

Power-Less and Powerless

Our Fall Newsletter production was abruptly interrupted by two storms that occurred on Saturday, September 13th and Sunday, September 14th, 2008. The first, Hurricane Ike, came ashore just east of Galveston Island on Saturday, causing enormous destruction and disruption in our city and surrounding counties. The second storm occurred in the financial markets. It was triggered by a bankruptcy filing by Lehman Brothers and an announcement of the sale of Merrill Lynch to Bank of America. The results of these two related financial events sent the world's financial markets into a downward spiral of doubt and uncertainty making the week of September 15-19th one of the most dramatic in history.

In each case, we are reminded that we are not in control of events. Because of Hurricane Ike, Houstonians are power-"less." Investors in the worldwide financial market are powerless in the face of the massive dislocation caused by the ongoing de-leveraging of our financial system. There is, to the seasoned observer of both events, a certain similarity in the cycle of events leading up to and following these two different kinds of storms.

Planning – We are not in control, certainly in the case of the weather. But we do what we can to safeguard ourselves and our property, building sturdy, weatherproof (we hope!) homes and properly insuring them against damages. We can also prepare our financial circumstances by planning and building sturdy portfolios with the best chances of weathering the inevitable storms that the markets deliver.

Preparation – When we have advanced notice that a physical storm is imminent, we do what we can to make last minute preparations, taping windows, moving furniture, and the like. Unfortunately, in the financial markets where fiscal storms arise, this sort of last-minute preparation is impossible. The number of people who can consistently get this sort of timing correct can dance on the head of a pin. As Peter Lynch wrote in *Worth* magazine, "Far more money has been lost by investors in preparing for corrections, or anticipating corrections, than has been lost

in the corrections themselves."

Enduring the Storm – While the storm is raging, pretty much all we can do is "hunker down." If you have done all you can to plan, this is the best choice in either storm. There will be surprises, things you will do better next time, but during the storm you should hold tight.

Recovery – The aftermath of any significant storm is an initial feeling of relief, then you assess the damage. Make sure all your family members are safe, then check on your property and see what has been damaged and what steps can be taken to shore things up. As we are learning in the aftermath of Hurricane Ike, many essential services take a long time to be restored. For instance, at this writing, many of our homes are still without power. Earlier, we were without water and ice and gasoline was scarce. But supplies of essentials are returning to normal and we will eventually have electrical power. In the case of financial markets, the storm still appears to be raging, confidence is in extremely short supply, and this is stressing all parts of the system in unexpected ways. Another unfortunate difference between markets and the weather is that with the markets, we are never certain when the storm is over. However, these market storms do end and things eventually return to normal.

Relief, Charity and Goodwill – The recovery stage of our recent Hurricane has, for the most part, brought out the best in our many neighbors. Helping with clean up, ice, food, and even sleeping arrangements has been commonplace. It's not clear that this sort of neighborly behavior occurs during and after financial storms. In fact the financial world is hyper-competitive and the watchword is likely to be "every man for himself." We do, however, appear to have a substantial comprehensive U.S. Government intervention during the current financial storm, and while the details are still being worked out, the markets seem to have a positive opinion of what has been learned so far.

So, in the case of each storm, the lesson is pretty much the same; during a storm, we are pretty much powerless. It's

our actions before and after that are most important to our success. For those still suffering through the aftermath of Hurricane Ike, our thoughts and prayers are with you for a speedy return to normal. If you're uncomfortable with your planning or positioning in light of the current financial market storm, please call us and we'll be glad to help you consider your financial circumstances and make sure you're well positioned for the market's continuing volatility as well as its eventual recovery.

