BEYOND THE HORIZON

3rd Quarter, 2007 Issue

Inside This Issue:

Just a reminder that you can find this and other newsletters on our website at www.horizonfinancialadvisors.com.

MARKET UPDATE

Having recently returned from attending the Morningstar Investment Conference held in Chicago, we would like to share with you the highlights of what was being said about the current and future outlook for investing. Over the course of several days, we attended lectures on a variety of topics - those regarding globalization, commodities, indexing, investment selection, and the emerging markets, among others. The speakers and panelists were well-respected money managers from many of the top mutual fund companies and investment management firms around the country.

Overall, the speakers and panelists felt positive about the global economies and future investment opportunities, especially for stocks. They offered quite a bit of data to support why equities, for the most part, are still fairly valued, especially more so than bonds. Many felt that large cap stocks will fare better than their mid-cap and small-cap counterparts.

“Global” seemed to be a word often used. No longer should we think of investing as domestic versus international, but as global. Ranji Nagaswami, Senior Managing Director and Chief Investment Officer for AllianceBernstein, believes that limiting our allocation to global investments is not limiting our risk but merely limiting return. Unlike in the past, the “country factor” of investing matters less than ever. Now it is company-specific issues, product mix, and what’s going on inside the company that is most important, not necessarily the country where the company resides.

Domestically speaking, there has been a dramatic decline in volatility in U.S. economic growth over the past decade. Several factors have contributed - defense spending being a much smaller percentage of our GDP, better inventory management, and smaller swings in consumer spending on items such as housing and energy. Because of a change in the consumer’s shopping basket, we’ve been able to more easily absorb price shocks. According to Nagaswami, we are no longer spending as much of our overall budget on food and energy as in the past—about one-half of what we spent in the 1970s. We are also importing more than exporting which enables us to cut back sharply when needed. She concludes that these factors have created more stable and consistent economic growth and have resulted in more predictable inflation.

Thanks in part to globalization, the current environment of low inflation should continue. With more countries practicing capitalism versus socialism, there is more competition globally to offer cheaper products and services which helps foster low inflation. The world's aging demographics also contributes, resulting in a more deflationary environment rather than an inflationary one. Technology has also helped by lowering costs and improving productivity, thereby contributing to keeping inflation in check.

From a global perspective, the U.S. is benefiting from global prosperity. Why so much global prosperity of late? There has been recovery of the European economies, growth in Eastern Europe, and more stable political and economic/monetary systems in the developing countries. As developing countries develop, this leads to an increased demand for goods and services. Free trade and cash flow around the world results in stability. As for the emerging markets, there are still potential perils to investing in these regions. But with GDP growth expected to continue to outpace those of the developed countries, there are still potential opportunities as well.

Despite these factors having a positive effect on the U.S. and abroad, several of the well-respected speakers felt that future returns for equities, as well as bonds, would likely be less in the future than the recent past. We, too, agree with this assessment. There was a common piece of advice, however, offered by both the keynote speakers at the conference — "manage your clients' expectations".

THE POWER OF DOLLAR COST AVERAGING

With the market at a high, do you find yourself wondering when the right time is to invest? Do the stock market's ups and downs make you nervous about investing? If so, you might consider a gradual approach - "dollar cost averaging". Dollar cost averaging lets you use market volatility to your advantage. Here's how it works: Invest a consistent amount at regular intervals, such as once a month. As the market rises and falls, you may be able to purchase shares at a lower average cost than you would if you bought all the shares at once. You can purchase more shares when prices are down and fewer when they are up. No matter which direction the market heads, dollar cost averaging can put market fluctuations to work for you by reducing the average cost of your portfolio over time. It is important to remember, however, that dollar cost averaging neither ensures a profit nor protects against loss in declining markets; you should consider your willingness to keep investing when share prices are declining.

In addition to the benefit of averaging your purchase price, you can gradually build up your account using an automatic investment plan. The automatic investment plan enables you to invest a set amount on a regular basis by having it deducted directly out of your bank account. Consider this — If you started investing $250 per month, earning an assumed average return of 8% per year, compounded monthly, your investment would be worth $46,042 in ten years. That same small dollar commitment of $250 per month would be worth $148,238 in twenty years.

We find that using dollar cost averaging and the automatic investment plan is particularly effective with IRAs, Roth IRAs, 529 Plans and Coverdell Education Savings Accounts. Making smaller investment commitments on a regular basis makes it easier to get one of these investment goals funded. Additionally, setting up the investment so that the withdrawal comes right out of your bank account makes it easier to find the available dollars to make the investment.

