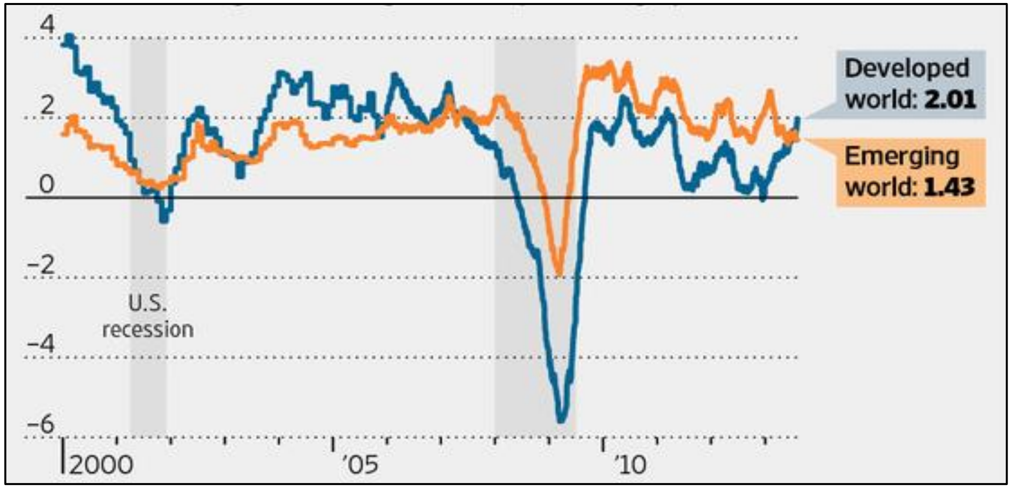
Market Recap

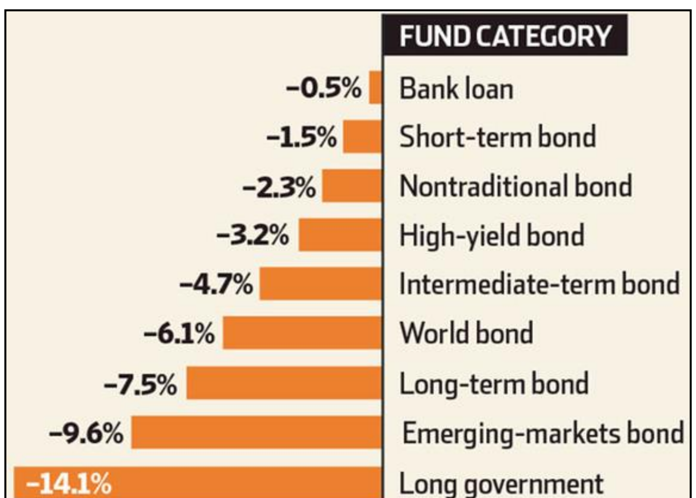
Contribution to Global GDP Growth



Source: Bridgewater Associates

For the first time since mid-2007, the advanced economies of the U.S., Japan, and Europe are contributing more to growth of the $74 trillion global economy than the emerging nations. This leadership change may reshape world capital flows and upend forecasts that corporations had built around high hopes for business in emerging markets. Among the forces driving the shift is a resurgent Japan that for years was stagnant. Japan's economy expanded 2.6% on an annualized basis last quarter. The U.S. economy is a secondary driver, producing steady, albeit tepid, growth. Finally, Europe's economy also expanded slightly in the latest quarter after a long recession. At the same time, the emerging world's big players (Brazil, Russia, India and China) are experiencing declining growth rates after several years of stellar performance.

Bond-Fund Performance (May 2 to July5)



Source: Morningstar; WSJ

The recent bond sell-off demonstrated the impact that rising rates can have on bond prices. Bond investors were rattled in May and June amid fears that the Federal Reserve will begin to scale back its bond purchases, which are intended to hold down yields. As the 10-year Treasury yield jumped more than one percentage point to above 2.7%, long-maturity bond funds lost 7.5% in value (even after taking into account interest income). In June, stunned by declines in value in what many had thought was a safe asset class, investors withdrew a monthly record of more than $81 billion from fixed-income mutual funds and ETFs. While selling one's bonds is one way to avoid further rate risk, investors should remember that fixed income still has a place in most investment portfolios.