The Changing Financial Landscape

One of the most surprising results of the financial market troubles is that many of the best known financial institutions have faltered. In addition to the government bail outs of AIG, Fannie Mae, and Freddie Mac, there has been the bankruptcy of Lehman Brothers. JPMorgan acquired Bear Stearns earlier this year in a rapidly arranged merger, and Bank of America is in the process of acquiring Merrill Lynch. The two remaining and well known independent investment banks, Morgan Stanley and Goldman Sachs, have also been the subject of much speculation regarding their ability to survive in their present form. Many investors have expressed concern over the changes in ownership and what it might mean to them and their accounts. Because of their complex financial structures and multiple businesses, many folks are worried that the firms have been distracted by their own problems and that individual investors are not receiving the attention that they deserve.

At Horizon, we do not have distractions that keep us from concentrating all of our resources on helping our clients with their financial management. In this effort, we are fortunate to be able rely upon the services of two of the largest custodians in the business; Schwab and Fidelity. Like Horizon, these firms do not have the distractions of multiple businesses and complex financial structures. Simple, focused business models allow both of these firms to be reliable in this duty.

If you or someone you know has concerns about an existing financial service relationship, we offer a ready alternative. We can provide a second opinion on a portfolio or step in and help with the management of assets. Horizon provides independent, objective information and advice and helps keep our clients focused on their long-term goals and objectives.

Market Review

The following table shows market index returns for 2008 through August 31st, trailing 12-months and past 3 years.

Index (Through 8/31/2008)	YTD	1-Year	3-Year
S&P 500 TR (Large Stocks)	-11.39%	-11.14%	3.66%
EAFE TR (Int'l Stocks)	-17.31%	-14.41%	8.08%
Lehman Bond Aggregate	2.00%	5.86%	4.26%

As we enter the second year of this financial crisis it is clear the problems that led to this turmoil will not be resolved quickly. While distress in the housing/mortgage market remains the most significant obstacle, record high commodity prices, and a weakening global economy are playing significant roles as well. These concerns have brought about uncomfortable price declines in almost every investable asset class, leaving investors no safe place to weather the storm.

At the center of the financial crisis is the precipitous decline in the residential real estate market. Losses in California, Florida, Arizona, and Nevada have highlighted one of the worst housing declines since the great depression. Rampant foreclosure activity has virtually crippled many well known financial institutions. Most recently, the federal government stepped in to prevent the collapse of mortgage giants Fannie Mae and Freddie Mac. This intervention promises to increase the availability of financing to qualified buyers which should help stabilize the real estate market.

Despite woes in the housing market and financial system, the U.S. economy has remained surprisingly resilient. GDP growth for the second quarter came in at an annualized rate of 3.3% which is only slightly lower than the long-term average of 3.4%. GDP strength came primarily from increases in the export activity of U.S. goods and services, which have been fueled by weakness in the U.S. Dollar. However, in recent months, the dollar has strengthened significantly causing many economists to predict softer export activity in coming quarters.

In contrast to signs that the U.S. economy is improving, many foreign economies have begun to show significant signs of weakness. Many analysts believe that the reluctance by foreign central banks to lower key interest rates

has put them behind the United States in their economic recovery. This has had a very negative impact on international investments, which have declined significantly in the past three months. These negative returns have been compounded by the strengthening U.S. Dollar which has made these foreign investments less valuable to U.S. investors.

After a prolonged period of steep commodity price increases, July and August brought one of the most dramatic and widespread declines the broad commodity market has ever recorded. As of August 31st, energy, precious metals, and crops were more than 20% lower than their mid- July peaks. Commodities are historically weak in the face of economic slowdowns, which made the recent rise so difficult to understand. Many commodity "bulls" attributed the rise to growing global demand. However, cynics began to suspect that speculators and possible market manipulation may have played a role. As the declines in commodities have accelerated, evidence of both has come to light.

Thus far, in September, financial markets have been under renewed distress. The bankruptcy of Lehman Brothers compounded by fears of failures by Goldman Sachs, AIG, and Washington Mutual sent both equity and debt markets reeling. This contributed to a seizure in the short-term debt markets which had an especially dramatic effect on money market funds. A sudden and extraordinary intervention by policy makers has, in the short-term, eased fears and rallied the markets. Bottoms (and tops) of market cycles are often characterized by wild volatility. Time will tell if recent fluctuations mark the bottom of the market's slide.

