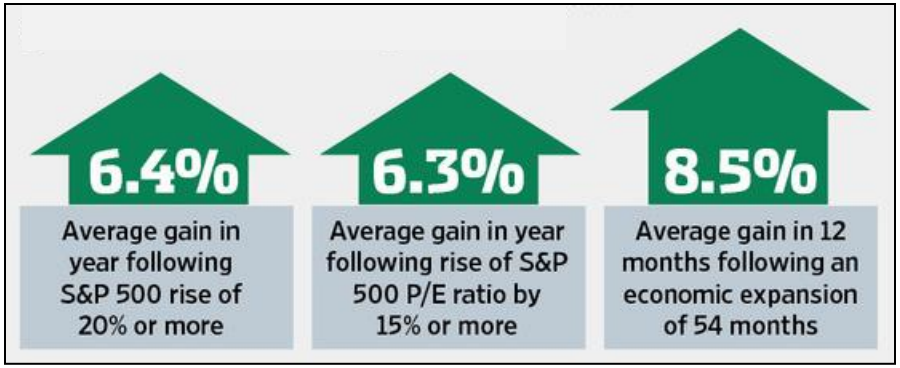
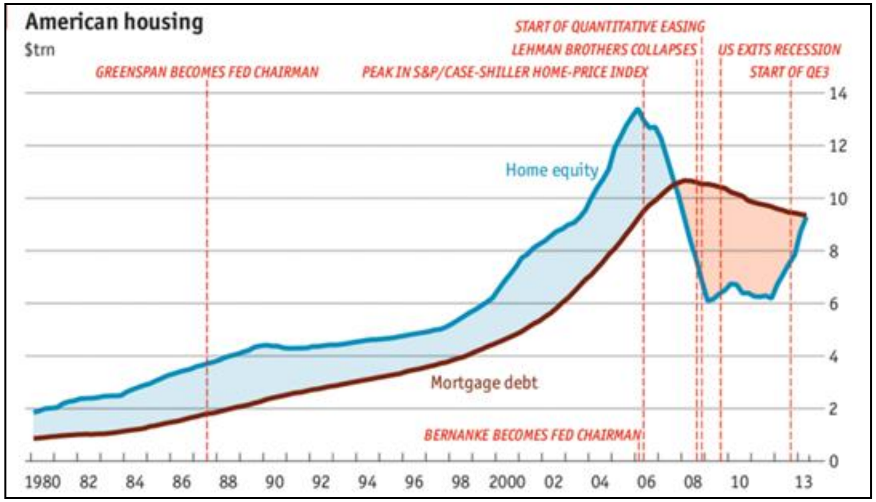
# Market Recap

S&P 500 Performance in the Year Following a 20%+ Rise




Source: Birinyi Associates; WSJ

U.S. Home Equity and Mortgage Debt




Source: Federal Reserve; Lombard Odier; The Economist

With stocks enjoying their largest annual advance of the past decade, much of the market's focus has shifted to 2014. Market bulls suggest that stocks could keep rising, propelled by steady economic growth and low interest rates. Bears counter with the view that stocks have become expensive and may be overdue to take a breather as the Federal Reserve begins the process of raising interest rates. The S&P 500 is up 27% this year. Since 1927, there have been 23 years in which the S&P posted 20% or greater returns. On average, the index's return the following year was 6.4%. In only one of these years, a 20%-plus annual gain was exceeded the following year (1997's 31% gain following 1996's 20% gain). Six years saw back-to-back 20% gains. Data comparing today's expansion of the S&P 500's price/earnings ratio against past years', coupled with a comparison of the performance within the current stage of the economic cycle, suggests 2014 gains of 6% to 9%. Even market bulls anticipate lower returns that this year.

'Negative equity' exists when the mortgage on a house is greater than the value of the house itself. U.S. homeowners, in aggregate, have experienced this phenomenon since late 2007. However, after 23 quarters, it may be coming to an end. Home equity has increased in recent months, as home prices have strengthened and mortgage debt has declined (including forcibly through the cancelation of credit lines by banks). This crossover is good for the economy. Net home equity is a key part of the 'wealth effect' (as people feel richer, they spend more, spurring growth in a virtuous cycle). One potential threat to the current trend would be a disorderly reaction to the end of the accommodative monetary policy. Higher interest rates and tight mortgage borrowing could lead to home prices tumbling, sending homeowners back into negative equity.

