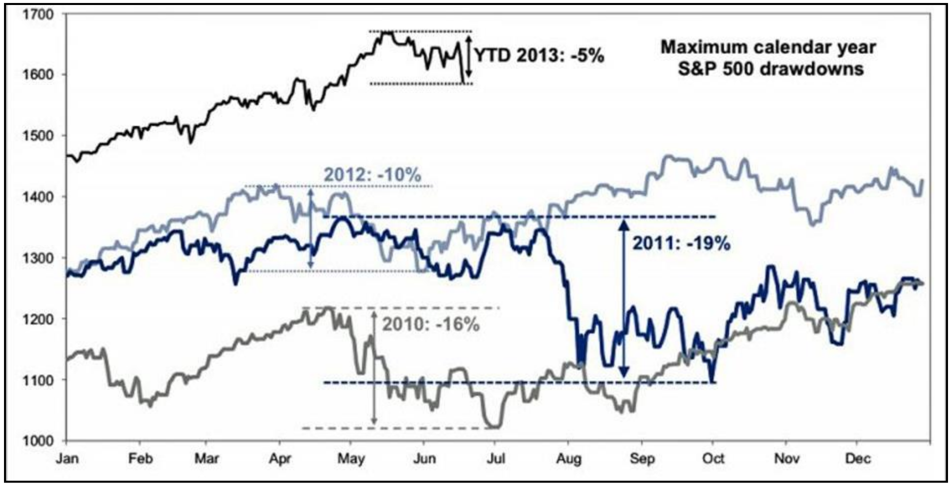
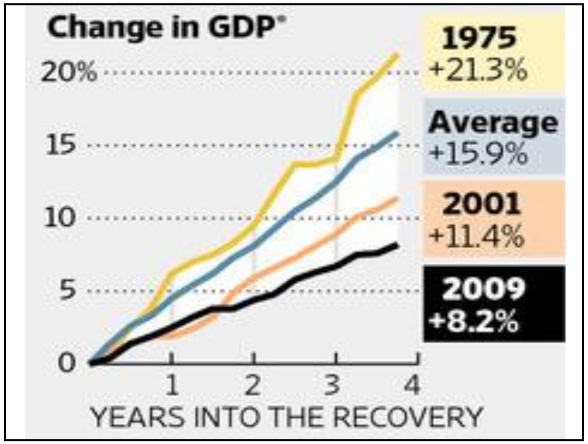
Market Recap

S&P 500 Drawdowns Since 2010



Source: Goldman Sachs

Post-Recession Four-Year Change in GDP



Source: Commerce Department; WSJ

Last week, we witnessed the negative reaction of the stock market to Fed Chairman Bernanke's indication that the central bank may scale back its bond-buying program later this year. This experience, coupled with heightened market volatility in the month of June (triple-digit moves in 15 of the 19 trading sessions), has been unnerving for investors. However, the fact remains that the S&P 500 is only down approximately 5% from its high of the year. This measure is typically referred to as the "market drawdown." It is defined as the percentage decline from the market's highest value (peak) to the lowest value (trough) after the peak. Since 1970, the average annual drawdown for the S&P 500 has been -27%. In context, the current 5% decline looks mild compared with drawdowns of 28% in 2009, 16% in 2010, 19% in 2011, and 10% in 2012. If this year follows a pattern similar to those of recent years, then we may experience further declines before the market reaches a bottom.

After four years of sluggish growth, a growing number of economists are forecasting an acceleration of U.S. GDP growth in 2014. Economists foresee a convergence of several factors that could finally push the recovery into high gear. First, after epic fights this year over the fiscal cliff and sequestration, lawmakers have finally managed to cobble together enough tax hikes and spending cuts to at least stabilize the country's credit rating. Next, rising home values are leading to fewer Americans trapped in underwater mortgages that leave them owing more on their home than the house is worth. Rising home prices also boost household net worth, adding to consumer confidence and spending. Finally, businesses are expected to gain some clarity on several issues, such as healthcare and finance reform, which have stunted growth and hiring.