We are hopeful that the developing intervention by the U.S. Government will provide some much needed confidence in the domestic and international markets, allowing for businesses to return to some semblance of financial normalcy. With any luck at all, meaningful progress will be made towards resolving the fundamental issues and that have made the past year so difficult.

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, please call.

Manager Spotlight—BlackRock U.S. Opportunities

While many money managers who supervise domestic portfolios focus only on businesses headquartered in the United States, the BlackRock U.S. Opportunities Fund takes a different approach. They look at investment themes from a global perspective and then translate those themes to U.S. investment opportunities.

The U.S. Opportunities fund is one of seven funds managed by BlackRock's Global Opportunities team. The Global Opportunities team evolved following the investment philosophy of team leader Thomas Callan. He has been in the investment business for more than 20 years and earned a BA with honors from Boston College. The portfolio manager for the U.S. Opportunities Fund is Jean Rosenbaum. She has more than 15 years experience and earned a BA from Duke University and an MBA from the University of Maryland.

The investment team believes that knowledgeable and skilled investors can exploit inefficiencies in the market and achieve superior returns by consistently applying an active investment process that is highly disciplined, research-intensive, global in its frame of reference, and risk-informed. They aim to purchase stocks of companies with appealing relative values that are poised to deliver better than expected earnings.

Each analyst of the 14 member team is a global sector specialist with a focus on sub-industries as well as individual companies. The team spends much of their time talking to industry contacts, company management teams, and attending industry conferences.

We have selected the BlackRock U.S. Opportunities Fund for our clients because of their process, skilled investment team, and long track record of superior risk adjusted 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 (BlackRock) 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.

Horizon Notes

Henry Bragg and wife, Laurence, welcomed a son, Henry Jr., who joins two big sisters in the growing Bragg family. In addition to his family role, Henry recently passed the rigorous CERTIFIED FINANCIAL PLANNER™ exam. Once awarded, he will be the third member of our firm to earn the CFP® designation.

We are pleased to announce that our firm has become a corporate member of NAPFA, the National Association of Personal Financial Advisors. NAPFA is the preeminent professional organization for “fee-only” financial advisors like Horizon. We have always held ourselves to a fiduciary standard in advising our clients. Our firm’s affiliation with this organization is further evidence of our commitment to providing financial stewardship to our clients in all that we do.

Many of our clients have been kind enough to talk with Suzanne Hatcher of Hatcher Public Relations in our ongoing client surveys. Her initial reports are encouraging, mentioning in particular our clients’ experience with our firm’s responsiveness. We also received helpful suggestions, which we will carefully consider. We will send out a summary of our survey results once they are completed and compiled.

Many thanks to all of you for your continued confidence and support.

Making Cents

As you must know by now, the stage is set for our upcoming presidential election. It is generally expected that the Democrats will control both houses of Congress, perhaps with substantial majorities. If true, then the remaining question is which party will be in charge of the Executive Branch. If Obama and Biden win, the Democrats will have relatively free rein to implement any of a number of proposed changes, among which are likely to be higher taxes (especially for our clients!) If McCain and Palin carry the day on November 4th, we can expect something of a stalemate as the Legislative and Executive branches negotiate to implement an agenda.

Given the close race, we think that it is too early to begin taking action in anticipation of the election results. After the election, we will advise you of our recommendations. Stay tuned and do not forget to vote.

COLLECTED THOUGHTS

“Speculation is an effort, probably unsuccessful, to turn a little money into a lot. Investment is an effort, which should be successful, to prevent a lot of money from becoming a little.”
-Fred Schwed Jr. in Where are the Customer’s Yachts

“Now is always the hardest time to invest.”
- Bernard Baruch

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HORIZON
A D V I S O R S

5851 San Felipe
Suite 700

Houston, Texas 77057
713.748.7000

www.horizon-advisors.com

Financial Planning

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