

Volume XXX, Qtr III

THE HARBOR ADVISOR

What do Financial Planning and Personal Training Have in Common?

A fair bit as it turns out. It is no secret that Harbor is a longtime proponent of financial planning. We have thrown our energy towards the creation of plans that are understandable and tailored to the individual for over 35 years. We know that a plan can provide enlightenment, knowledge, and a direction for your future. It also assists with decision making and can measurably lower stress around these financial unknowns. Life partners can get on the same page. Think of the time you can save by not worrying and arguing about money.

The value of personal training advice and assistance is well known too. A personal exercise plan and guide for nutrition that works for you greatly increases the likelihood that you will be successful in health goals like enhanced strength, energy to do the things you want to do, better health, and looking and feeling younger.

Carving funds out of your budget for these consultations isn't a luxury; adding these items are at the core of success in personal, professional, spiritual and community endeavors. Since our plans are personalized, they address what you need and avoid what you don't. We have a number of payment plans to address individual needs. We want you to be successful and we promise to allow for personal training in your cash flow analysis.

Read on for great articles on why we bought treasuries, eligible schools for 529 funds and my article on the benefit and use of margin loans.



October 24, 2019

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This Month in History

The cornerstone of the White House was laid by George Washington in 1792.



Third Quarter 2019 Market Recap

The trade conflict between the US and China remained unresolved during the third quarter, resulting in volatility and uncertainty in markets both domestically and abroad. This uncertainty contributed to the slowdown in the global economic expansion. In the US, the PMI (Purchasing Managers' Index) ended the quarter below 50, indicating a contraction in the manufacturing sector for the first time since 2009. Many economists believe this decline is the result of companies delaying investment spending until the trade war is resolved. Yet, with no end in sight, global economies are feeling the effects. Also during the quarter, we saw the yield curve invert when the yield on the three-month Treasury exceeded the yield on the 10-year Treasury note. This has been a

leading indicator of many market downturns in the past, but it is no guarantee of a recession. It does indicate that investors are nervous about economic growth and market volatility. The Fed cut rates in July and again in September in an effort to protect the US economy from the effects of a global economic slowdown. However, there are also many positive indicators in the US economy which are keeping the markets at near-record levels.

Returns for major indexes were mixed for the quarter. The S&P 500 was up 1.19% and the Bloomberg Barclays Aggregate Bond index was up 2.32%. The Russell 2000 was down 2.76% and the MSCI EAFE was down 1.71%.

By Karen Didde

"Great things in business are never done by one person. They're done by a team of people." Steve Jobs

Fund Focus: Vanguard Intermediate Treasury (VSI GX)

By Katherine Annis

Vanguard Intermediate-Term Treasury Index Fund (VSI GX) is one of the most recent funds to join Harbor's portfolio. This Treasury fund's holdings are 99.7% invested in U.S. Government bonds which the portfolio management team chose by tracking and sampling the Bloomberg Barclays U.S. Treasury 3-10 year bond index. The fund offers great protection during down market periods and is considered a safe and stable option due to the low risk of the U.S. government defaulting on its debts. Interest rate risk for this fund is moderate as it invests in intermediate term bonds. VSI GX emphasizes income rather than growth which is why it adds stability to any portfolio. In the end, we added VSI GX not only due to its concrete performance but also to add steadiness and safety. Morningstar gives this fund a 5-star rating which supports these reasons for inclusion.

Margin Loans: A Sophisticated and Useful Planning Tool by Elyse Foster

A margin account adding the ability to borrow against your investments in your portfolio is a loan account by an investor with a broker (Schwab) through whom they have an account. It is a loan which can be used for additional share purchases, investments in real estate and private equity or to bridge a financial transaction. The funds available under the margin loan are determined by the broker based on the marginable securities owned by the investor which act as collateral over the loan. The formula allows for a percentage of each security's value to be included in the marginable amount. The broker usually has the right to change the percentage of the value of each security it will allow towards further advances to the investor and may consequently make a margin call if the balance available falls below the amount utilized. Market fluctuations come into play here. For that reason the amount you may margin is usually set at approximately 45% of the value of selected securities.

The broker will charge interest and other fees on the amount drawn on the margin account. This interest amount is published by the broker and can be negotiable.

Margin is useful in situations where securities that might be sold for a cash need are highly appreciated and would cause a capital gain if sold. If the need is short term, all the more reason to consider margin. As an example, this can happen with a home sale and purchase. In many communities in the current market a seller will not accept an offer contingent on the sale of your current home. There are too many cash buyers. A margin loan allows the buyer to enter into the contract for the new home while waiting for the existing home to sell. Once sold, the margin loan is paid and interest ceases.

Another use is to cover a relatively short term cash need for another investment. Some opportunities are timely and the use of the margin funds, again, allows the appreciated securities to remain in place.

Considering a margin account at Harbor begins with a review of the investor's financial situation - is there another way to accomplish what is needed? Does the investor have the ability and a good plan for paying back the margin loan? How much can you and should you borrow based on your overall financial situation? How sophisticated is the investor? Margin loans are complicated and need to be fully understood.

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Living Well/Living Smart

Green Resources

Here at Harbor, the staff has been sharing “save the planet” ideas and most recently have been discussing natural skincare options. We came across a couple of great websites to help make smarter choices and wanted to share them with you.

