HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER

Summer 2018

HARBOR ADVISORY
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A LOOK INSIDE HARBOR VIEWS

- *Thoughts on the Economy – Job growth continues to surprise on the upside…*
- *Our View of the Financial Markets – The greatest risk to equity returns is the escalating trade tension…*

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

Economic growth in the U.S., as measured by GDP, expanded at a rate of 4.1% in the second quarter and a revised 2.2% in the first quarter of 2018. Economists are leaning toward a third quarter estimate of 3.0% which would generate a trailing 12 month rate of GDP growth of 3.0%. Capital investment this past quarter grew at a rate of 7.3% annually which is a multiple of the anemic rate that has prevailed during the post crisis recovery. We focus on investment because productivity growth as a result of investment is required to offset wage growth which is increasing at a 2.7% rate of year over year expansion.

Job growth continues to surprise on the upside with year-to-date payroll jobs increasing by an average of 215,000 jobs per month in 2018. The average for the full year 2017 was 184,000 jobs per month. The U-6 unemployment rate which includes part-time and discouraged workers improved to 7.5% in July, the lowest rate since before the financial crisis of 2008.

The labor force participation rate of 62.9% is about .5% above its cycle low. The percentage of adults with jobs is currently 60.5%. Unfilled job openings number 6.3 million and suggest the need for politicians to address labor force education, mobility and adaptability.

Energy prices have risen sharply in 2018 as a barrel of Brent Crude now costs $73, adding to inflationary pressure by raising the input costs for many businesses. The strong economy is allowing producers to raise prices to pass along the increased cost of energy. The Federal Reserve is taking note and the investment community now believes it is likely they will increase short-term interest rates by .25% four times in 2018.

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OUR VIEW OF THE FINANCIAL MARKETS

The U.S. equity market is responding positively to the strong economy and very impressive, 20% plus, earnings growth year-to-date. Equity total returns are currently running in the mid to upper single digits and are on track for our full year forecast of high single to low double digit returns.

The greatest risk to equity returns is the escalating trade tension unleashed on our trading partners by the administration. China has retaliated to each of four successive rounds of escalating tariffs by the U.S. The EU has also retaliated in kind but the administration has indicated a willingness to compromise and the EU was quick to seize on that opportunity for a temporary truce. Canada and Mexico are doing their best to compromise and try to hammer out a revised NAFTA agreement acceptable to the administration. We sincerely hope a trade war can be averted. Such a 'self-inflicted wound' would clearly be a hard pill for the risk asset markets to swallow.

Fixed income markets continue to respond to a Federal Reserve intent on normalizing interest rates. Broad bond indices are showing low single digit negative returns. By contrast, the variable rate and short-term high yield segments favored by Harbor continue to provide positive year-to-date returns.

RETENTION OF RECORDS

Clients frequently ask us how long and which records should be retained. There is no right answer. Some of us are squirrels and like to collect and keep bits of history, others seek to purge. There are, however, advisable minimums. Generally, keep tax returns for at least 3 years and potentially forever. They are the single slim coalesced record of your financial life. Receipts, cancelled checks and bank or credit card statements involved in return preparation should be retained for the 3 year period. Records related to your home or rental properties, or improvements thereto, should be kept until the real estate is disposed of. Contracts and leases should likewise be stored until 5-7 years after they terminate. While you are a Harbor client, any retention of securities records is very much your choice. We keep any and all of these and can provide them whenever you would like.

Published 8/2018