Many investment companies will allow you to set up the automatic investment plan with as little as $50 per month. So before you dismiss an investment goal, consider starting an automatic investment plan which will allow you to take advantage of dollar cost averaging.

A DISCUSSION WITH OUR AGING POPULATION

As our population ages, baby boomers and their parents are being faced with the issues that surround caring for aging family members. In the event of a long-term illness, families are then challenged with the financial, mental, and physical issues that are involved. Confronting these issues before they arise can help families better cope with them as they occur.

From a financial standpoint, it's important to address now how care might be paid for. For many individuals, the primary concern is outliving their money. Depending on the type and level of care needed, that might not be the case.

In the event, however, of an extended illness that requires a significant spend-down of assets, Medicaid, the Federal welfare system, may provide financial assistance. However, the Deficit Reduction Act passed last year imposes tighter restrictions on qualifying for benefits. In light of some of these changes, we would like to highlight some of the rules that affect the income and assets when applying for benefits.

1) IRAs of the non-confined spouse are not counted as part of the total assets available.

2) The "look-back" period is now five years, instead of three. This means that gifts made five years prior to applying for benefits will be counted as part of the total resources available.

3) Prepaying burial expenses is an acceptable reason for depleting assets.

4) Annuities offer an opportunity to protect the asset by providing income for a non-confined spouse.

5) Payments can be made to a family member who provides care without it being considered a gift.

6) Selling your home may not be an advisable strategy.

7) For married individuals, re-titling assets may not be beneficial. Medicaid will consider all the assets, regardless of how they are registered (individually or jointly), with the exception of the IRAs.

Other than purchasing long-term care insurance when you're in your 50s or 60s, there is often little that individuals and families can do financially to prepare for a potential long-term illness. The Society of Certified Senior Advisors suggests that family members have a conversation now about how they might deal with this issue should it occur in the future.

Disclaimer: This article is not intended to give legal advice regarding Medicaid eligibility. For legal advice, consult an Eldercare Attorney.

INVESTMENT CORNER

We are pleased to announce a new service that Horizon Financial Advisors is launching on September 1st. The service is designed to provide investment advice to individuals who participate in an employer-sponsored retirement plan (such as a 401(k), 403(b), Thrift Savings, SEP or Simple IRA).

We are introducing this service because it is one that has often been requested by our clients and their co-workers and where we can fill a current void in the investment advice our clients require. For most individuals and families, the retirement plan at work is their largest asset but the one that gets the least amount of attention and professional advice.

Here's how the new service works. Every six months we will contact you to get a copy of your most recent statement or printout on your retirement plan at work. (We DO NOT ask that you give us on-line access to your account.) After reviewing your account, we will get back to you with recommendations regarding any potential changes that should be made to the investment allocation on the existing balance as well as your future contributions. We will respond to you via phone, mail or e-mail, whichever you prefer. In addition to an automatic review of the account every six months, we will also guide you through any changes in the plan that might occur, such as new investment choices being offered or the employer moving the plan to another custodian.

The annual fee for this service will be $150 for individuals or $200 for couples where both are participating in a plan. This is a nominal fee considering the importance of the asset. Let's say your 401(k) balance is $150,000. We feel that 0.10% per year is worth the professional advice or "second opinion".

Proper asset allocation and investment selection can significantly affect overall performance. Diversification is not enough to avoid risk. As professionals, we have access to data on many of the funds being offered in company-sponsored retirement plans — data that is not available to the employee. A common mistake made by investors is selecting investments based solely on past performance. As stated by Jim Rothenberg, Chairman of Capital Research and Management and Portfolio Counselor for several of the American Funds portfolios, you "shouldn't be buying today what you should have bought five years ago".

Soon we will be sending notices about the new service to our pre-retiree clients. To opt into the service, you will simply sign the advisory agreement that will be included with the letter and return it to us along with your check and a copy of the most recent statement or printout on your plan. We'll then review your account and get back to you within two weeks. We are also making this service available to those who are not existing clients. If you have a co-worker, friend or family member that is in need of this service, please feel free to give them our name and contact information.

HORIZON FINANCIAL ADVISORS
Jonnet Building, Suite 303 4099 William Penn Highway
Monroeville, PA 15146-2513
(412) 856-7300 / (800) 852-7182
E-Mail: info@horizonfinancialadvisors.com

Securities Offered Through
TRUSTMONT FINANCIAL GROUP/TRUSTMONT ADVISORY GROUP
Greensburg, PA
Member NASD/SIPC