

HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER



THOUGHTS ON THE ECONOMY

Fall 2010

A LOOK INSIDE HARBOR VIEWS

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- *Our View of the Financial Markets* – We have increased our allocation to equities through recent purchases of attractive companies....

LATEST NEWS FROM HARBOR ADVISORY

- 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", "The Call", "Closing Bell" and on Bloomberg TV, Fox Business News and National Public Radio.

The U.S. economy has now expanded output for five consecutive quarters and has generated 1.1 million private sector jobs in the first ten months of the year. The unemployment rate has held at 9.6% for the last four months with the U-6 rate (includes those no longer looking for work and those working part-time because they could not find full-time work) remaining above 17%. This represents a significant headwind to reaching trend growth of 3% as well as to helping reduce excess debt. Residential real estate prices remain critical to a sustained economic recovery because they bolster the wealth effect for most families as well as strengthening bank capital and earnings. After stabilizing for many months home values have again begun to deteriorate.

The Federal Reserve has embarked on another round of quantitative easing by agreeing to purchase \$600 billion of government debt to try to stimulate the economy. This had the immediate effect of raising securities' prices but time will tell if there will be much effect on the real economy and real estate prices. One consequence of the additional Fed easing is continued weakness in the value of the US dollar.

The election has again provided divided government and may lead to less uncertainty. We believe a double dip into recessionary territory is less likely with slow economic growth in the 1.5 – 2.5% area the most likely outcome.

With just 1.1 million of the 8 million jobs lost during the recession having been recovered, and our debt levels remaining quite high, our country should expect an extended period of slow growth.

OUR VIEW OF THE FINANCIAL MARKETS

The US equity market continues to slowly recover from the credit crisis. We have increased our allocation to equities through recent purchases of attractive companies as their stock prices bottomed this fall. We have also added an infrastructure partnership to our client accounts, and have added a number of international ETF's to our buy list for future consideration.

