HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER

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HARBOR ADVISORY
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A LOOK INSIDE HARBOR VIEWS

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- *Our View of the Financial Markets – The repatriation of foreign profits, enabling corporations to increase share repurchases, raise dividends and increase capital spending is providing a strong bid under share prices.*

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

U.S. GDP growth was estimated at 2.3% in the first quarter of 2018. The trailing 12 months showed GDP advancing by 2.8% which is a 40% improvement over the previous 8 years of recovery from the 2008 credit crisis. Non-residential fixed investment, which is a measure of computers, equipment and software placed in service, grew by 6.1% in the first quarter. Capital investment has grown at less than one half its long-term historical average during the current recovery. These are the type of investments that lead to productivity growth and engender increases in standards of living.

Jobs growth continues to increase at twice the pace required to keep up with population expansion. Job gains in the first four months of 2018 have averaged 200,000 per month versus 182,000 per month in 2017. Wages increased 2.6% year over year in the past 12 months. The combination of these two metrics provides adequate fuel to continue consumer spending growth of 3% per year.

Consumer prices have increased 2.5% in the past 12 months and the core rate, which excludes the volatile food and energy categories, increased 2.1%. This rate is high enough to ensure the Federal Reserve will continue on its path to raise short term interest rates by .75% in 2018.

The current administration in Washington pursued expansionary economic policies in the first 12 months by reducing regulation and enacting tax reform. In its second year it seems to have reversed course and is instituting contractionary fiscal policy based on trade tariffs and isolationism. We hope this course can be moderated or reversed later this year as it is already beginning to slow growth. Executives find it hard to plan or invest when their markets are in turmoil over trade policy.

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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 equity markets started 2018 responding positively to corporate tax reform and strong fourth quarter 2017 earnings. Equities then corrected 12% on what we believe were the trade tensions initiated by the U.S. First tariffs on solar panels, then tariffs on aluminum and steel and finally, and most concerning, broad based tariffs covering a variety of products with a value of $150 Byn. Equities have since recovered and regained positive territory for the year on ever stronger 1st quarter earnings. Including the benefit from lower corporate taxes, earnings now look to grow by 15-20% in 2018.

A true trade war would derail this level of earnings growth and probably our expectations for another positive year for equity returns as well. We are committed 'free traders' and expect cooler heads will prevail. Signing a slightly tweaked NAFTA agreement and calling that a victory would go a long way to defusing market concerns over trade policy.

The repatriation of foreign profits, enabling corporations to increase share repurchases, raise dividends and increase capital spending is providing a strong bid under share prices. Dividends paid could easily increase by 10% this year and we expect share repurchases to set a record led by Apple declaring intentions to repurchase $100 Byn or 10% of shares outstanding. We remain optimistic equity total returns in 2018 could approach 10%.

Fixed income markets are showing negative returns thus far in 2018 with expectation the Federal Reserve will increase rates twice more this year. Harbor is continuing to focus on fixed income assets with variable rates which seeks the advantage of holdings whose income will increase along with short-term interest rates. Our existing positions in high-yield are producing positive returns year-to-date. We hope to finish the year with positive low single-digit returns on client fixed-income investments.

PROPERTY AND LIABILITY INSURANCE

Homeowners, automobile and umbrella insurances are integral components of a sound financial plan. Protection of accumulated wealth from unforeseeable events is critically important. And it can be ***expensive.*** For many households it can be the 5th or 6th biggest household expenditure. As such, it is a prime candidate for review every three or four years. While there can be non-monetary benefits to relationships with agents or companies, a survey of competitive underwriters can sometimes yield surprising savings that are well worth the effort.

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