

# HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER

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## A LOOK INSIDE HARBOR VIEWS

- *Thoughts on the Economy* – The increase in domestic energy production is a long term benefit to the U.S. economy and businesses that may not yet be fully appreciated by policy makers and investors.
- *Our View of the Financial Markets* – We continue to hold only very short term bonds which outperform their longer maturity peers in a rising rate environment.

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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 continues to advance at between 1.5 - 2.0%. Third quarter GDP may not be much stronger due to the uncertainty created by the budget and debt ceiling battle which unfolded last quarter. Full year GDP growth rate will be within our initial estimate of 2.0 - 2.5%.

Job creation has slowed from earlier in the year to a rate of about 130,000 jobs per month from a rate closer to 200,000. Strength in the auto and housing sectors continues where significant pent up demand exists.

Monetary policy remains on hold as the Federal Reserve contemplates the depressive economic effects of ongoing budget and debt ceiling battles. A last minute extension has moved the deadlines into early 2014.

Concern over China and Europe diminished as Europe stabilized and is showing moderate growth. China has bottomed with 7.8% GDP growth in the recent third quarter.

Energy prices have dropped 10% since the height of the summer driving season. Gasoline prices have dropped by almost 50 cents per gallon which adds tens of billions to consumer monthly spending. Domestic oil production continues to advance with the U.S. now the world's largest producer of oil and natural gas. The increase in domestic energy production is a long term benefit to the U.S. economy and businesses that may not yet be fully appreciated by policy makers and investors.

If the next round of budget negotiations were to conclude with an agreement that would slow spending, reform entitlements and flatten the tax code there would be dramatic long term benefits for the country. The odds look long but at some point our leaders will need to face the reality of the debt accumulation problem before it consumes so much of the revenue stream that it crowds out other important priorities and permanently impairs long term growth.



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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 U.S. equity markets continue to perform well with the S&P 500 extending its year-to-date total return to over 23%. As stated in our summer edition the equity market is fairly valued at the current level, which means our expectations for the period ahead are more muted. We expect the next twelve months to produce equity total returns commensurate with long term earnings growth plus dividend. This suggests returns in the mid single digits in the period ahead.

In our last letter we discussed the underperformance of the emerging as well as European markets in recent periods. In the last two months this situation has reversed with the emerging and European shares outperforming the U.S. equity markets. This will continue for the foreseeable future.

Fixed income markets have predictably performed poorly in the last twelve months as interest rates have doubled. The benchmark 10 year treasury yield bottomed at 1.40% and traded to 3.0% in August before returning to the 2.5% area. We continue to hold only very short term bonds which outperform their longer maturity peers in a rising rate environment.

## SOCIAL SECURITY

For millions of Americans, Social Security is an important component to their retirement planning. If you or any family member is approaching retirement age a full investigation of your benefits is a useful exercise. Simply go to [www.ssa.gov](http://www.ssa.gov) to confirm the history of your work record, the amount you may expect to receive and your "full retirement age". Call us if you would like to discuss your options.

## NEW PERSHING ONLINE ADDRESS

Starting in mid-November you will access your Pershing accounts through a new internet address – [advisor.netxinvestor.com](http://advisor.netxinvestor.com). Please remember to save this address to your favorites. Currently you are being automatically rerouted to that address but you will need to go there directly starting in mid-November.

## 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.