

# HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER

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## A LOOK INSIDE HARBOR VIEWS

- *Thoughts on the Economy* – The five year expansion continues at a pace just shy of 2%.
- *Our View of the Financial Markets* – Our prediction of a rebound in emerging market equities relative to developed markets has at long last been proven correct.

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## LATEST NEWS FROM HARBOR ADVISORY

- You can 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.

## THOUGHTS ON THE ECONOMY

U.S. economic growth contracted by a revised 2.1% in Q1 and expanded by a revised 4.2% in Q2 of 2014. We are still holding our expectation of growth for all of 2014 in the range of 2 to 2 1/2% based on a strong 2<sup>nd</sup> half. The five year expansion continues at a pace just shy of 2%.

The bright spot continues to be strength in the headline Bureau of Labor Statistics employment survey which has now averaged an increase of over 240,000 jobs per month in 2014. This is mostly due to a dearth of layoffs as opposed to rapid new job creation. The labor force participation rate languishes near a 40 year low of 63%.

The Federal Reserve has now decreased its bond purchases to \$25B per month and the program will wind down to zero this fall.

Oil prices are currently at their lows of the last twelve months with West Texas Intermediate at \$93 and Brent Crude at \$103. Low energy prices boost corporate profits as well as increase consumer spending.

The strong dollar has slowed export growth to about 1% in the most recent quarter which will drag on overall economic growth. Construction spending is slowing as the residential real estate market moderates. Construction spending is usually one of the pillars of growth during an economic expansion as pent-up demand is released.



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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

The broad U.S. equity indices are closing the summer with total returns in the range of 8% which is about the mid-point of our expectations for the full year 2014. Gains are tracking corporate earnings growth plus dividend yield which was our hope.

The fixed income markets continue to surprise on the upside with returns not far behind equities as the yield on the 10 year Treasury note has fallen from about 3% in December to a current 2.4%. This is the exact opposite of our expectations and those of most strategists. Lower bond purchases by the Federal Reserve were widely expected to lead to higher bond yields.

Worries about Chinese economic growth earlier in the year have been diminished as stabilization in GDP growth around the government target of 7.5% seems to be holding true (if one believes the government figures).

Current concerns surround geopolitical issues in the Middle East as well as Mr. Putin's great adventure in Eastern Europe. Neither have yet led to a disruption in oil supplies which could slow world economic growth through higher prices. Economic sanctions against Russia are not yet significant enough to slow growth in Europe but that could change if current behaviors persist.

Our prediction of a rebound in emerging market equities relative to the developed markets has at long last been proven correct. The emerging markets in which we invest for you now have year-to-date total returns well above the S&P 500.

### LOOSE ACCOUNTS, LOOSE ENDS

Organization and Financial Planning go hand in hand. We often meet clients with a lifetime collection of "asset pockets" so numerous as to make monitoring difficult or impossible. Simple is beautiful in the world of financial planning and efficient oversight of wealth.

This is not to say diversification is unimportant, and Harbor clients have in common very diversified investment portfolios. However, multiple small IRA accounts, various small insurance policies and other sprinklings of bank CD's or accounts do not necessarily provide diversification. Consider consolidating electronically held individual stock, inherited insurance money fund accounts, or other small accounts. Make your financial life more understandable.

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