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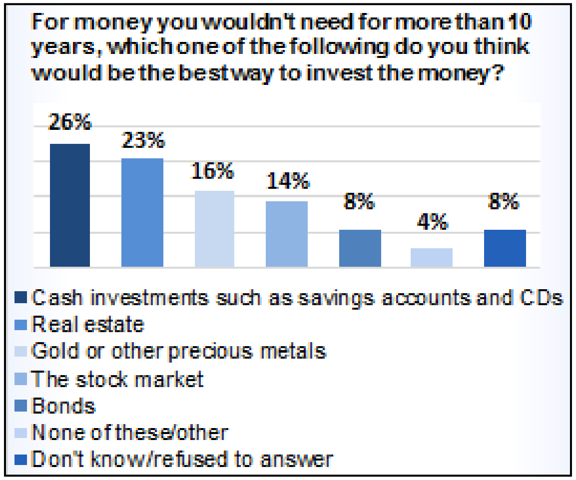
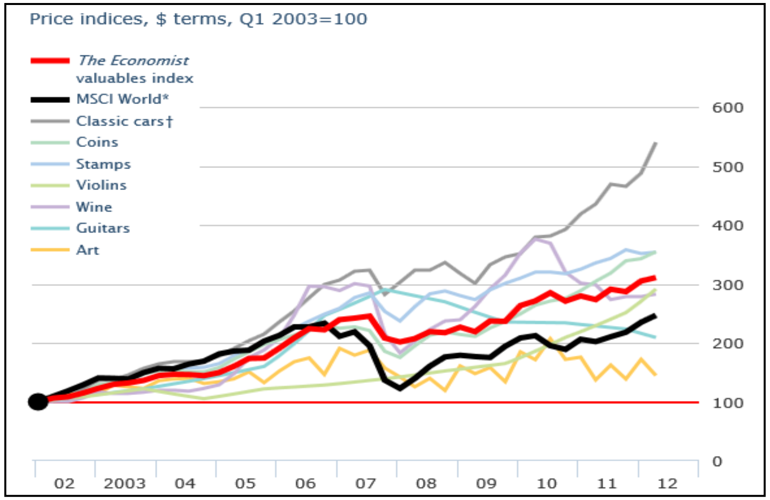
Investment Survey



Source: Financial Security Index Survey; Bankrate

Valuables Index



Source: The Economist

In a recent survey, investors were asked to reveal their top long-term investment choice. Respondents' most preferred investment was cash and cash-related investments, despite the fact that cash currently offers no yield and has been one of the worst performing asset classes over the last ten years. Additional survey results indicated that respondents making six figures or more prefer stock (34%) and real estate (32%), while investors earning less than six figures favored cash (29%), real estate (23%) and precious metals (18%). Cash investments were the choice of 32% of those with a high school education or less, compared to 24% with some college education and 19% with a college degree. Women prefer cash investments slightly more than men (30% versus 21%), while men prefer stocks more than women (18% versus 11%).

The Economist offers insight into the world of rare and valuable items through its 'Valuables Index'. The index includes 36% fine art, 25% classic cars, 17% coins, 10% wine, 6% stamps and 6% guitars and violins. Since 2003, the index has increased 211% in nominal terms. By comparison, the MSCI World index, a stock benchmark of the developed economies, increased 147% (including dividends). The top performing category is the classic car index which consists of 50 of the most valuable models compiled by the Historic Automobile Group. Whereas the cost of purchasing and owning equities is negligible, valuables have high transaction costs and need to be insured, stored and maintained. Illiquidity tends to be another issue; offloading a 1957 Ferrari is not easy. Valuables may also lead to more enjoyment for investors; art can be admired, and vintage cars can be driven—albeit carefully (classic cars on average are driven only 80 miles a year).

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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