Environmental Working Group (EWG) is a non-profit, research organization that educates consumers about products we use. EWG rates these products based on known hazards associated with ingredients used in the products. They address personal care products, food, cleaning products, environmental issues, laws and policies and more. The website has so much information, you may be overwhelmed. Below are some of our favorite guides on their site:

<https://www.ewg.org/>

Skin Deep Guide to Cosmetics – This is a database of over 70,000 products. You can search for your product and see the hazard rating. If a product is not on the list, you can look up specific ingredients.

<http://www.ewg.org/skindeep/#.WX98clTyuUk>

Dirty Dozen/Clean Fifteen – I bet you’ve heard of this shopper’s guide to pesticides in produce, a great tool to help you determine which produce is most important to buy organic. It is updated annually.

<https://www.ewg.org/foodnews/#.WX9hiTyuUm>

Guide to Sunscreens – Sunscreen manufacturers constantly reformulate their products, for worse or better.

Safe Makeup Project is a blog covering makeup, skincare, product reviews, shopping guides and ingredients to avoid. Every product they recommend gets a safe ranking from the Environmental Working Group (EWG). The blog was developed by longtime lifestyle editor of Popsugar when she was pregnant and on a quest to find safe product options.

<https://safemakeupproject.com/>

By Denise Hess

My Child Wants To Go To College Where?

By Carolyn Rice

Is your child yearning to go to college in the Marshall Islands but you have saved funds for their education in a tax-advantaged 529 education plan? Never fear – your forethought and discipline will not be for naught!

It is a common misconception that funds saved in 529 plans can only be used for major U.S. based colleges and universities. This is not the case. Any college, university or trade school that is eligible to participate in a student aid program run by the U.S. Department of Education is considered eligible for the use of 529 funds. Running a search for foreign countries (FC) on the list of 529 eligible institutions at the website www.savingforcollege.com nets you 328 eligible schools located everywhere from the UK to, well, the Marshall Islands.

And if your child’s educational aspirations run closer to home you’ll also find a number of community colleges, music and art schools, trade and vocational schools including beauty schools, massage therapy schools, cooking schools, technology schools and the like along with those major universities. Many graduate schools are also 529 eligible.

You can search here for the college of your child’s choice:

https://www.savingforcollege.com/eligible_institutions/

And if you don’t find the school you’re looking for on the list, it’s worth a call to ask if they are 529 eligible. And if you don’t know where the Marshall Islands are, Google maps is an excellent resource.



Your Digital Legacy

by Jennifer Baham

We live our lives online; email and social media accounts, online billing, and storage for our pictures and music. But what happens to this information at our death? Will your loved ones know how to access financial accounts in order to pay necessary bills if you are gone? Do you risk losing photo memories to be passed on to your children and grandchildren? Creating a digital legacy can ease the burden to survivors by providing them direction and access.

Start by taking an inventory of your digital assets and devices. Document all usernames, passwords, phone PINS, security questions and answers, account numbers and whether or not you have two factor authentication established. Include emails, social media, cloud storage, rewards, shopping services, blogs, music, books, photo sharing and virtual currency. Keep the list in a safe place and let your attorney or executor know where to find it.

Next, decide what should happen to your accounts. Who should have access? Should your social media accounts be memorialized? Document your wishes and choose a digital executor to carry out your wishes. Social media and email providers have their own “terms of service” agreements that outline rules about what happens to your account after your death. Some allow you to designate someone to handle your account upon your death. Others simply close your account. Most states have also passed legislation detailing the handling of intangible or cyber assets. Also, federal privacy laws prohibit the access of digital assets of a deceased family member without proper authorization.

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Images: Nat Arnett

Harbor Happenings

Harbor on Facebook

Visit us on Facebook! See the latest happenings at Harbor and get tips and financial information from market experts. <https://www.facebook.com/harborfin>

2019/2020 Office Closures

Our office is closed on the following New York Stock Exchange holidays in 2019 and early 2020: November 28, Thanksgiving Day; November 29, half day; December 24, half day Christmas Eve; December 25, Christmas; January 1, New Year's Day.

Margin Loans continued from page 2: We do not advise the purchase of securities with margin thinking the strategy is too aggressive given the risk that a security could fall in value, perhaps to zero leaving the investor with a loan and nothing to show for the amount borrowed. We also advise that the margin loan be short term in nature.

If you itemize your deductions on your tax return, margin interest is deductible against investment income. The calculation for investment income includes taxable income only and excludes qualified dividends, income taxed at the lower capital gains rates, and municipal bond interest. The amount of interest in excess of the investment income gets carried forward to the next year. The interest is not deductible if you borrow to purchase municipal bonds.

We will suggest a margin loan if we think the planning tool suits the situation.

Your Digital Legacy continued from page 3: Consult with your attorney on how to include this in your estate plan. And since technology is ever evolving, be sure to review your digital estate plan annually.

Year End is Around the Corner!

Year-end continues to get more challenging for the financial industry with more delays and red tape every year. Consider acting now to make sure everything needed is completed before the end of the year. Possible tasks:

- If applicable, take your required distribution from your IRA or inherited IRA.
- Make a contribution to your child's or grandchild's 529 account.
- Consider any estate planning that might need to be done before year-end and phone your attorney for an appointment.
- Discuss with your accountant whether or not you might be eligible to contribute to a Roth or Traditional IRA and, if needed, contact us to open the account.
- Take care of any gifting, transfers of stock or cash that might need to be done by year-end.

Please contact our office today if we can help with any of these items. Thank you!

Securities Offered Through Schwab Institutional. Member FINRA and SIPC.