

Horizon Notes

“Your call is very important to us – please hold and someone will be right with you.” We have all heard this recorded phrase too often. It can be the first indication that you have entered the “voice mail twilight zone”. The message can result in a caller thinking that he or she is not really very important at all.

At Horizon and Maddox, Thomson, our clients’ calls and overall satisfaction are very important to us and we want to make sure we’re measuring up to our clients’ expectations. So, as we mentioned in our last report, we have engaged an independent firm (William Law and Associates) to help us survey our clients and make sure that we’re delivering what our clients expect.

Many of the leading firms around the country have instituted this sort of survey and report excellent feedback from their clients. This helps to align business practices and processes with the things that matter most to clients; as well as, to design and offer appropriate new services.

Our first set of surveys will begin the week of June 5th. These client surveys will take the form of brief (10-15 minute) telephone interviews which will be scheduled by our office, in advance. Over the course of the next year, we hope to gather opinions from all of our clients which will help us to better understand how we are performing.

These surveys will be part of an ongoing program and we hope that our clients will help us in this effort by participating in these brief interviews and giving their opinions about how we’re doing. Of course, if you have opinions or feedback in the interim, please don’t hesitate to share it with us.

Helping Clients Make Wise Choices

In our 24/7 world, full of instant news, instant messaging, cellular telephones and “blackberrys”, we are constantly connected and inundated with news, data and information. In this instant world, we often get the feeling that we must always act quickly. And, act quickly on just about everything; not just urgent important matters, but even about things that aren’t very important at all. All this urgency can distract us from the things that are really important.

We have all heard the saying that someone “can’t see the forest for the trees.” Many people fall victim to this syndrome. Given all the “noise” in our lives, it’s surprising that folks can see the forest at all!

As advisors to our clients, our first order of business is to help our clients focus on the things that are most important to them. Our initial focus may be on a particular part of their financial circumstances which requires immediate attention, for example income taxes or investment management. But, as time goes by, we hope to have our clients thoughtfully consider their long term goals and objectives, focusing on their entire circumstances, rather than just these parts.

We want to help them to gather their thoughts and the important information about themselves and their families so that wisdom can be applied to the process of making decisions. Following is the definition of “wisdom” from the American Heritage Dictionary:

wisdom – 1. Understanding of what is true, right, or lasting, 2. Common sense; sagacity; good judgment.

Put another way, “common sense and good judgment in the context of what is true, right, and last-

ing. “

The sort of thoughtful, considerate process we try to follow results in an integrated plan where all the various pieces are knit together to form as seamless a plan as possible. Every part of the plan works independently, but toward the same overall objectives. Each part of the plan is a servant to the overall plan.

This integration is the reason that we always advise our clients to make their decisions in context; that is, the context of their goals and objectives, and not in the seeming urgency of the moment.

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)	3.73%	9.68%	52.66%
Russell 2000 (Small Stocks)	13.65%	24.40%	109.89%
EAFE (International Stocks)	8.78%	21.53%	110.43%
Lehman Bond Aggregate	-0.42%	2.25%	7.77%

The first quarter of 2006 began in style, with solid gains in every major equity index. The rally was led by domestic small cap companies and international markets. The other equity markets followed suit, pushing many indexes to multi-year highs. The S&P 500 index ended the quarter up 3.7% and the Russell 2000 index which measures the performance of small cap stocks was up a whopping 13.7%.

The month of January was largely responsible for the robust gains in the first quarter and if you look a little closer, you will see that if you missed the first seven trading days of the quarter, you missed most of the first quarter rally. In less than two weeks, the S&P 500 picked up almost all of its first quarter gain, and the Russell 2000 and the MSCI EAFE indexes

realized roughly half of their first quarter gains. February was flat and March finished up the quarter with another strong month.

The Federal Reserve again raised short-term interest rates from 4.25% to 4.75%. The most recent Federal Reserve meeting and rate change marked the beginning of a new era, as recently appointed Fed Chairman Ben Bernanke took the reigns in the wake of the long and distinguished tenure of former Fed chief Alan Greenspan. Mr. Bernanke's comments following the last Fed meeting cooled the financial markets a bit when he hinted that interest rate increases could continue for the foreseeable future. The Fed will watch inflation indicators very closely before deciding how they will proceed.

Because of these increasing interest rates, the only disappointment for the quarter was the performance of the fixed income markets. The Lehman Bond Index was down 0.42% for the quarter and has only returned 2.25% for the past 12 months. The good news for investors is that fixed income and money market yields are improving; the bad news for the economy is that it is becoming more and more expensive to borrow. It is important to note, however, that interest rates remain at historically low levels.

