

HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER

Fall 2014



THOUGHTS ON THE ECONOMY

U.S. economic growth in the second quarter was revised upward again to show a 4.6% gain and Q3 was just reported at 3.5%. When combined with the Q1 contraction of 2.9% the full year looks like it will post a gain within our 2.0 – 2.5% estimate. Not bad in light of much of the developed world showing less than 1% growth.

Jobs growth continues to increase with the year-to-date monthly average at 220,000. Labor force participation ticked up to 63% which remains at a 40 year low. The Fed is debating how much of the long-term unemployment is “cyclical” and how much is “structural”. The cyclical component can return to work with stronger growth but the structural probably will never return to work as a result of skills mismatch or being enrolled in disability benefits programs.

The big economic news this quarter has been the dramatic drop in oil prices to a level of \$75 per barrel from \$110 in June. At this level gasoline prices average \$2.75 nationwide which provides about a \$40 billion stimulus, allowing consumers to spend more, reduce debt or increase savings. The lower oil and natural gas prices reduce input costs to many domestic manufacturers which is drawing manufacturing jobs and foreign investment to the U.S.

The lower oil prices do have a darker side which is to slow the rate of investment in our shale boom which has made us the world’s second largest producer of oil. This increased production is partially responsible for the reduction in oil prices and the consequent decline in gasoline and heating oil costs.

The dollar continues its ascent as monetary policy here is becoming less accommodative at the same time policy in Europe and Japan is getting more expansionary. This strength reduces our cost of foreign made goods but makes our exports more expensive in foreign markets. It also reduces repatriated foreign earned profits of our multinational companies.

Control of the Senate has shifted hands with Republicans holding 54 seats to the Democrats’ 44 with 2 independents. The Republicans also gained 3 governorships and a greater majority in Congress.

We are restraining our hopes for bipartisan action to move forward bills on reforming the tax code as there appears to be no change in the adversarial relationship between the parties.

A LOOK INSIDE HARBOR VIEWS

- *Thoughts on the Economy* – The big economic news this quarter has been the dramatic drop in oil prices to a level of \$75 per barrel from \$110 in June.
- *Our View of the Financial Markets* – Fixed income markets remain the big surprise of 2014 as the ten year treasury yield dropped from 3.0% to 2.3%.

LATEST NEWS FROM HARBOR ADVISORY

- You can visit us at: www.harboradvisory.com. Take a look and let us know your feedback.
- Jack De Gan continues to make news with his regular guest appearances on CNBC’s top rated financial shows “Squawk Box”, “The Call”, “Closing Bell” and on Bloomberg TV, Fox Business News and National Public Radio.



Phone:
603-431-5740

Fax:
603-431-2927

500 Market Street,
Suite 11,
P.O. Box 4520
Portsmouth, NH
03802-4520

harboradvisory.com

Harbor Views is written and produced
by Harbor Advisory.

Jack De Gan
Editor

Weld Butler

Jan Yeaman

Joan Gordon

Cheryl Crowley

Nod to the ubiquitous disclaimer:
While we're not infrequently, and
always quite accurately, accused of
being of strong opinion – we want to
let the reader know we've been wrong
before, we will be again, but please
don't hold it against us. The forward
looking parts of the letter are the best
efforts of fallible humans working at
Harbor Advisory.

OUR VIEW OF THE FINANCIAL MARKETS

The broad U.S equity markets have now achieved the targets we set for 2014 performance with an 11% gain in the S&P 500. World markets are trailing badly with the world index up about 3%. Fixed income markets remain the big surprise of 2014 as the ten year treasury yield dropped from 3.0% to 2.3%. Bond indices are up mid to high single digits. Cash continues to have essentially no yield.

Europe remains the weak spot with equity prices lower by 3% year-to-date. Russian adventurism and the consequent sanctions have reduced European growth to nearly 0%.

The collapse of the commodities super-cycle continues with precious metals all down double digits for the year.

China's GDP growth for 2014 is tracking 7.3 – 7.5% with expectations for next year declining to 7.0%. The Chinese stock market appears to have fully discounted this slowing and is 20% above its cycle low. We believe emerging market shares hold more opportunity over the next 5-7 years than the developed markets.

INCOME TAX FILING

Statements 1099 from custodians will again be delayed until February 28th. We suggest clients do not hurry but wait to file in late March or early April as Master Limited Partnerships' 1099's don't arrive until late March.

FIXED INCOME COST BASIS

Most of you received a notice this fall from your custodian, Pershing, about an election you could make relative to your cost basis on bonds held at Pershing. The default option is the one under which we believe most clients and CPAs have been filing so we suggest taking no action.

HOLIDAY CARDS

In lieu of sending clients holiday cards Harbor will again contribute to a local charity, The New Hampshire Charitable Foundation, which does excellent work for so many great causes in the state of New Hampshire.

Published 11/2014