HORIZON ADVISORS

ON THE HORIZON

Winter 2006

Horizon Notes

Annual Report—Thanks to our clients and friends, both of our businesses, Horizon Advisors and Maddox, Thomson were very successful during the past year. We serve a growing number of clients and their families with their financial needs, including planning, investment management and consulting, accounting, and administrative services.

The usual measuring stick for growth and success of firms like Horizon is assets under management and our assets have grown from $70 Million last year at this time to almost $83 Million this year. We now serve more than 50 families with their financial planning and investment management needs, in addition to the tax, accounting, and administrative work which Maddox, Thomson provides.

From an investment perspective, our goal-oriented approach to planning and portfolio design, along with our philosophy of asset allocation and our manager selection process have served our clients well, providing stability and appropriate risk-adjusted returns, while our clients make progress toward their personal and financial objectives.

We continue to improve our client service team. In addition to Joe Thomson and Larry Maddox, our team includes Owen Murray, CFA who serves as director of portfolio design and investment research. Cathy Haymes continues to excel in her client service role. We are looking forward to the addition of Henry Bragg, CPA who will work part time during the spring and join us full time when he finishes his MBA at Rice University's Jones School of Business.

Horizon joins "Best Practices" Group—Horizon Advisors has become a member of "The Phoenix Group", a group of advisors from around the country who meet periodically to discuss their businesses and to share "best practices." A group like this provides one-on-one access to nationally known experts in the various fields of planning and advice as well as the opportunity to share our thoughts and experiences with other successful advisors. This is another way that we can be more confident in delivering the best possible advice and solutions to our clients.

New Client Service Survey—At Horizon Advisors and Maddox, Thomson, our client relationships are our most important assets. We want to make sure that we're meeting our clients' expectations in order to create enduring, long-term relationships. While we think we're doing a good job for our clients, we don't want to take anything for granted, so we are in the process of engaging an independent outside organization to help obtain feedback from our clients about how well we are meeting our clients' expectations. These surveys will begin in the late spring and will take the form of brief, quarterly telephone calls to a sampling of our clients. Our office will call in advance to schedule these calls between our clients and the consulting firm. Once we've completed our first round of interviews and received our first feedback, we will let you know how we're doing and what changes may be in store as a result of the surveys.

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

"Even in social life, you will never make a good impression on other people until you stop thinking about what sort of impression you are making." - C. S. Lewis

Expectations for the New Year

Too Many Politicians and not Enough Statesmen

Political discourse has devolved to the point that it is (as Shakespeare wrote in Macbeth)"*...full of sound and fury, signifying nothing.*" Or, as we might say in Texas, *"There's a lot of hollerin' going on but nothing much seems to get done."*

In a recent column, the Wall Street Journal, quotes former White House economist, Douglas Hotz-Eakin, who puts things in perspective …*"political posturing, mind-numbing arguments, and bickering over million-dollar fish in a trillion-dollar sea."*

Simply put: absent some sort of significant event which provides the impetus, we expect no bold or significant action to emerge from Congress during 2006. It's an election year and, with President Bush beginning to resemble an early lame duck, we don't expect anyone in Congress to have the political courage or the president to have the political support to be able to make any substantive changes.

But, make no mistake, there are some significant challenges ahead, including the difficult issues of Social Security and Medicare reform, retirement income for our aging population, as well as steeply rising medical care costs. While our free market economy has historically been resilient and adaptable, these issues will likely need to be dealt with by our political leaders in the near future. In the meantime, we can to prepare to take care of ourselves and hope for some sort of political leadership to emerge before these issues reach the crisis stage. We will be keeping an eye on developments and advise you as we think conditions warrant action.

COLLECTED THOUGHTS

"Example is not the main thing in influencing others, it is the only thing." - Albert Einstein

Market Review

The following table shows market index returns for the 4th quarter, trailing 12-months, and past 3 years.

Index	4th Qtr	12-Mo.	3-Year
S&P 500 (Large Stocks)	1.59%	3.00%	41.88%
Russell 2000 (Small Stocks)	0.81%	3.32%	75.73%
EAFE (International Stocks)	3.79%	10.86%	76.36%
Lehman Bond Aggregate	0.56%	1.71%	9.99%

The fourth quarter ended a rather uneventful year for both domestic equities and fixed income investments. The Dow Jones Industrial average ended the year down 0.61% and the normally volatile NASDAQ index ended up a mere 1.4%.

A soft October gave way to a very bullish November when the Federal Reserve board hinted that the interest rate tightening cycle could be drawing to a close. The so-called "Santa Claus" rally never materialized and the market moved sideways in the month of December, allowing for modest gains for the market in the fourth quarter.

