

# HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER

Fall 2010



## A LOOK INSIDE HARBOR VIEWS

- *Thoughts on the Economy* – Residential real estate prices remain critical to a sustained economic recovery....
- *Our View of the Financial Markets* – We have increased our allocation to equities through recent purchases of attractive companies....

## 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.

## THOUGHTS ON THE ECONOMY

The U.S. economy has now expanded output for five consecutive quarters and has generated 1.1 million private sector jobs in the first ten months of the year. The unemployment rate has held at 9.6% for the last four months with the U-6 rate (includes those no longer looking for work and those working part-time because they could not find full-time work) remaining above 17%. This represents a significant headwind to reaching trend growth of 3% as well as to helping reduce excess debt. Residential real estate prices remain critical to a sustained economic recovery because they bolster the wealth effect for most families as well as strengthening bank capital and earnings. After stabilizing for many months home values have again begun to deteriorate.

The Federal Reserve has embarked on another round of quantitative easing by agreeing to purchase \$600 billion of government debt to try to stimulate the economy. This had the immediate effect of raising securities' prices but time will tell if there will be much effect on the real economy and real estate prices. One consequence of the additional Fed easing is continued weakness in the value of the US dollar.

The election has again provided divided government and may lead to less uncertainty. We believe a double dip into recessionary territory is less likely with slow economic growth in the 1.5 – 2.5% area the most likely outcome.

With just 1.1 million of the 8 million jobs lost during the recession having been recovered, and our debt levels remaining quite high, our country should expect an extended period of slow growth.

## OUR VIEW OF THE FINANCIAL MARKETS

The US equity market continues to slowly recover from the credit crisis. We have increased our allocation to equities through recent purchases of attractive companies as their stock prices bottomed this fall. We have also added an infrastructure partnership to our client accounts, and have added a number of international ETF's to our buy list for future consideration.



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*“On the fixed income front we have reduced our exposure to longer maturity, high quality bonds...”*

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**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.

We are now significantly reducing our clients' cash positions as we are less concerned about the possibility of a double dip in the economy.

On the fixed income front we have reduced our exposure to longer maturity, high quality bonds as we believe interest rates may be bottoming in that sector. We continue to roll short-term high yielding bonds where we can generate acceptable levels of current income without incurring significant interest rate risk.

The one risk we remain concerned about is the debt problem in Europe. The weaker nations sharing the Euro (Italy, Greece, Spain, Portugal and Ireland) continue to be at risk of sovereign debt defaults or of needing another bailout or possibly dropping out of the Euro currency. These events could again disrupt the world financial markets.

**IDENTITY THEFT PROOFING**

Daily we are treated to news stories about the lack of privacy the internet age has brought about as an unintended consequence. Altogether too frequently we hear of the trials of a victim of "identity theft". Identity theft refers to unauthorized use of personal information to open credit accounts for the purpose of stealing money.

You can take action to protect yourself. As of November 2008 forty seven states had laws on the books requiring that individuals be able to "freeze" their credit reports. Three national credit reporting agencies accumulate and provide credit histories to financial organizations. In order to open a credit relationship such as a credit card, mortgage or car loan, these agencies will be contacted by the potential lender for a credit report. By "freezing" **your** credit report these agencies are forbidden from releasing information about you to new inquiring lenders. It is considered the single most effective means of preventing identity theft.

There are considerations however:

- 1) There may be a cost associated as well as a cost to unfreeze the credit report
- 2) Unfreezing a credit report can delay granting of credit, employment, rental housing agreements and government services
- 3) You must contact each of the three reporting agencies and implement a freeze with each of them



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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.

For individuals who are not likely to seek new credit relationships a credit freeze can be very effective protection. The credit agencies below can be easily reached via the internet.

Equifax  
PO Box 105788  
Atlanta, Georgia 30348

Experian  
701 Experian Parkway  
PO Box 2002  
Allen, TX 75013-0036

Transunion  
PO Box 6790  
Fullerton, CA 92834

#### HOLIDAY GIFT

In lieu of sending Holiday cards this December, Harbor Advisory will be making a gift to The New Hampshire Charitable Foundation. This Foundation has been working to improve the quality of life in New Hampshire communities since 1962. In view of the outpouring of need in our difficult economic times we are proud to help our community.

#### NEW YEAR HOLIDAY

In celebration of the New Year, Harbor's offices will be closed the last day of the year, Friday, December 31<sup>st</sup>.