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* – New non-farm payroll jobs are averaging 185,000 per month and wage gains are growing at 2.5% year over year
- *Our View of the Financial Markets* – The U.S. equity markets are tracking to our expectations as Memorial Day approaches. The S&P 500 index total return is just over 7% year to date.

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 appears to be continuing to grow at about 2% this year even though the figure published for the first quarter was a scant 0.7%. Real final sales continue growing at the 2.5–3.0% rate of the last few years. Trends in employment and wages, the raw materials of future consumer spending (representing 70% of GDP), appear favorable. New non-farm payroll jobs are averaging 185,000 per month and wage gains are growing at 2.5% year over year.

Household formations are expanding and home purchases are at the highest level since 2007, potentially indicating the arrival of the long awaited nesting of the millennial family. Home improvement retailers are doing well as those newly purchased homes are updated and decorated.

The weak spots have been net exports and business investment. Exports have suffered from a stubbornly high U.S. dollar while business investment has been hindered by executives' conservative outlook for revenue growth. Productivity growth is a function of capital investments leveraging the output of the worker. As it has been since the birth of the industrial revolution, it is productivity that powers wealth building and income growth. Both of these have been dismal for all but the wealthiest citizens over the last decade.

Energy prices appear to be entering a period of intermediate term stability with oil prices in a range of $40–60 per barrel which maintain gasoline prices at the current level of $2.30 per gallon. This level is also favorable for industry as an energy source as well as a feedstock which bolsters earnings.

The foreign exchange value of the U.S. dollar has been declining modestly this year providing a slight tailwind to corporate earnings. Earnings growth of the S&P 500 is running at a healthy 14% year over year while revenues are growing an average of 6%.

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OUR VIEW OF THE FINANCIAL MARKETS

The U.S. equity markets are tracking our expectations as Memorial Day approaches. The S&P 500 index total return is just over 7% year to date. Our full year expectation is for a total return in the range of 10–12%.

International markets are having an even better year with the European indices advancing by over 17% and the emerging markets index growing over 13% year to date. Harbor clients are benefitting from commitments to both. We expect a relative outperformance in these non-U.S. markets lasting 3–5 years as the valuation disparities between the U.S. and its neighbors' markets narrow.

In the bond market, performance is muted as we expected; year-to-date the Lehman Aggregate Bond Index has provided a total return of 1.6%. Our forecast at the turn of the year was for fixed income to provide a low single digit return.

MEDICARE

Medicare…can require action. Many Harbor clients currently receive Medicare benefits. However with an estimated 15,000 citizens qualifying for Medicare each day, you or someone you know, may profit from knowing about Medicare. We all know that Medicare covers citizens at age 65. However, enrolling is usually by action of the individual. If you are not covered by an employer plan you'll need to enroll during the period starting in the three months prior to your birth month, and ending after the third month following your birth month. If you are covered by an employer plan there is a special enrollment period which should be investigated. A mistake in enrollment can be costly and involve fines. We recommend that you research at www.medicare.gov the requirements well in advance of enrollment or call us if you have questions.

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