HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER

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HARBOR ADVISORY
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A LOOK INSIDE HARBOR VIEWS

LATEST NEWS FROM HARBOR ADVISORY

- We have recently updated our website! The new features include a shorter URL! You can now 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" and "Closing Bell." If you missed him nationally you can see him on Closing Bell show on Wednesday, October 22nd.

THOUGHTS ON THE ECONOMY

We now see the recessionary levels of economic activity persisting all year and getting significantly worse. It will be a prolonged, deep recession, probably lasting through the end of next year.

The Treasury and the Federal Reserve continue to pull out all the stops to address the credit crisis with almost no effect to date. This is very disconcerting. Although these measures were late in coming they are very significant. Measures such as flooding the financial system with liquidity, lending to corporations, increasing deposit insurance, nationalizing or merging out of existence financial institutions and even setting up a massive facility to purchase troubled assets have done little to ease credit conditions.

Unemployment has risen and jobs have been lost every month this year, and layoffs will increase significantly in the months ahead. Consumer spending will slow as job losses mount and that will lead to slower business spending, inventory liquidation, and lower corporate earnings.

Cyclical weakness of this magnitude does have some positive side effects; lessened demand for energy is reducing oil prices which are important as we head into the heating season. Moderating inflation will allow the Federal Reserve to continue lowering borrowing costs which will eventually help home prices and help restart purchases of cars and other durables.

We are in economic times last seen in the 1930’s which will require extraordinary government action and which will have unintended and probably negative consequences in future years. Our economy is cyclical however, and economic hard times purge excesses that created the weakness and pave the way for renewed economic growth in the future.

Recoveries follow recessions, (even depressions) as night follows day. It has never paid to bet against the U.S. economy over the long-term.

WWW.HARBORADVISORY.COM

Phone:
603-431-5740

Fax:
603-431-2927

500 Market Street,
Suite 11,
P.O Box 4520
Portsmouth, NH
03802-4520

harboradvisory.com

Harbor Views is written and produced by Harbor Advisory.

Jack De Gan
Editor

Weld Butler

Joan Gordon

Jan Yeaman

Cheryl Crowley

OUR VIEW OF THE FINANCIAL MARKETS

After beginning the process of tiptoeing back into the equity market late this summer, we are now, again, raising our defensive posture.

We were feeling more confident this summer as it appeared Secretary Paulson had finally woken up to our nation's financial difficulties and was taking decisive action. This confidence melted away as heroic measures by the Treasury and the Fed produced no noticeable improvement in credit conditions. We have, therefore, reduced our equity exposure again by 20 – 25% and intend to park those monies in investment grade corporate bonds which are a great value as a result of the credit crisis. We will maintain this posture until we see some improvement in credit conditions or until we believe the stock market has adequately discounted the very weak economic conditions we expect in the months ahead. We will watch the economy and financial market conditions closely for any indication we should again be adding to equity holdings.

We have been decisive in our actions to protect our clients' assets and will continue to act as necessary. We remain committed to the tenants of long-term investing and the compounding power of equities and will increase exposure when we feel it is appropriate.

INVENTORY YOUR CREDIT

The "interesting times" we are living through can have unexpected consequences. It's important to focus on issues that may seem less important than watching the asset sides of our personal balance sheets. Many of our clients have home equity lines of credit (HELOC)s. Many don't use these lines at all or only as an emergency measure, which is usually the best course of action.

If however, you ***expect or know*** that you will be needing to draw upon your Home Equity Line of Credit for a foreseeable purpose or bridge loan, you should be aware that you may get a surprise.

We understand that some banks are unilaterally notifying clients that any portion of the HELOC *that has not been drawn upon* is retracted. This has been happening without warning and has absolutely nothing to do with the individual, their credit rating or ability to pay. Some banks are making blanket retractions of HELOC's in entire geographic areas as a means of reducing risk. It is simply a sign of the times. Credit is no longer king….