

Horizon Notes

We are happy to announce the addition of Owen Murray to our firm. He joined the firm during February in a new position, Director of Investment Research and Portfolio Design. Although he grew up in the Los Angeles area, he has spent several years as a Houstonian and is a graduate of Lamar High School.

Owen has a B.S. in Business Administration from the University of Southern California and has earned the Chartered Financial Analyst (CFA) designation. He began his investment career with Beutel, Goodman Capital Management, in Houston, where he served as a Portfolio Analyst specializing in tax sensitive portfolio management. Before returning to Houston to join Horizon, he worked in Los Angeles with Roxbury Capital Management. He was an Assistant Portfolio Manager and his principal duties included the management of individual client accounts and research support for the firm's Equity Income portfolio.

Owen is proving to be a talented and enthusiastic member of our team. We welcome his expertise and believe that his experience will bolster our already capable investment staff.

Cathy Haymes, who has been with us for several years, has assumed a greater role in assisting with our day-to-day operations. Please feel free to call or email any of us if you have questions or need our assistance.

Priority Erosion – Don't let it happen to you!

When we begin our planning work with a new client, we begin by reviewing our client's goals with them. From these goals, our clients develop priorities and from these priorities, there is a context for appropriate personal and financial decisions. We have noted before that when your goals are clear, your decisions are easy.

Unfortunately, we don't exist in a vacuum. We all get

busy with life and business and sometimes we end up with a "disconnect" between what we're doing on a day to day basis and what we really want to accomplish in the long run. Our commitments don't match our priorities – this is what we call priority erosion.

In the short run, it's easy to take the Scarlett O'Hara approach concluding, "I'll think about that tomorrow; after all, tomorrow is another day." Of course, that works just fine until (inevitably) the short run becomes the future. So, we suggest that you take some time to perform some personal spring cleaning and try to line up your commitments with your priorities.

"What are your priorities?" Well, everyone's are different, but if you stop for a minute to think about the things that are really the most important to you, you will probably have a pretty short list. Your list might include things like family and personal relationships, your business or volunteer work, or perhaps matters of faith and spirituality.

Once you have defined your priorities, think about your commitments - the things that are actually on your personal "to do list". You may find that, like most of us, the things that you've committed to do have little to do with your priorities. That's not to say that these commitments are not good, just that they're not in line with the things that are really important to us. Someone has called this "Letting the good get in the way of the best".

Our suggestion is that our readers engage in a little bit of "Spring Cleaning" - but, rather than cleaning around the house, clean up your commitments and get them in line with your priorities. You'll sleep better at night, knowing that you've got things on the right track.

COLLECTED THOUGHTS

"If you have integrity, nothing else matters. If you don't have integrity, nothing else matters." — Alan Simpson

Silver Lining to Negative Market News

Following the financial press as we do, one gets the impression that things are just terrible. The market is in a funk, bond prices are declining and equities are losing value or at best treading water – investors are concerned about rising interest rates, oil is projected by one Goldman Sachs analyst to reach \$105 per barrel and inflation is rearing its ugly head. To borrow from the Wizard of Oz, the headlines are full of “Lions and Tigers and Bears, Oh My!”.

Well, while we don't really make “market calls”, we think all this worry is overblown and actually see some reason for optimism. After all, we're way better than we were in 2001 and 2002, when the market was valued at a significantly higher valuation and equity prices were falling at double digit rates. Two years ago, the US was on the verge of completing “Operation Desert Storm” and pundits were worried that we had another Vietnam War on our hands.

Inflation is a worry, but it's still very low by historical standards and remember, no one seems to be concerned about deflation now, like they were a year ago.

Interest rates are rising, but still remain modest by historical standards. And rising interest rates are a good thing for fixed income investors

Equities, after rising after the election, have moved slightly lower but, corporate earnings continue to improve. And as these earnings improve and stock prices remain sluggish, the price/earnings ratio, which is a widely watched indicator of market valuation continues to decline, making an eventual increase in equity valuations more and more likely.

We think that, barring a catastrophe of some sort, much of the downside risk has been priced into the market, in both equity and fixed income issues. We don't think that there's any reason to expect “gangbuster” returns, and we expect slow but steady improvement for our clients' portfolios. We also continue to believe that this will remain a “stock picker's” market for the foreseeable future, meaning that active managers should be able to outperform the indexes.

Warren Buffett, the chairman of Berkshire Hathaway, is widely considered one of the world's leading investment minds. Therefore, we pay attention to his wise musings in the Berkshire Hathaway annual report. One of Buffett's suggestions, intended for investors trying to time their participation in the market, was that they should “try to be fearful when others are greedy and greedy only when others are fearful.” As we consider these two extremes, we don't see folks being particularly fearful or greedy right now, and we think a well diversified portfolio and a slow and steady pace will serve our clients well.

Manager Spotlight—Tamarack Micro Cap Value

Horizon's process of asset allocation and diversification leads us to recommend that our client portfolios invest in both large company stocks and small company stocks and Tamarack Micro Cap Value is one of the funds which we include in the “small cap” portion of our client portfolios.

There are many risks involved in small cap investing. The stocks of small companies are a lot less liquid than normal stocks, information on them is much harder to find, and they do not have the competitive advantages that the bigger companies have. On the other hand, the investment upside of a small company can be enormous. They are often the innovators of great new products and services. For example, those who bought stock in Dell and Microsoft in their early years realized incredible returns.

Funds that focus on small companies will normally diversify across many different stocks so that the risk associated with any given security is minimized and Tamarack Micro Cap Value is no exception, typically holding 250-350 stocks compared to an average of 35-50 for a large cap fund.

