HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER

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HARBOR ADVISORY

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A LOOK INSIDE HARBOR VIEWS

- *Thoughts on the Economy* – Employment gains accelerated from last year's 196,000 to a bit over 225,000 per month…
- *Our View of the Financial Markets* – This year's surprise is that fixed income markets have outperformed stocks so far...

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.

THOUGHTS ON THE ECONOMY

The U.S. economy continued its trend of slow growth in the first quarter of 2014 with GDP expanding by 0.1%. Since the economic recovery began in June 2009, real GDP has expanded annually by 1.9%. This is about half the rate of recovery from previous recessions and reflects the ongoing effects of households deleveraging their balance sheets and slow job growth.

Our expectation is for real GDP growth to accelerate from the first quarter's rate of 0.1% to an annual rate closer to 2.5% as the effects of the severe winter and inventory liquidation subside. Wage gains remain contained and should help companies maintain the current high profit margin they enjoy allowing earnings to expand by 5% this year.

Employment gains have accelerated from last year's 196,000 monthly average as payrolls grew by a bit over 225,000 per month in 2014. However, long-term unemployment remains historically high and the labor participation rate is at a 40 year low of 62.8%.

The Federal Reserve has reduced monthly asset purchases to $45 billion from $85 billion since last fall and we expect continued reductions to bring the program to a close by this fall. Interest rate policy should remain on hold until at least late 2015 if not well into 2016.

OUR VIEW OF THE FINANCIAL MARKETS

The U.S. equity markets turned higher for the year after trading lower at our last writing. At the end of April the S&P 500 had advanced by 2.6% and the MSCI-World Index was higher by 2%. Our target for total return on the major equity indices remains a range of 6-10% for the year.

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This year's surprise is that the fixed income markets have outperformed stocks so far with the Lehman Aggregate up 2.7% year to date. We continue to believe, however, that total returns for bonds will only be low single digits for the year as interest rates push higher later in the year.

We continue to see value in emerging market equities and believe their five year underperformance versus developed market stocks could reverse this year. We would not be surprised to see emerging market shares outperform those of the developed markets for the full year.

China remains our chief concern for the equity markets due to weakening growth as the country tries to shift from an export driven economy to one more balanced with domestic demand. We have concerns that credit delinquencies may be much higher than published figures suggest and a credit crisis would certainly derail equity market expectations for the year.

We continue to look for opportunities in the short to intermediate term high yield bond marketplace and would shift more money there if we find issues we are comfortable with.

JACK DEGAN APPEARS ON CNBC: HIGH FREQUENCY TRADING COMMENTS

"Michael Lewis created quite a buzz when he appeared on *60 Minutes* on Sunday, March 30th and declared that the U.S. equity markets are 'rigged'. That comment, from such a high profile author, set a series of things in motion, one of which must be brisk sales of his newest book *Flash Boys* which was released for sale the next day.

I do not consider our stock markets to be rigged in the common sense way the word is used. Anything that reduces the investing public's confidence in the integrity of the financial markets reduces their efficiency and therefore is a cause for concern.

But, we believe a share of stock bought and held for 5-10 years on which we give up a fraction of a cent is not worth worrying about.

Our stock market exists for the purpose of efficiently allocating capital to businesses and they do a great job of it. They are not 'rigged' in the common use of that term and remain the best easily accessible way for ordinary investors to build wealth over time."

For a complete version of Jack's comments please visit our website ***harboradvisory.com.***