

Horizon Notes

Many of you know that Horizon is affiliated with Maddox, Thomson and Associates, P. C. What you may not know is that this year marks the 20th anniversary of the accounting firm. We're very grateful to all of our clients, employees and friends who have helped us be successful for so many years. We look forward to continuing to serve our clients and community for many years to come.

Those of you who have been by the office in the past few weeks, or plan on stopping by before the end of July will have the chance to meet Henry Bragg, who is working with us at Horizon this summer. Henry recently completed his first year of MBA study at Rice University's Jones Graduate School and will be returning for his second year in the fall. Henry graduated with honors with a degree in Finance from Arizona State University. He also has a Masters degree in Accounting from the University of Virginia. He's a CPA and worked in Houston for Ernst & Young for five years, first in their audit group and later with a specialty advisory services group. Henry is married and has a two-year old daughter.

He's been a big help to us this summer and will continue to work on a part time basis while he completes his MBA degree.

Obstacles to Achieving Your Goals

As we've discussed before, our planning work with a new client begins by reviewing our client's goals with them. While not all of these goals are associated with money, many are. Most of us would agree when Ben Stein says, "Money isn't everything, but it helps to make the important things possible."

So, in order to achieve important goals, our clients need to save and invest and grow their portfolios. They also need to avoid taking unnecessary risks as well as making financial mistakes. Following are four of the biggest issues faced by many.

Saving too little. Accumulating capital is the first and biggest hurdle faced by most folks. While many of us are committed to savings, it is important to make sure that you are saving enough to accomplish your goals. Further, you must try to avoid some of the additional obstacles described below.

Saving in the wrong places. This risk is not always as clear as it might be and often times people aren't aware of it except in hindsight (when it may be too late!) The most obvious risk is that of holding a concentration of wealth in a particular stock. The most dramatic examples of this mistake are investing in companies which go bankrupt, like Enron; however, there are many other examples where a company did not go bankrupt, but shareholders with concentrated holdings have lost substantial wealth. Even companies which have been very successful over long periods of time can provide disastrous returns if an investor's timing is bad.

We often review portfolios where clients are in a position to magnify their gains or losses. They hold significant stock as well as stock options issued by the company for which they work. This can be a wonderful circumstance when the company's stock does well and they profit from both positions, but this is a double edged sword and a decline in value can be devastating to their ability to create long term wealth. One could argue that there is an additional risk in these circumstances – continued employment and compensation income from the company. Again, when things are going well, this can be "the best of times" from an investment standpoint, but when things don't work out so well, it can easily become "the worst of times." It may make more sense, from a risk standpoint, to "take some chips off of the table" - to reduce the risk of this sort of concentrated exposure and diversify their holdings.

COLLECTED THOUGHTS

"So plant as though you will live forever; so labor as though you will die tomorrow." - Mark Twain

Even a portfolio composed entirely of bonds, generally considered the “safest” of investments, can be the wrong place. Considering the long-term effects of inflation, even the sure and steady income stream from a bond portfolio can be eroded as living costs outstrip the returns from the bonds.

Living too long. There is a current advertisement, which says that determining how long you may live is similar to having a 14 handicap in golf – you’re thinking 79, but there’s a possibility of 94! Fundamentally, from a risk standpoint, you want to make sure that you have a sizable margin for error. If you spend as though you will die at 79 and you’re wrong, it can be a problem. Running out of money before running out of time could result in substantial changes to your lifestyle, at the worst possible time.

Dying too soon. This can be a particular issue for parents with young children or for people with unfunded financial goals. This risk can be mitigated with life insurance, which can replace the earning capacity of a family breadwinner. Insurance proceeds, which are generally tax-free, can be used to provide for long term living expenses, educational costs or to provide an endowment.

If you’re at risk in any of these areas, we can help provide solutions. Just call and we’ll be glad to help you figure out how to avoid these or other obstacles.

Manager Spotlight – NorthRoad Int’l Equity

The international equity portion of a diversified portfolio is a relatively small, but very important piece to the asset allocation puzzle. The returns in foreign markets may be “uncorrelated” with returns in the U.S. markets – that is, their returns often do not occur at the same time or in the same way as U.S. markets. This lack of correlation adds an important diversification element to our clients’ portfolios. In a previous newsletter, we highlighted the portfolio managed by international mutual fund manager Julius Baer. For those clients who utilize separately managed accounts, we have selected NorthRoad Capital Management.

NorthRoad’s International Equity portfolio is characterized by quality. They seek to invest in well-established international companies that have high returns on equity, strong financial stability, and can be purchased at reasonable prices. They invest primarily in European based companies that have ADR securities, listed and traded in the United States. This bias towards big, mature companies in Europe gives the portfolio a great deal of quality and safety.

Because of this lower risk approach to portfolio design, NorthRoad tends to under-perform in up markets and outperform in down markets. This dynamic has been reflected in their returns for the past two years as NorthRoad has trailed its benchmark index, but we are confident that over the longer term, it is a benefit to our clients to take this more conservative approach which has resulted in less volatility and more consistent results over time.

NorthRoad has an unconventional portfolio management and research structure. Most investment firms employ a team of analysts and portfolio managers. Typically, the portfolio managers take the analysts recommendations and make buy and sell decisions in their portfolios based on their opinions. At NorthRoad, they have three analysts who also serve as the portfolio managers. They each create an independent opinion of a company and then have a three-way vote on whether they should buy or sell that stock. There is no lead manager. All three analysts/portfolio managers are equal partners in the portfolio construction process. This creates a very balanced and consistent dynamic to the management of their portfolios.