The small cap asset class typically represents a small but important part of a well-diversified portfolio. The exposure is deliberately limited so that the risk level is minimized. It is important, however, that it be included so that the portfolio participates when the asset class does well. For instance, the Tamarack Micro Cap Value fund

was up 50% in 2003 versus returns for the larger companies of around 20%.

We chose the Tamarack Micro Cap Value fund last year because of their excellent investment record and superior management. We are particularly impressed with the fund manager, Anthony Maramarco, PhD, CFA. Dr. Maramarco has over 23 years of investment experience and has managed this fund for nearly 6 years. The performance of his fund has consistently fared very well against the Russell 2000 benchmark and other small cap funds. As with all of our recommended investments, we will continue to monitor the fund and its performance to make sure that it continues to merit inclusion in our clients' portfolios.

Market Review

The following table shows market index returns for the 1st quarter, trailing 12-months, and past 3 years.

Index	1st Qtr	12-Mo.	3-Year
S&P 500 (Large Stocks)	-2.15%	6.69%	8.47%
Russell 2000 (Small Stocks)	-5.60%	4.19%	21.44%
EAFE (International Stocks)	-0.77%	12.47%	30.86%
Lehman Bond Aggregate	-0.94%	-0.35%	18.99%

After a significant 4th quarter rally, the market started the year with a bit of a thud (which continues at this writing). The recent decline in the Dow Jones Industrial Average marks the third time in as many years that the blue chips have started the year with a negative 1st quarter return. January set a negative tone as investors took profits and sold into increasing concerns over further interest rate increases by the Federal Reserve. February brought a more positive attitude as the buyers reemerged amid a more upbeat corporate earnings outlook. In March, however, the sellers were back as investors became increasingly concerned about inflation, interest rates, and record crude oil prices.

Inflation became an increasing concern for the market as

crude oil prices reached record levels and Federal Reserve Chairman Alan Greenspan warned that inflation remains a risk. Recent economic data has eased some of these fears, but there is ongoing concern that higher crude oil prices will have an impact. Goldman Sachs analyst Arjun Murti went as far as to predict a "super spike" in crude oil prices that could bring the cost to a level as high as \$105 per barrel. We do not think it will get that high, but increasing global demand for petroleum may keep crude oil prices uncomfortably high for the foreseeable future. Continuing its volatile trading, crude oil closed the quarter at \$55.40 per barrel, but is down to \$50.50 on April 18th.

The Federal Reserve has made clear its intention to continue to raise short term interest rates. They have raised their target rate from 2.25% to 2.75% over the first quarter. It is expected that the interest rate hikes will begin to slow down later this year, but 3-4 more rate hikes may occur before that happens. As a result, mortgage rates are on the rise which may act to cool demand in the housing market and create a financial strain for those with adjustable interest rate loans. Higher interest rates will also affect companies that are carrying a lot of debt on their balance sheets. Industrial companies, for example, are at risk.

Despite continued increases in the short term target interest rate; there has been surprisingly little impact on longer term bond yields. In fact, Fed Chairman Alan Greenspan commented that he was perplexed by the situation and that it was a "Conundrum". While they have been very volatile, longer term interest rates have remained stubbornly low, much to the surprise of most observers.

Our expectations continue for equity returns in the 6-10% range for the next year. We expect that inflationary pressures, though still modest by historical standards, will persist and that short term interest rates will continue to rise for the near future.

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

Incidents of identity theft are growing at a rapid pace. In the past five years, more than 27 million Americans have fallen victim to some form of identity theft. This group has spent more than \$5 billion of their own money to repair the damage done to their credit and personal finances. In this new age of rapid information sharing, the risks have become substantially higher. Chances are that you or someone you know has already been a victim of this growing problem.

There is no fool-proof way to completely eliminate the risk of identity theft, but there are some practical measures you can take that will make it much more difficult for criminals to affect you.

Steps you can take to protect yourself

- Whenever possible, avoid sharing your personal information.
- Only carry your essential identification and credit cards. Leave seldom used credit cards, identification, and your social security card at home in a safe place.
- Do not sign your credit cards. Instead, write "Photo ID Required" in the space designated for your signature.
- Do not keep passwords or PIN numbers in your wallet.
- Shred all documents that contain personal information before placing them into the trash.
- Check your credit card and bank statements carefully each month to insure that there has not been any unauthorized activity.
- Check your credit reports at least once a year to make sure that there have not been any fraudulent accounts

established in your name.

- Keep a list of phone numbers handy in case you need to contact your bank(s), credit card provider(s), the Social Security fraud hotline, and the three national credit agencies to report fraudulent activity.

How to react when you have become a victim

If you discover that you have become a victim of identity theft, you should immediately do the following:

- Notify your bank(s) and credit card provider(s) to check for any unauthorized activity and to alert them so that they can implement anti-fraud safeguards.
- Notify the three national credit bureaus so that they can check for fraudulent accounts and place your credit on fraud alert. The contact numbers are:
 Experian: 888-397-3742 (www.experian.com)
 TransUnion: 800-680-7289 (www.transunion.com)
 Equifax: 888-525-6285 (www.equifax.com)
- Notify the Social Security fraud line at 800-269-0271.
- File a police report. Preferably in the jurisdiction where your information was stolen.

Please feel free to contact us at 713-748-7000 or visit www.horizon-advisors.com if you would like additional information.

COLLECTED THOUGHTS

"It's what we think we know already that often prevents us from learning." - French physiologist Claude Bernard.

"no one would ever have crossed the ocean if he could have gotten off the ship in the storm." - Anonymous

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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

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