

Horizon Notes

Annual Report

Thanks to our clients and friends, both Horizon Advisors and Maddox, Thomson continued to grow during the past year. We serve a growing number of clients and their families with their financial needs, including wealth management, 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 \$83 Million last year at this time to almost \$115 Million this year. Horizon now serves more than 60 families with their wealth management and investment portfolios, in addition to the tax consulting, accounting and administrative work which Maddox, Thomson provides.

We continue to expand and improve our client service team. Our team includes Owen Murray, CFA as the director of portfolio design and investment research and Cathy Haymes continues to excel in her client service and operations role. Our client service associates include Henry Bragg, CPA who joined us full time after completing his MBA at Rice University's Jones School of Business. We have also added another Rice MBA graduate, Allison Crosswell, who is now a full-time employee.

Report on Client Service Survey

Many of our clients have taken the time to participate in one of our quarterly telephone surveys and we thank those of you who have helped with this effort. While the overall responses have indicated a high level of client satisfaction, we have received a number of helpful comments on how we can improve our service delivery. With this feedback, we have undertaken the following changes and initiatives:

New Employees: Growth has a way of stretching existing resources, so in order to maintain our service levels and responsiveness, we have hired additional employees at

Horizon and at Maddox, Thomson. New hires include additional professionals as well as additional administrative support.

Quarterly Reporting Package: For those of you who are investment advisory clients, you will notice a few changes in our portfolio reporting package, continuing our transition to a more graphically based and streamlined format.

New Telephone System: We are in the process of replacing and upgrading our telephone system. We expect to implement the new system before the end of January. This new system will provide a direct line to each employee and will make it easier for us to check voicemails when we are out of the office.

Business Continuity and Disaster Recovery: With the recent memory of Hurricane Katrina and its effect on businesses and individuals, we have spent a great deal of time over the past year reviewing our business continuity and disaster recovery plans. If there is some sort of interruption to our business, we want to be sure that our data is secure and accessible, so that we can continue to run our business and serve our clients during the recovery period.

To address this concern, we have hired a local specialty technology company to store our data and software in a secure location in downtown Houston. All of the data and software is backed up to another location in the Midwest and will remain available for use in times of crisis. To ensure that our data is protected, we will use secure internet connections to access these remote systems.

We hope that the incorporation of these changes will improve the level of service provided to our clients. The surveys will become an ongoing part of our process so that we can continue to make additional changes and improvements as necessary.

COLLECTED THOUGHTS

*"The road to success is paved with mistakes well handled."
- Stanley Marcus*

Market Review

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

Index	4th Qtr	1-Year	3-Year
S&P 500 (Large Stocks)	6.17%	13.62%	27.55%
Russell 2000 (Small Stocks)	8.47%	16.91%	41.33%
EAFE (International Stocks)	10.04%	23.47%	60.97%
Lehman Bond Aggregate	1.11%	4.41%	9.70%

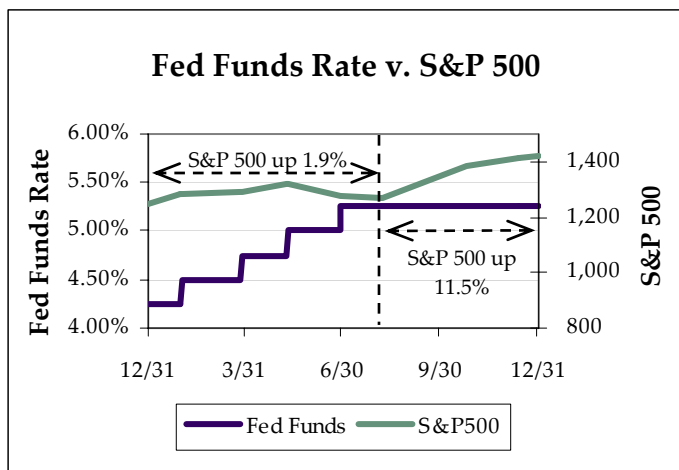
The fourth quarter proved to be an extension of the rally that began in the final month of the third quarter. October posted the biggest gain with a 3.1% return for the S&P 500, while November and December kept the rally alive with gains of 1.7% and 1.3% respectively.