One of the three original managers resigned his position at the end of 2004. They have since hired a new manager who has a great deal of experience with international investments. This development was a catalyst for Horizon to request an in office meeting with a NorthRoad representative and conference calls with NorthRoad’s portfolio managers. After a thorough review of the situation, we feel confident that the newly hired analyst/portfolio manager is a very capable replacement. We will continue to monitor this development to make sure that the portfolios maintain the standard of excellence that we have come to expect from NorthRoad Capital Management.

What are Separately Managed Accounts?

When deciding on an investment strategy for each of our clients, we consider the most effective investment vehicle for each client to use. Generally, we suggest that our clients invest in mutual funds, separate account managers, or a combination of the two. The key difference between these choices is that ownership of a mutual fund represents a fractional ownership in a large pool of money whereas a separately managed account allows the individual client to own the actual shares of the companies that make up their portfolio in that particular strategy. Typically, the client's individual circumstances and their portfolio size will dictate how mutual funds and separately managed accounts are used in their investment strategy. Generally, we do not consider the use of separate accounts for portfolios of less than \$1 Million. There are benefits to both and what might be suitable for one client or account type may not be appropriate for another.

Disclaimer: This manager (NorthRoad) 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.

Market Review

The following table shows market index returns for the 2nd quarter, trailing 12-months, and past 3 years.

Index	2nd Qtr	12-Mo.	3-Year
S&P 500 (Large Stocks)	0.91%	4.43%	20.36%
Russell 2000 (Small Stocks)	4.00%	8.14%	38.26%
EAFE (International Stocks)	-1.95%	11.03%	35.58%
Lehman Bond Aggregate	2.69%	5.20%	17.60%

After a decline in the first quarter, the S&P 500 posted a very modest gain of 0.9% in the second quarter. High energy prices, a slowing economy, and rising interest rates have caused a great deal of pessimism, which resulted in a very flat and unimpressive quarter.

Demand for oil has kept crude prices high. Oil prices declined to almost \$45 per barrel before climbing to over \$60 in the month of June. Oil ended the quarter at \$56.50, but

will surely continue to be very volatile and possibly move higher as forecasts for an active hurricane season may lead to supply disruptions in the Gulf of Mexico.

Similar to last quarter, the Federal Reserve raised rates by a total of 0.50% in the second quarter. The Fed's short-term target rate is now 3.25%. There has been a lot of speculation by market observers, including bond guru, Bill Gross of Pimco, that they expect rate hikes will soon slow or stop. When the Fed did not provide a clear indication at their last meeting that the rate hikes would slow, the market reacted very negatively.

Continued increases in short-term rates have brought them closer to the persistent if not stubborn long-term rates, which remain at about 4%. This has caused the yield curve to flatten. Traditionally, a flat or inverted yield curve may signal the beginning of a recession. Federal Reserve chairman Alan Greenspan is not yet concerned about the threat of a recession stating that the U.S. is on "reasonably firm footing" pointing to increases in consumer spending and business investment activity. The persistent low level of long-term rates may not be a signal of economic weakness but a result of less demand for domestic borrowing and increasing investments in U.S. treasuries from overseas investors. However, low domestic savings rates, a widening trade deficit, the real estate bubble, and rising oil prices and interest rates are all threats to the U.S. economy.

Our expectations are that equities will return 6-10% for the calendar 2005 year, which would necessitate a better second half of the year than the first half. At the writing of this article, the market has rallied 1.7% since the beginning of the quarter in spite of terrorist attacks in London and hurricanes in the gulf coast. Hopefully the market will follow through with our predictions.

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

"Don't miss out on a blessing because it isn't packaged the way that you expect." - Anonymous

Making Cents

We try each quarter to provide some useful, practical and hopefully timely advice for our readers in this "Making Cents" section of our newsletter.

This quarter, in light of recent events, we thought to focus our attention on the need to clearly discuss and document your medical wishes if you were to suddenly fall seriously ill or become incapacitated. While not at the top of the most enjoyable conversation topics, illness or disability could be in any of our futures and like it or not, we're all going to die. We have helped many of our clients in planning and record keeping for these sorts of scenarios, as well as the eventuality of death. We thought that a checklist might help you sleep better at night knowing that those you love will be spared the confusion and frustration that comes with locating information or making difficult decisions about your personal wishes. We suggest that you make a list of contact information, account numbers, physical location, etc. Put the list in a safe place and let your family know where it is.

1. To whom should your family turn for advice?

- CPA(s)
- Doctor(s)
- Estate Lawyer(s)
- Financial Advisor(s)
- Insurance Agent(s)

2. Where are your assets located?

- Bank(s)
- Brokerage House(s)
- Pension(s)
- Limited Partnership Interest(s)

3. Do you have any debts?

- Auto Loan(s)
- Credit Card(s)
- Margin Account(s)
- Mortgage(s)

4. Where would someone find...?

- General Power of Attorney
- Medical Power of Attorney
- Directive to Physicians
- Checkbook, Credit Cards, etc.
- Beneficiary Designations on Retirement Accounts
- Funeral Instructions or Legacy Letter
- Life Insurance Policies
- Appraisals of Antiques/Collectibles/Jewelry/Silver
- Car Title
- Contact List
- Driver's License/Passport/Social Security Card
- House Deed(s)
- Marriage License or Divorce Decree
- Military Discharge Papers
- Wills, Trusts, or Other Estate Documents
- Safe and Combination
- Safety Deposit Box and Key

5. Caretakers or guardians for

- Your children
- Your pets

While life is complicated, there are ways to make it simpler and this might be a good place to start. Please feel free to contact us at 713.748.7000 or visit www.horizon-advisors.com if you would like any additional information or discuss any of these matters in more detail.

Estate Planning

Tax Planning Services

Investment Management

Private Foundation Administration

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

Retirement Planning

Tax Compliance Services

Personal Financial Administration