

# HARBOR VIEWS

HARBOR ADVISORY QUARTERLY NEWSLETTER

Spring 2010



## THOUGHTS ON THE ECONOMY

The U.S. economy continues to recover, posting the third consecutive quarter of positive GDP growth, now averaging 3.7% over the period. Employment has also improved as 573,000 non-farm jobs have been created year-to-date. Forward looking indicators such as the LEI (leading economic indicators) index remain strong although there is some evidence these figures may be peaking. Residential real estate has stabilized, albeit with much help from the government in terms of tax credits and unusually low mortgage rates courtesy of the Federal Reserve (FED). Commercial real estate has also stabilized with the help of banks who are willing to restructure some debt. Banks have stabilized in terms of credit deterioration and are posting record earnings.

Clearly things have improved dramatically in the economy since the depths of the worst recession in eighty years. Yet it would be imprudent to overlook the issues our country and economy still face. We remain cautious as we recognize much of the improvement is the result of government intervention on both the fiscal and monetary front.

The stimulus bill which pumped \$787 billion into the economy will begin to wind down later this year and the FED has already begun to withdraw some of the extraordinary measures put in place during the credit crisis. We now face dramatic tax increases, a tighter FED and enormous new debt which must be serviced in the future.

The sovereign debt crisis gripping southern Europe is troublesome and indicates the financial markets will not tolerate undue leverage even if issued by governments. We are pleased to see aggressive action to contain the contagion by the ECB, IMF and member countries. We must now brace ourselves for the dampening effect of severe austerity measures on world GDP. Hopefully, this lesson is not lost on U.S. policymakers.

### A LOOK INSIDE HARBOR VIEWS

- *Thoughts on the Economy* – The sovereign debt crisis gripping Southern Europe indicates financial markets will not tolerate undue leverage...
- *Our View of the Financial Markets* – We have remained cautious and continue to believe a focus on capital preservation...
- *Most respected* – Harbor participates in a *Barron's Magazine* survey...

### LATEST NEWS FROM HARBOR ADVISORY

- We have updated our website! 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" and "Closing Bell."



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**We provide a safe  
harbor for individuals  
and families in New  
England ...**

Most of Harbor Advisory's new clients come through referrals from our existing clients or from industry professionals who know us and how we work.

All of us at Harbor Advisory value these referrals as the greatest compliment our small, independent firm could receive.

If you know an individual or family who is seeking counsel and might appreciate sound, personalized investment advise and financial services we would welcome the opportunity to meet with them.

**OUR VIEW OF THE FINANCIAL MARKETS**

The rally from the March 2009 lows in stocks and many other risk assets looks tired. At Harbor we remain cautious and continue to believe a focus on capital preservation is appropriate. The secular (long term) bear market in stocks that began in March of 2000 remains in force even as this impressive cyclical (short term) bull market coming out of the credit crisis begins to falter. Our client portfolios have limited exposure to stocks and those that we own are primarily defensive in nature. We have shortened the average maturity of our bonds to reduce interest rate sensitivity. It is only a matter of time before long-term interest rates rise. We will take advantage of this case by rolling our short-term bond maturities into issues with high rates. Ample holdings of cash and short-term bonds position us well to capitalize on any disruption that may come from the sovereign debt problems.

**MOST RESPECTED**

Each year Harbor participates in a *Barron's* Magazine survey of investment management firms ranking the world's most respected companies. The survey results were the focus of a cover story that appeared in the February 15<sup>th</sup> edition of the magazine.

Harbor rated Berkshire Hathaway as our top pick and in the survey Berkshire ranked number five. Jack was quoted in the *Barron's* story regarding the rationale for the Burlington Northern acquisition. Harbor's buy list includes four of the top five ranked companies in the survey and most Harbor clients own five of the top ten ranked companies (listed below):

- \*1. Apple Computer
- \*2. Johnson & Johnson
- \*3. Proctor & Gamble
- 4. IBM
- \*5. Berkshire Hathaway
- 6. Toyota
- 7. McDonald's
- \*8. Google
- \*9. Cisco Systems
- 10. Amazon



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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.

**HEALTH CARE REFORM 2010 REDUX**

Weeks ago President Obama signed Health Care Reform making law bitterly contested fundamental change for Americans' health care. Much of what the Act does will not affect citizens for years. However there are a variety of changes that are implemented in 2010 and may weigh on your decisions. Below are some of the highlights:

- Prohibits insurers from setting dollar amount lifetime benefits, rescinding coverage, and applying pre-existing exclusions to individuals 19 and under.
- Requires insurers to cover emergency services without proper authorization, offer dependent coverage to individuals up to age 26, and offer preventative services with no cost sharing.
- Provides tax credits of up to 35% of premium costs to qualified small employers.
- Alleviates the Part D coverage gap in 2010 by offering a \$250 rebate to people who hit the "donut hole".
- Creates a temporary high-risk pool for uninsured individuals who have been denied coverage due to pre-existing conditions.