After six long years, the Dow Jones Industrial Average moved back into record territory in 2006. The S&P 500, however, ended the year 7.1% shy of its March 2000 record and the Nasdaq still has a very long way to go as it ended the year 52% below its March 2000 high. The rise in the market has brought stock valuations closer to their longer term averages. A stable outlook for the Fed Rate and inflation could serve to raise market multiples and extend the rally in 2007.

The 2006 market rally was defined by two distinguishing characteristics; first, almost every segment of the equity market posted gains, and second, stock pickers had a difficult time keeping up with the broader market. Every major equity index posted double-digit gains this year with the exception of the Nasdaq which gained 9.5%. And, unlike most years, very few actively managed equity funds successfully beat the S&P 500. A high profile example of this phenomenon was the failure of legendary investor Bill Miller, manager of the Legg Mason Value Fund, to beat the S&P 500 for the first time in 15 years.

Positive economic data and the pause in interest rate hikes by the Federal Reserve have strengthened hope that freshman Fed Chairman Ben Bernanke has successfully guided the U. S. economy into a "Goldilocks" economy that is neither too hot nor too cold. The market remained focused on the actions of the Fed in 2006 with the indexes essentially treading water until the August 8th Fed meeting when for the first time in 17 sessions, the Fed did not

raise rates. As you can see in the chart below, the rally began in earnest once the Fed stopped raising rates.



The hope for 2007 is that the Fed will begin lowering rates or at the very least will not raise them. A decrease in rates might be the catalyst the market is looking for to continue the recent upward momentum. An increase in the Fed Rates, however, would likely have a chilling effect on the market and could precipitate a pullback.

The long anticipated trouble in the residential real estate market finally materialized this year. The declines thus far have not been as severe or wide-spread as many feared and the market was helped by relatively low mortgage rates. The worst declines occurred primarily in markets that were especially overheated during the five-year real estate boom. Analysts have mixed opinions about real estate in 2007. While some believe the worst is over, others believe it could get much worse with affordability remaining a major obstacle for many would-be buyers.

A slow-down in corporate profit growth is expected to contribute to a cooler GDP in the coming year. Unemployment ended the year at 4.5% which is well below the long-term average of 5.7%. Historically, low unemployment can be a catalyst for inflation. Oil ended the year slightly below its 2005 year-end price of \$61, but was very volatile and spiked to a high of \$77 in August. Oil prices will likely remain volatile for the foreseeable future.

Many of our expectations for 2006 were realized, however, some were not. We felt that the market was relatively cheap at the start of the year and that 2006 would be a positive year for stock investments. We did not have

a strong conviction about any particular investment category. As it turned out, 2006 was a good year to be invested everywhere. The biggest surprise for us was how well the market responded to the Fed's pause in rate hikes.

Our expectations for the market in 2007 are slightly less optimistic. We are concerned about the Fed's intentions and are uncertain about inflation and interest rates. We anticipate a cooler economy and we expect corporate profits to slow. In addition, this year's rally has boosted valuations making the stock market appear "less cheap" than it did last year. That said, we are not overly concerned about the market and as always, we encourage our clients to remain invested and well diversified.

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— Loomis Sayles Bond Fund

Often times, investors depend on bonds to add a level of safety to their portfolios without the expectation significant gains to these investments. The Loomis Sayles Bond Fund takes exception to that expectation. They are not only trying to achieve safety and security, but also to generate meaningful returns.

Unlike most bond funds, the Loomis Sayles Bond fund has very broad investment parameters. They look for fixed income opportunities in a wide range of credit quality issues and in foreign markets. They consider their fund to be an "all weather" fund that can generate positive returns in any market environment, because they can literally go anywhere to find investment opportunities. For example, they will buy securities with foreign currency rather than the U.S. dollar when they think it will enhance the position's return.