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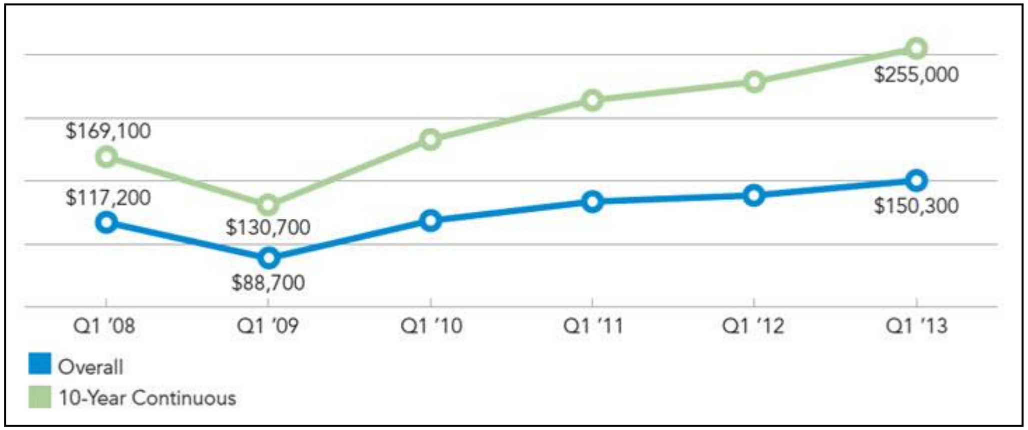
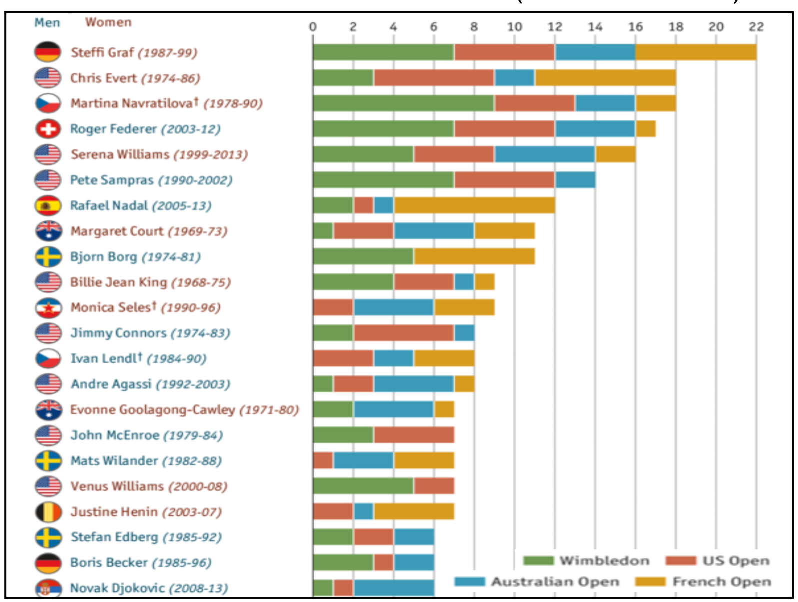
Pre-Retiree Plan Balance Growth (Q1 2008 – Q1 2013)



Source: Fidelity

Tennis Grand Slam Winners (1968 to 2013)



Source: ESPN

Balances in defined contribution plans, such as 401(k)s, are at record levels. At the end of the first quarter, the average defined contribution account balance was $80,900, while the average balance among participants who had been actively participating in a plan throughout the past 10-year period was $210,000. The data may seem surprising given the dramatic downturn of the market in 2008 and 2009. Pre-retirees (those 55 and older) were the most vulnerable. For pre-retirees who invested continuously over the last 10 years, average balances increased from $169,100 at the end of the first quarter of 2008 to $255,000 at the end of the first quarter of 2013 (a 51% increase). This is in contrast to the pre-retirees who abandoned equities in reaction to market volatility in either late 2008 or early 2009 and never rebalanced. These investors experienced much more modest gains (25.9%), with balances increasing from $80,210 to $101,000 over the five year period.

With the Wimbledon tennis tournament in full swing this week, and highly-seeded contenders falling daily, it is interesting to review the history of Grand Slam champions since 1968. If Serena Williams prevails at Wimbledon, she will tie Roger Federer (who lost in the second round) with 17 titles as the fourth highest-ranking Grand Slam champion. She will then be one title behind Chris Evert and Martina Navratilova, who dominated women's play in the 1970s and '80s, but will remain far behind the all-time leader, Steffi Graf, who had 22 tournament wins. The only other current men's champion remaining in the field at Wimbledon at writing is Novak Djokovic. With a win this week, he would vault into good company alongside '80s champions, John McEnroe and Mats Wilander. With the early loss this week of both Federer and Rafael Nadal, some aficionados are questioning whether men's tennis may begin to see a shift in dominance.

Contact: If you have any questions or comments, please do not hesitate to contact us at 703.992.6164. For more information about Harbour Capital Advisors, please visit our website at www.harbourcapitaladvisors.com.

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