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* – Tax reform, healthcare reform and infrastructure spending are being discussed as having reasonable chances of implementation next year.
- *Our View of the Financial Markets* – The U.S. equity markets survived the election surprise and are on pace to finish the year in our target range of a 6-8% total return.

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 accelerated in the third quarter with GDP advancing at an annualized rate of 2.9%. Growth in the three previous quarters averaged 1.0% so we remain in the range of 2.2% annual GDP growth since the recession ended in June of 2009.

Job growth has slowed in the most recent month to a 170,000 per month rate which brings the year-to-date average job creation rate to about 200,000 per month. Average hourly earnings growth in the October period ran at a year-over-year rate of 2.8%. The combination of these two factors increases consumer purchasing power to about 2% at an annual rate on a real basis.

Energy prices continue to add to consumers' purchasing power as gas prices are just above $2/gallon nationally and heating fuel prices remain near multi-year lows.

The dollar is trading near multi-year highs which adds to the headwinds faced by our multinational corporations as their products become less competitive in international markets. Profits overseas are then converted into fewer dollars on their income statements.

Auto sales are running flat year-over-year at a 17.5 million unit rate in the U.S. but home sales are increasing 8-9% year-over-year as pent up demand is slowly being met by increased supply as prices rise.

Economists, who have been calling for fiscal policy to assist the Fed's monetary ease in jump starting our slow economy, must now ponder the odds a new administration in Washington can finally move some legislation through Congress. Tax reform, healthcare reform and infrastructure spending are being discussed as having reasonable chances of implementation next year.

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OUR VIEW OF THE FINANCIAL MARKETS

The U.S. equity markets survived the election surprise and are on pace to finish the year in our target range of a 6-8% total return. The election drove dramatic sector rotation as yield oriented shares surrendered their gains and economically sensitive stocks accelerated. High growth equities also suffered as the discount rate on their earnings moved higher with the selloff in bonds.

European equity markets continue to suffer from the uncertainty created by the Brexit vote and trail U.S. market returns by double digits. We continue to believe there is great value in European equities but our time horizon for improvement in these markets has been extended.

Emerging market equities continue to lead U.S. equities by a few percent but the lead has contracted as the election results drove the dollar higher and U.S. bond prices lower.

U.S. Fixed income returns dipped after the election with bonds now providing year-to-date returns in the low single digits. We expect fixed income yields to finish the year roughly unchanged from current levels.

INTEREST RATES

Readers of Harbor Views know that this column has for 4 years included more than a few exhortations to take advantage of historically low interest rates. We take this opportunity to say "we really" mean it "even more". We believe that interest rates are headed up. The implied action item is primarily the financing of real estate. If mortgage interest rates climb just 2.75% from current levels, the cost of interest over the term of the mortgage doubles and substantially eclipses the original price paid for the home. If you are considering moving or refinancing…do so now.

HOLIDAY CARDS

In lieu of sending clients holiday cards Harbor will again contribute to a local charity, The New Hampshire Charitable Foundation, which does excellent work for so many great causes in the state of New Hampshire.

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