The co-portfolio managers of this fund, Dan Fuss and Kathleen Gaffney, have a great deal of experience and are considered to be leaders in their field. Fuss has over 45 years of fixed income experience and has been with Loomis Sayles since 1976. He is a graduate of Marquette University and is a CFA charterholder. Gaffney has more

than 20 years of fixed income experience and has been with Loomis Sayles since 1984. She is a graduate of the University of Massachusetts and is also a CFA charterholder.

As a firm, Loomis Sayles dedicates a substantial amount of resources to their fixed income portfolios. They spend more than \$30 million on fixed income research each year and have more than 30 full-time credit analysts on staff.

The Loomis Sayles Bond Fund's success comes from the intense focus on bottom-up research by their team of analysts. All of their investment ideas begin with a fundamental screening process that searches over the entire universe of fixed income opportunities for exceptional values. The most important investment criteria for their bonds is that they trade at a substantial discount to face value. They then carefully analyze each bond's credit rating and focus on those they expect will be upgraded. Finally, the analysts make an investment proposal to Fuss and Gaffney who make the final purchase decision in the context of the construction of the overall portfolio.

Due to their willingness to seek returns in unconventional ways, this fund has a risk profile that is higher than a traditional investment-grade bond fund. However, when paired with other more conservative bond funds, as we do for our clients, the Loomis Sayles Bond Fund can be a great diversifier and performance generator for the fixed income portion of a portfolio.

We have selected the Loomis Sayles Bond Fund for our clients because of their broad mandate, depth of research, and long track record of superior 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 (Loomis Sayles Bond Fund) 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

Prospects for Political Inertia

The change in congressional leadership may prove worrisome to the markets. As President Bush enters the last two years of a truly "lame duck" presidency, we expect that the national legislative agenda will remain in the stalemate condition that it has experienced in the past two years.

One very large, looming concern in the near future is the prospect that the Bush tax cuts, which took effect in 2002 will "expire" at the end of 2010. Congressional action is required in order to extend the favorable rates which we currently enjoy. With Congress's recent pledge to "pay as you go" or balance revenues and expenditures, an extension is unlikely in the next two years. This expiration, if it occurs, will result in a significant tax increase, as rates return to their previous levels. For example, the rate on dividend income will increase from 15% to a maximum of 39.6%; long term capital gains from 15% to 20% and earned income from 35% to 39.6%. Many commentators believe these tax reductions were a catalyst for the current bull market, which we have enjoyed since 2002.

This is nothing to be overly concerned about in the short-term, but it could have a significant impact on the future. We will keep a close eye on the process and keep you apprised as things develop. Stay tuned.

Big Brother is Watching You

Our topic for this report may just save you some money and possibly, your life. Some of the folks in our office have had recent experience with the City of Houston's

new Red Light Cameras, and we thought it might be worthwhile to tell you about them.

As you may know, these cameras are part of a new initiative designed to reduce the number of crashes at busy intersections. According to the City of Houston, safety programs like this (in other cities) have reduced accidents by 40 to 90%. Fundamentally, the program is designed to make folks think twice about running red lights.

Here's how it works: the system and its cameras are activated when a car enters the intersection after the signal has turned red. If a car is in violation, two pictures are taken – the first picture shows the red light and the car before it enters the intersection and the second picture shows the car in the intersection with the red light. They also enlarge the license plate of the vehicle. There is no violation for a car which is in the intersection when the light turns red, just if the light is red before you enter the intersection.

The pictures are a very effective way of proving that the car is running the light, and the fine, which is sent to the vehicle's registered owner, is \$75. The good news is that these red light violations are civil penalties and are not reported to the Texas Department of Public Safety or your insurance company. Hopefully you will not be among those who show up on this candid camera, but if you do, you'll know what to expect.

COLLECTED THOUGHTS

"When opportunity knocks, most people just complain about the noise." - Anonymous

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