears that the U.S. is poised to see increasing levels of inflation. Although the dollar has been declining and oil has been rising for years, inflation has remained relatively low. The most recent CPI reading came in at 2.8% which remains below the long-term average of 3.3%. In addition, it is unlikely the Federal Reserve Board, which has been very sensitive to inflation, would have lowered interest rates at their September and October meetings if they felt inflation was a concern.

Despite all of the negative headlines, there is still reason for optimism in the stock market. Valuations remain reasonable, unemployment is low, interest rates are low, the economy continues to expand, and the Federal Reserve appears to be less concerned about inflation. Although the media would have you believe that (as usual) the apocalypse is just around the corner, we think that we are still in a fairly attractive investment environment and that the current bull market should continue for awhile. However, we expect that the recent volatility will continue and will make things uncomfortable from time-to-time. We will continue to monitor the recent developments very closely and will manage our clients' accounts accordingly.

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.

COLLECTED THOUGHTS

"October. This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February." - Mark Twain

Manager Spotlight— Thornburg Int'l Value Fund

In recent months there have been many headlines relating to the U.S. dollar losing strength relative to foreign currencies. It is widely expected that this trend will continue. This multi-year slide in the U.S. currency has significantly enhanced the performance of international investments. This has made foreign investments especially attractive to domestic U.S. investors.

An advantage of using a mutual fund for international investments is that the fund managers can buy securities in their local markets and in their local currencies. We typically look for managers that have the flexibility to go into any market, developed or emerging, to find the best opportunities. We also like for our managers to have the ability to hedge the fund's foreign currency exposure at their discretion.

The Thornburg International Value Fund has demonstrated the ability to use this flexibility to deliver very solid returns for their investors. The management team for the fund is anchored by Wall Street legend, Bill Fries. Fries has more than 37 years of experience in the investment industry. He has a BA from Penn State and an MBA from Temple. His reputation was built managing domestic equities, and he has successfully applied his unique method to the Thornburg International Value Fund.

Much of Fries' process is rooted in a "common sense" approach to investing. He has two core philosophies when looking for investments: "discount" and "promise." "Discount" is the measure of value in an investment. "Promise" is the hope of improvement in the company's fundamentals. He believes that there are no hard and fast rules that can be applied to all companies and that each investment should be carefully considered on its own merits.

Generally, Fries and his team look at companies that fall into one of three baskets. "Basic Value" companies are mature companies that are trading at attractive prices. "Consistent Earners" are companies who consistently grow their earnings and are selling at attractive valuations. "Emerging Franchises" are companies that are experiencing rapid earnings growth and are developing a leading position in their industry. Fries combines these three metrics to give this fund the optimal balance of stability and growth.

We have selected the Thornburg International Value Fund for our clients because of their process, skilled investment team, and long track record of superior returns. As with all of our recommended investment managers, we will continue to monitor the performance and process of this fund to assure it delivers the quality and performance we expect for our clients.

Disclaimer: This manager (Thornburg International Value Fund) 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.

Making Cents

Each year at this time, we turn our thoughts to year-end planning.

Investment and Portfolio Matters—We suggest a "pre" year-end review of your portfolio holdings. This process may identify securities with losses which could be sold to offset gains already recognized during the year, reducing your 2007 tax liability. We also recommend that this review be coordinated with an estimate of 2007 and 2008 income taxes, so that any planning opportunities can be identified while there is time to act on them.

Estate and Gift Tax—Beginning this year and continuing through 2008, the first $2 million of a decedent's estate is exempt from estate tax. As the law currently exists, the exempt amount increases in 2009 to $3.5 million. Then in 2010, all estates are exempt, but in 2011 the exemption is reinstated at $1 million.

It is widely expected that Congress will change these scheduled exemptions in the future, but they've been unable to pass any legislation to date. We will keep an eye on this and let you know if changes are made.

If you are not certain how your estate plan operates, now would be a good time to perform a thorough review and projection of how your will and related documents are currently structured to make sure that your estate will be settled as you intend. Please let us know if you have questions—we'll be glad to discuss this and help you if necessary.

The annual gift tax exclusion, or tax free gift amount is currently $12,000 per person for each donor. Thus, a husband and wife can give combined gifts of $24,000 to each child or grandchild each year. Additional tax free gifts can be made for direct tuition or medial expense payments to providers on behalf of children and grandchildren.

Income Tax—We recommend a year end estimate of your 2007 tax liability, as well as a projection of your 2008 taxes. This review can provide certainty that you've adequately provided for your tax payments, identified opportunities for current tax savings, and generated ideas for future tax savings.

Closing Thought—Finally, as the year end brings the holiday season, we remind all of our clients and friends to "count your blessings!"

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