The increases in the Federal Reserve rate continue to impact mortgage rates which now hover at 6% for a 30-year fixed loan. Evidence is surfacing that the housing market is showing signs of cooling as homes sit on the market longer and new construction slows. Foreclosures are on the rise as adjustable rate loans are beginning to adjust upwards and are becoming more expensive for borrowers. This could cause more homes to hit the market which would cool prices even further.

We are delighted to see such a positive beginning to 2006. The first quarter's results ended a 3-year first quarter losing streak on the Dow Jones Industrial Average. We are hopeful that this upward move-

ment marks the beginning of a new positive leg for the blue-chip index which was virtually flat from the beginning of 2001 to the end of 2005. Corporate earnings have risen dramatically over that period and we think that it is only a matter of time before prices in equities begin to better reflect the growth in their underlying earnings. We are optimistic that 2006 will bring better returns for blue chips than we saw in 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.

Manager Spotlight— Congress Asset Management

Every equity portfolio that we construct for our clients is anchored by a sizable allocation to large US based “blue-chip” companies. For our smaller clients, we purchase mutual funds to invest in this asset class, but for our larger clients, we hire separate account managers. Congress Asset Management is a Boston-based separate account manager we have selected to manage the large cap growth portion of many of our larger client’s portfolios. We recently completed one of our regularly scheduled due diligence calls with Congress and thought we would share our thoughts with you.

Congress was founded in 1985 by Alfred Lagan who is an experienced and distinguished investor. Al was the Portfolio Manager for the Large Cap Growth portfolio since the inception of the firm until recently when he handed the reigns of the portfolio to his son Dan Lagan. Dan is an experienced and well-qualified investor in his own right, with over 16 years of investment experience. Dan received his BS from St. Michael’s College and his MBA from Boston College. Dan is a CFA charterholder and a member of the Boston Security Analysts Society. Father and son both serve as the Co-Chief Investment Officers

for the firm and Al remains an important member of the Investment Policy Committee.

Congress believes that a consistent investment process with an emphasis on fundamental analysis is the best way to deliver superior results for their clients. The investment research team, composed of 19 analysts and portfolio managers, generates investment ideas, monitors current positions, and conducts in-depth research on a variety of investments. They focus on high-quality companies that are growing both revenues and earnings at attractive and sustainable rates. They look for businesses with low levels of debt, wide profit margins, and extraordinary cash flow.

They will typically hold their successful positions for three to four years before selling. This slow and deliberate investment philosophy makes the portfolio much more tax efficient than a higher turnover portfolio.

We have selected Congress for our clients because of their disciplined approach, conservative style, 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 firm to assure they deliver the quality and performance we expect for our clients.

Disclaimer: This manager (Congress Asset Management) 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.

COLLECTED THOUGHTS

“The life of every man is a diary in which he means to write one story and writes another; and his humblest hour is when he compares the volume as it is with what he vowed to make it.” - J. M. Barrie

Making Cents

Saving for College

We often have clients ask us about the best way to save for college, either for their children or grandchildren. As usual, there's not "one solution" that is right for everyone but the three most common solutions are discussed, in brief, below.

UTMA Account—

This is probably the simplest way to save. The UTMA is a "custodian" account where the contributions are owned by a minor child, subject to management by a custodian until the child reaches age 21, at which time the child becomes the legal owner of the account. There is no legal documentation or cost and the account can be funded with cash or securities and is able to hold any sort of investment. Income is taxed to the minor child or their parent.

Section 529 Plans—

These plans, in which the accumulated income is tax free, are widely available and popular in the financial press. The principal and income can be paid out tax free for all educational expenses, not just tuition. Only cash can be contributed to these plans and the moneys are held in any of several state sponsored plans, where the only investment alternatives are mutual funds.

Crummey Trust—

This trust is a legal entity and files its own tax return. The trust can be designed to last for any length of time and its assets are protected from the beneficiary's creditors and spouses until termination. Annual gifts are excluded from tax by virtue of a withdrawal power, known as a "crummey power." Any sort of gift can be made and any prudent investment is allowed.

If you would like to discuss these alternatives in more detail and in the context of your particular circumstances, please call and we will be glad to help you determine the best course of action for you and your family.

COLLECTED THOUGHTS

"People seldom improve when they have no other model but themselves to copy after." - Oliver Goldsmith

Estate Planning

Tax Planning Services

Investment Management

Private Foundation Administration



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