

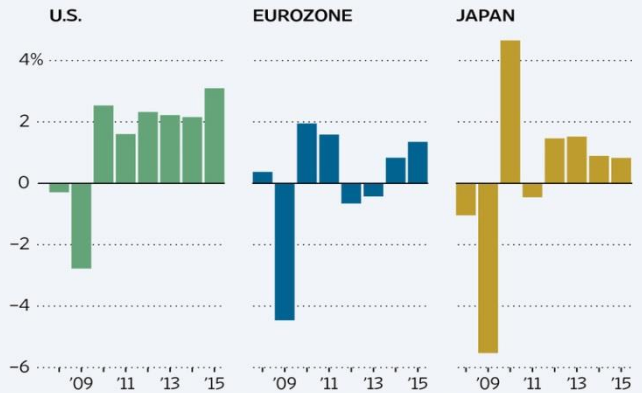
Market Recap

Purchasing Power of the U.S. Dollar

Side Effects

Outside the U.S., advanced economies are struggling to revive growth, putting pressure on central banks to ramp up stimulus measures. One result has been lower exchange rates, particularly for the euro and yen.

Gross domestic product, annual change*



Cumulative change in the amount of dollars each currency buys†



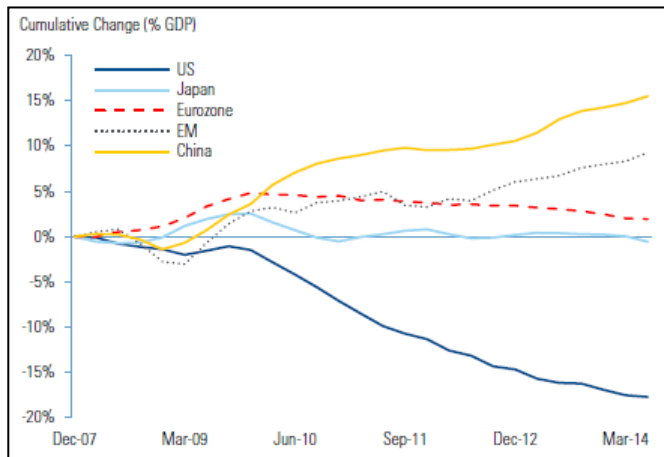
*Estimates for 2014, Projections for 2015; †Weekly Sources: IMF; WSJ Market Data Group

The Wall Street Journal

Source: The Wall Street Journal

In a departure from the past, G-20 Finance Ministers have acknowledged they are now willing to let currencies depreciate in efforts to spur global economic growth. When a country's currency depreciates relative to that of its trading partners, its exports become cheaper and more competitive. This is heightened when the partner's currency is strong. With the U.S. dollar at a multi-year high, many wonder how the U.S. economy - one of the few bright spots emerging from the financial crisis - will be impacted. Will GDP growth, coupled with the windfall from lower oil prices, allow the U.S. to retain purchasing power, while still helping Europe and other countries to improve their economies through depreciating currencies? In addition, with Europe, Japan, and China teetering near deflation, one issue is whether currency depreciation will be sufficiently impactful, or whether economic restructuring is needed. China, in particular, is furthering deflationary pressures by flooding the world market with huge shipments of discounted manufactured goods.

Trends in Global Household Debt



Source: IMF

By forcing rates lower in countries around the world, central bankers have encouraged borrowing. Seven years after the bursting of a global credit bubble led to the worst financial crisis since the Great Depression, total debt utilization continues to grow. In most countries, this includes higher household debt. Since the financial crisis, global debt has grown by \$57 trillion, raising the ratio of debt-to-GDP by 17 percentage points. The United States, however, is the exception. The U.S. household sector has reduced debt as a share of GDP by 18 percentage points since peaking in late 2007. This is in contrast to a modest increase in the Eurozone, no change in Japan, and a surge in emerging markets led by China, Brazil and Russia.

Market Recap

Active Management Vs. Index Funds

Sweat Equity

Human managers sometimes do better in times when merely riding the market doesn't work, and stock picking or defensive positioning is called for. Shown, the relative performance of active managers vs. the S&P 500.

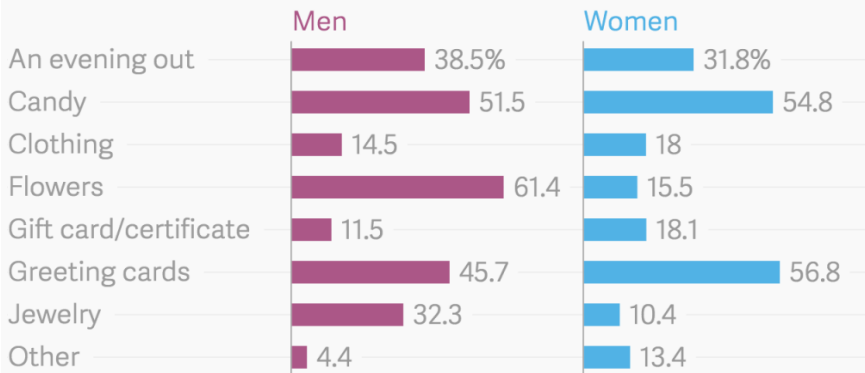
	Pct. of actively managed funds outperforming	Average outperformance
1995-99	18%	-4.2% ↓
2000-'08	63%	1.4% ↑
2009-'14	32%	-0.8% ↓
2010-'14	19%	-1.6% ↓

Source: Aaron Reynolds at Robert W. Baird, using Morningstar data The Wall Street Journal

Are active managers poised to outperform index funds in 2015? Having experienced daily 100-point+ swings during the month of January, evidence suggests now is the time when index funds may not be the best investments. When markets are trading sideways or when volatility is expected to increase, active management should be considered. Historically, active managers have trailed passive management in long bull markets such as that we experienced from 2008 to 2014. However if one considers periods of heightened volatility and greater market moves (e.g. 2000 to 2008), active managers outperform. In addition, active managers can better smooth returns by tactically investing in high performing stocks and trimming positions that have risen too high, whereas index funds are bound to hold the entire index. To this end, if investors believe the market is heading into a period of increased volatility, this may be the start of a period of outperformance by stock selectors.

Valentine's Day 2015

The gifts men and women plan on giving



Quartz | qz.com

Data: National Retail Federation

Ever wonder where all the money spent on Valentine's Day goes? Exploring data from the National Retail Federation, Jeanne Kim of qz.com indicates that "American's will spend \$18.9 billion on flowers, chocolates, restaurant meals, and even 'anti-Valentines Day' gifts" this year. The chart to the left further analyzes the differences between Valentine's Day spending patterns of men and women. As may be expected, the greatest percentage of men purchase flowers, followed by candy and greeting cards. Women are major purchasers of greeting cards, followed closely by candy. Perhaps due to the relative cost, or even the sense that it's too hard to get a reservation, only 38.5% of men and 31.8% of women plan an evening out on Valentine's Day.

Source: blogs.splunk.com, qz.com

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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