

# HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER

Summer 2010



## THOUGHTS ON THE ECONOMY

The U.S. economy continues to expand output as GDP growth has now been positive for four consecutive quarters. Much of the strength is attributable to government stimulus, monetary accommodation from the Federal Reserve and a strong inventory cycle. We are now entering a critical phase of the recovery where waning government support must be replaced by private sector vigor and here the news remains less than exciting.

The improvement in unemployment, housing prices and consumer spending on which the recovery depends has stalled and is at risk of rolling over. Ben Bernanke, our Fed Chairman, called the economic outlook unusually uncertain in early August which has added to fears that a 'double dip' into recessionary territory could be ahead. Some on the more pessimistic side talk of a 'lost decade' of stagnation and deflation such as the one Japan has just endured. Although we too are concerned that the U.S. economy may be heading into an extended period of slow growth we reject the stagnation and deflation argument. The major difference we have with Japan is the U.S. benefits from immigration and internal population growth which provides a systemic 1-2% growth in GDP that Japan lacks. The U.S. also has a significantly younger population which makes it easier to fund our liabilities which are less than half the level of those in Japan on a debt to GDP basis.

We believe slower growth is a natural outcome of higher taxes, more regulation and higher government spending which all reduce resources available to the private sector to generate growth. We are in a period where the shifting nature of the employment base in the U.S. will require workers to reeducate themselves to find jobs in the industries which will experience growth such as government and healthcare.

The U.S. economy is highly adaptive and resilient and left to its own devices will return to its normal 'steady state' which is growth of 3%. We will again find that equilibrium once the transition from a deleveraging private sector is complete. That period will be measured in years not months or quarters. We believe a more prudent consumer will emerge from this process which is in the long term interest of our nation.

### A LOOK INSIDE HARBOR VIEWS

- *Thoughts on the Economy* – Once the transition from a deleveraging private sector is complete... a period that will be measured in years not months.
- *Our View of the Financial Markets* – The next significant asset allocation shift will be from bonds to stocks...

### LATEST NEWS FROM HARBOR ADVISORY

- You can now visit us at [www.harboradvisory.com](http://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.



*“Stocks, although not overpriced, remain vulnerable to a slowing rate of earnings growth and potential shocks...”*

**We provide a safe harbor for individuals and families in New England ...**

Most of Harbor Advisory's new clients come through referrals from our existing clients or from industry professionals who know us and how we work.

All of us at Harbor Advisory value these referrals as the greatest compliment our small, independent firm could receive.

If you know an individual or family who is seeking counsel and might appreciate sound, personalized investment advice and financial services we would welcome the opportunity to meet with them.

**OUR VIEW OF THE FINANCIAL MARKETS**

As the summer winds down we remain in capital preservation mode. Stocks, although not overpriced, remain vulnerable to a slowing rate of earnings growth and potential shocks from a double dip or a currency or debt crisis from Europe. We will continue to look for short term bonds with above average yields issued by companies that can service the debt. Higher yielding stocks with defensive business characteristics are also on our radar screens. The next significant asset allocation shift will be from bonds to stocks but the timing or the catalyst for that move is uncertain. Lower stock prices would certainly get us actively looking. We remain convinced that the March 2009 bottom in equity prices is a sustainable one and that a secular (long-term) bull market will build from that bottom. There could, however, be more cyclical moves like the one we experienced over the last year before we embark on the next secular move.

**MORTGAGE RATES HIT 50 YEAR LOW!**

It is hard to believe but 30 year fixed rate, conventional mortgage rates hit 4.5% this month and a 15 year rate can be had for 3.75%. If you have not already done so, this is a great time to refinance any debt you carry.

**ORGAN DONATIONS**

We assist clients in consideration of estate planning and obtaining the professional advice necessary for that task. The topic of mortality planning is not anyone's favorite (except for perhaps estate planning attorneys) however it is prudent.

Those of us who are fortunate enough to have received a tissue or organ donation know that it would not have been possible without prior planning on the donor's part. In some cases it is a gift of a life preserved. An interesting and informative discussion can be viewed on [OrganDonor.gov](http://OrganDonor.gov).

**LAST CALL FOR 2010 SPECIAL ROTH IRA CONVERSION**

2010 represents a special opportunity for certain investors to convert an IRA account to a Roth IRA. Traditionally the rule of thumb for these retirement accounts is to continue, as long as possible, to defer taxes by delaying distributions.



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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.

Recent tax law changes have changed the calculus for investors with particular profiles. We note a recent *Wall Street Journal* article reports Retirement Plan, IRA specialist and Estate Plan advisor, Ed Slott, Seymour Goldberg and Natalie Choate (all long time contributors to recognized professional journals) all plan **personally** to take some advantage of Roth conversion in 2010.

While this opportunity is not for everyone it requires careful analysis and deliberate consideration of whether it may apply to your situation. If you care to discuss the subject, the time is now and we look forward to your inquiry.