HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER

Winter/Spring 2015

HARBOR ADVISORY
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A LOOK INSIDE HARBOR VIEWS

- *Thoughts on the Economy* – Growth therefore, should accelerate to closer to a 3% rate…
- *Our View of the Financial Markets* – International equity markets hold more promise in our estimation.

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

U.S. economic growth for 2014 showed GDP expanding by 2.4%, only slightly stronger than the 2.0% which has characterized the recovery over the last five years. The severe winter in the Northeast and Midwest again depressed growth this year and, along with the west coast port strike, produced only a .2% rate of growth in GDP in the first quarter of 2015.

Employment growth averaging over 200,000 new jobs per month and slightly stronger wage growth this year should combine with lower energy prices to lift consumer spending during the remainder of the year. Growth therefore, should accelerate to closer to a 3% rate which would bring the full year close to last year's 2.4% GDP advance.

Crude oil prices seem to have stabilized near $55 on WTI which should hold gasoline prices near $2.50/gallon in 2015. With natural gas near recent lows of $2.50 MCF, the consumer is saving considerably on his home heating and transportation costs. This should lead to greater consumer spending after a reasonable lag as spenders assess the durability of this trend.

Lower energy prices provide a reduction in input costs for many U.S. producers which can add to profitability or be passed on in terms of lower prices.

The rapid decline in oil prices has led producers to lower planned 2015 capital expenditures by a third and reduce payrolls to adjust to a 50% reduction in drilling rigs in use. This spending reduction affects the equipment providers to the oil industry and their suppliers as well.

The rapid increase in the foreign exchange value of the dollar will reduce imported inflation as well as lower demand for U.S. exports.

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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

U.S equity markets as measured by the S&P 500 advanced by 13.7% in 2014. Our expectations for 2015 are more muted with a range of 6-8% total return more likely. We believe U.S. shares are fully valued at current prices and expect future returns to approximate earnings growth plus dividend yield.

International equity markets hold more promise in our estimation. The MSCI-World Index, which provided low single digit results in 2014, we expect to outperform the U.S. equity markets as emerging market shares begin to benefit from the stronger dollar and lower energy prices. We also believe that European economic growth has stabilized and it too will benefit from the energy dividend and stronger dollar. We have added to our exposure to both Europe and the emerging markets.

The surprise continues to be in the fixed income markets where interest rates continue to decline even as the Fed has eliminated its bond purchases and is debating the date of commencing a rate tightening cycle. The 10 year Treasury note finished 2013 at 3.08%, 2014 at 2.14% and is currently yielding 1.9%. Returns in the fixed income markets remain in the mid to upper single digits depending on sector which is much above most analyst expectations.

We expect rates to remain constrained even as the Fed begins to raise short rates later this year. Fixed income returns in 2015 could post total returns in the low-single digits.

IDENTITY THEFT PROTECTION

Good ideas bear repeating. In this wondrous age of instant information, the internet also increases our vulnerability to identity theft. To be clear, identity theft doesn't necessarily mean loss of assets. Rather, it usually means a fraudster has information enough to fool an institution into creating a credit account in another person's name. It can be a major hassle to clear up the ruse. An extremely effective way to combat this prospect is to "freeze" one's credit history. To do so, simply contact the three major credit reporting agencies and request the freeze. Once done, no one can access your records without your authorization. This option is less attractive for individuals who are applying for jobs, renting apartments, opening accounts or taking new mortgages. But for many retired folks, these considerations are less important than the security of their identity. Call us if you have questions.

Published 4/2015