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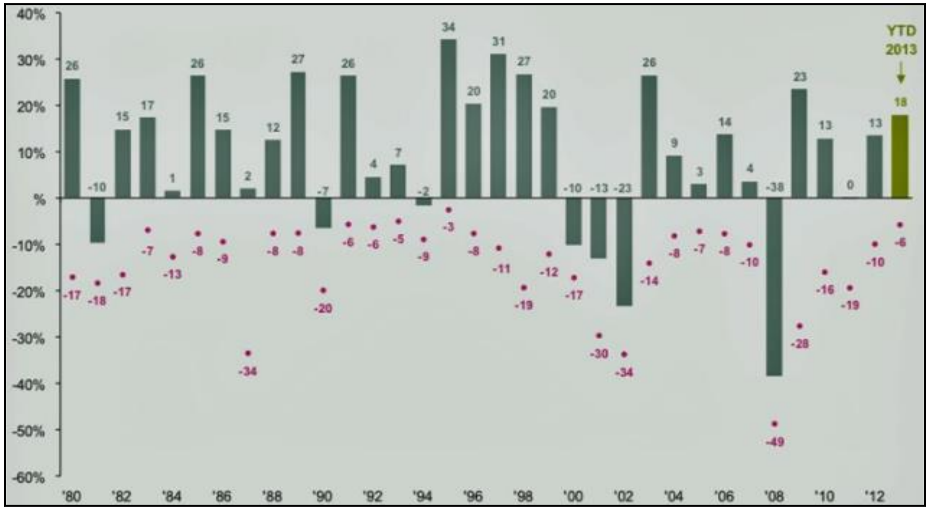
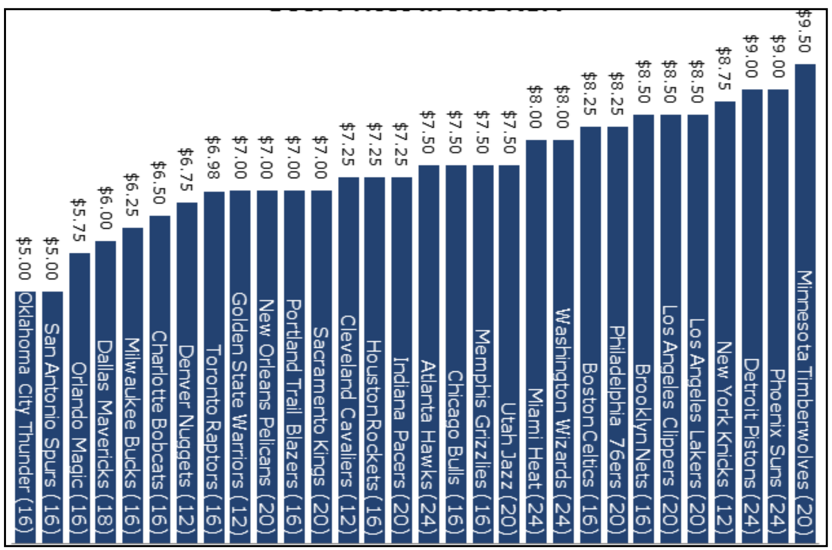
## S&P 500 Annual Returns and Intra-Year Declines




Source: Standard& Poor's; Factset; J.P. Morgan

Year-to-date, the largest drawdown (peak-to-trough decline) of the S&P 500 is 6%. This occurred earlier in the year, when the concept of "tapering" hit the press and the markets for the first time. Even in years reporting strong stock performances, investors typically must stomach not-insignificant drawdowns to achieve their buy-and-hold returns. If nothing rocks the market substantially over the next few weeks, this year will report the narrowest pullback since 1995. Since 1980, the average market drawdown is 14.7%, which includes a few very significant years. In 2008, the drawdown was 49%. If we remove the five largest drawdowns of the period from the data, the average intra- year decline is almost double this year's level, at 11.5%.

## Beer Prices at 2013 NBA Games




Source: Team Marketing Report

The average cost for the smallest, least expensive draft beer served at NBA stadiums this season is $7.41. That is an increase of 4.7% from $7.08 per beer in 2012. Minnesota sells the most expensive beer in the NBA; Timberwolves fans pay at least $9.50 for a beer. The least expensive beers can be found in Oklahoma City and San Antonio where fans can buy a beer for just $5.00 (albeit at smaller sizes). If we adjust the cost according to the size of the beer, the most expensive beer is sold in New York, where the NY Knicks charge $0.73 per ounce for their cheapest beer. Oklahoma City, San Antonio, and Atlanta all offer a beer that costs $0.31 per ounce, the lowest in the NBA.

**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.