HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER

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HARBOR ADVISORY

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A LOOK INSIDE HARBOR VIEWS

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 and National Public Radio.

THOUGHTS ON THE ECONOMY

We continue to believe the economy will gain strength in 2011 as employment growth improves. Through the end of April, gains in private sector jobs are on track to annualize at almost 3 million new non-farm jobs. Government employment could reduce this figure as state and local employment could drop by .25 million jobs. With these jobs come higher personal income and spending. Hence GDP growth could still average 2.5 – 3.0% this year even with the headwinds of higher oil prices and the supply chain disruptions of the earthquake in Japan. Economic statistics began to moderate in April which may indicate the rate of improvement has gotten about as good as it will get in this recovery. Corporate earnings were strong in the first quarter with increases of 10% on average. Margins began to moderate as commodity cost increases were difficult to pass through to consumers. We may have seen the end of the commodity bubble as early May brought significant corrections in many commodity prices.

The residential real estate market, which is critical to economic recovery, is seeing increased sales but still marginally lower prices. We continue to believe prices will stabilize in 2011 or at worst in early 2012. If we are correct, the stability in the real estate component of family balance sheets will improve confidence and lead to greater spending. As potential home buyers become more confident in price stability the increased home building and buying will help improve GDP growth as well as bolster bank balance sheets and equity levels.

OUR VIEW OF THE FINANCIAL MARKETS

The equity market has started this year on a strong note with the S&P 500 gaining over 8% through the end of April. Our expectation for the full year 2011 equity return is 8 – 12% so we would not be surprised to see a correction with the year ending with the 8 – 12% returns we had initially hoped for. This return would be in line with the expected increase in corporate profits. Dividends and buybacks are increasing rapidly, helping to underpin share prices. Our healthcare companies have finally begun to improve on both a relative and nominal basis of late.

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The combination of the "Arab Spring" and the removal of Osama Bin Laden could turn sentiment in the Middle East as it relates to violent versus non-violent regime change. This could have long-term consequences for oil prices and defense spending.

After weakening dramatically in March and April, the US dollar had a sharp reversal in early May. This could lead to further weakening in commodity prices. We continue to believe the US dollar will, over time, weaken against emerging market currencies especially those of resource based economies. Our increased exposure to these markets on the equity side would benefit from this weakening.

Fixed income markets have defied logic as the end of QE2 approaches by rallying this year, bringing the yield on the 10-year Treasury to as low as 3.15% in early May. A stronger economy and reduced Fed buying must ultimately drive rates higher which is why we have a very short average maturity in our fixed income investments of about two years. We have recently purchased bonds denominated in Australian dollars and Brazilian real for some clients as we find the rates available, 5% and 9% respectively, quite attractive. We also believe we may benefit as these currencies strengthen relative to the US dollar.

IRA's, RMD's, CHARITY's

Again this year IRA owners over the age of 70 ½ can satisfy their Required Minimum Distribution (RMD) by directing these funds be given away to a qualified charity instead of keeping this distribution. "Qualified" refers to a charity's compliance with government 501(c) 3 requirements (ask the charity).

In addition to doing good with your funds…you will not be required to include the distribution (up to $100,000) in taxable income on your income tax return. Special care must be taken to instruct your custodian to make the check out directly to the charity. If you are planning to make significant individual charitable contributions a call to your tax advisor may pay off.