The big winners this year were foreign equity investments. Returns were especially robust in parts of Asia, Latin America, and Europe where returns exceeded 50%. These returns came to U.S. investors despite a strong year for the U.S. Dollar which, after a weak 2004, spent most of 2005 gaining strength against the other major foreign currencies.

The Federal Reserve again raised short-term interest rates by 0.50 to 4.25% from 3.75%. In October we learned that Ben Bernanke will replace Alan Greenspan as the Fed chief in 2006. This change in leadership is expected to bring a shift in philosophy for the Fed which has renewed hope that 2006 will mark the end of the Fed's interest rate hikes.

The increases in the Federal Reserve rate impacted mortgage rates in the fourth quarter. The average residential mortgage rate increased from 5.53% in June to 6.22% in December. This increase contributed to an apparent slow down in residential real estate. Houses are beginning to stay on the market longer and some of the previously over-heated markets are starting to see prices decline. Reductions in the housing market are expected to be gradual and focused in those markets that greatly benefited from the sharp increases of the past few years.

To the dismay of investors, the yield curve became inverted in December when the yield for the 10-year Treasury dipped below the yield for the 2-year note. The yield curve is considered inverted when shorter maturity bonds yield more than longer maturity bonds. Historically, an inverted yield curve is a signal of a coming downturn in economic activity, however there is much debate about the significance of this most recent inversion and results remain uncertain.

We are cautiously optimistic about equities for the coming year. Overall price-earnings ratios declined during 2005 year as stock prices moved sideways while corporate profits have experienced robust growth. Thus, market valuations seem more reasonable now than they were a year ago. We think that the economy will remain stable and corporate earnings growth will remain healthy. Concerns still remain over higher than normal energy prices and increasing interest rates, but GDP and job growth should remain strong. It is difficult to predict exactly which asset class will become the leader in the new year, so we recommend that our clients remain fully invested and well diversified so that their portfolios benefit no matter where the market's strength appears.

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— Sovereign Advisers

The purpose of a fixed income or bond allocation in a portfolio is to provide a layer of stability and diversification from more volatile and unpredictable equity investments. For our smaller accounts we typically use fixed income mutual funds, but for clients with larger portfolios, we enlist the help of Sovereign Advisers and arrange a diversified portfolio of individual bonds, which are held directly by our clients.

Sovereign Advisers is an institutional money manager that is located in Charlotte, North Carolina. They manage over 2 billion in high-quality fixed income investments for institutions and high net worth individuals.

With our help, the managers at Sovereign tailor portfolios to each client's unique risk tolerance and tax circumstance. For example, tax deferred accounts such as an IRA or a Foundation would most likely be invested in treasury, corporate, and government agency bonds, while taxable accounts would most likely be invested in tax-free municipal bonds.

Jeff Hines, the founder and President of Sovereign, has more than twenty years of experience in the management of fixed income portfolios. Mr. Hines is a graduate of the University of Colorado and prior to founding Sovereign Advisers in 1994, he was a senior portfolio manager for two different institutional money managers.

The other key members of the Sovereign investment team are Greg Cobb and John Wiseman who combine for almost thirty years of experience in the management of fixed income investments.

Sovereign's investment philosophy is based on a strict value oriented research process. The relative value for each investment is determined through disciplined analysis and the volatility is controlled with rigorous risk management strategies. By actively managing the portfolios, Sovereign has the flexibility to act quickly when they discover an opportunity, and react appropriately when an investment's risk characteristics change.

Sovereign has been our fixed income manager of choice for many years and we have been quite satisfied by their performance and careful attention to our clients' needs. 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 (Sovereign Advisers) 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

Heads up—For those of you who handle your own investments, be sure to pay attention to the cash reserves in your brokerage accounts. Investment News magazine recently noted that many brokerage firms, including Morgan Stanley, Smith Barney and Merrill Lynch, have begun sweeping their customers' cash into proprietary bank deposit accounts, rather than money market accounts. You might not notice this change, but the interest which you earn will be substantially lower, perhaps one-half of the interest available on a money market account. If this happens with your accounts, be sure to ask that your surplus funds be transferred to the higher yielding accounts.

Annual Insurance Review—Each year at this time, we suggest that you review your personal insurance coverage. Make sure that your property and casualty insurance is sufficient. In particular, you should confirm that your coverage limits are sufficient to cover the cost of rebuilding your home in the event of fire. Rising construction and home costs really make this annual review a necessity. In addition, you should review your disability and life insurance coverage to make sure that your existing policies and coverages meet your family's needs. Finally, if you have an individual medical insurance policy, you should contact your agent to discuss possible changes. There are growing alternatives to traditional medical insurance policies which may provide more cost-effective solutions for you and your family.

COLLECTED THOUGHTS

"Beware of little expenses. A small leak will sink a great ship." - Benjamin Franklin

HORIZON ADVISORS

Estate Planning

Tax Planning Services

Investment Management

Private Foundation Administration

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