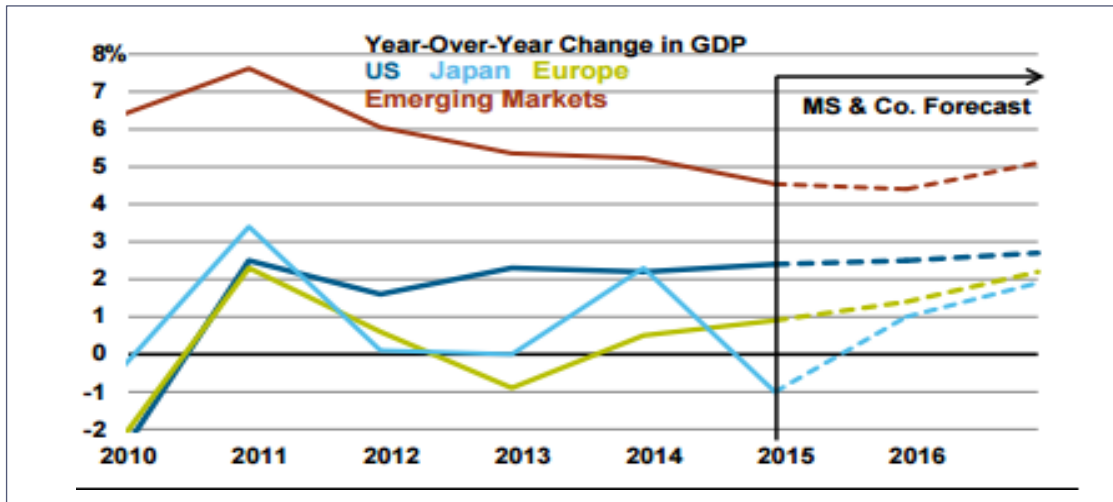


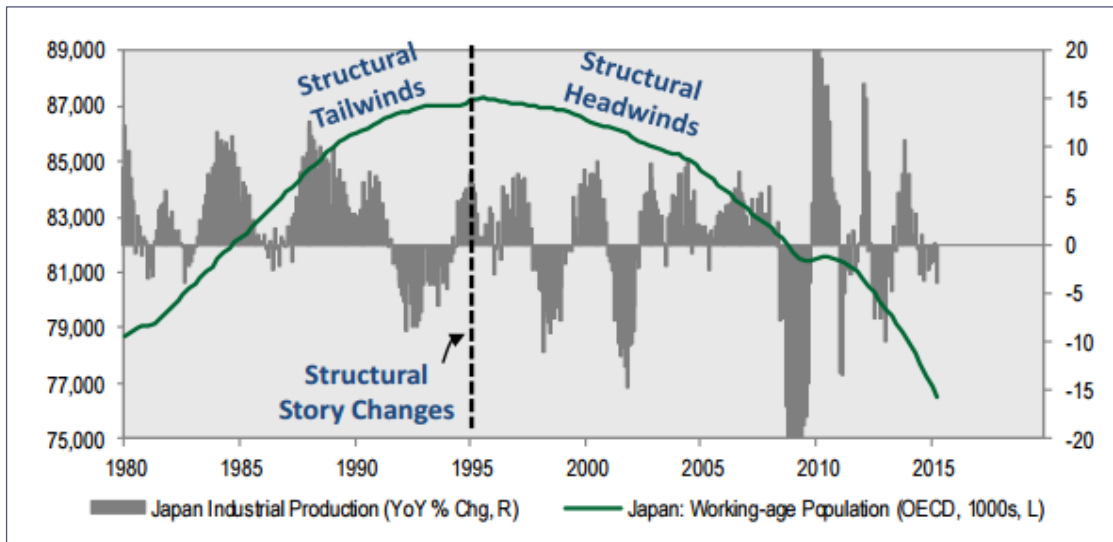
Market Recap

Second Half Rebound in Global Growth Still Expected



Source: Cornerstone Macro

Impact of Structural and Cyclical Forces on Global Economies



Source: Cornerstone Macro

Despite recent developments in Greece, the investment bubble in China, and the risk of default in Puerto Rico, any one of which may have shaken investors' confidence, many economists still expect an increase in growth for the second half of the year. Global PMI, which is the Purchasing Managers Index and the leading indicator of global manufacturing, increased for the third straight month in June. In addition, oil is down 12% since the beginning of the month and signs indicate that savings at the pump are now being spent by consumers. Aggressive rate cuts by central banks in Europe, Japan, China, and India have increased the stimulus in the global system to levels not seen since the financial crisis, which is also expected to add to higher consumption. As a result, the second half of the year may see 4% global growth.

An economy is impacted by both structural and cyclical forces. Structural changes in the economy (such as demographics or limited global oil supply) are permanent or very long-lived, while a cyclical influence (such as a change in interest rates, inflation, or trade growth) often reverts to its previous level over a few years. Cyclical forces have the greatest influence on the business cycle, and ultimately, corporate earnings and company stock prices. As an example, over the last 25 years, despite significant structural headwinds, Japan has managed to record positive business cycles driven by cyclical forces. Today, when we consider a global economy which may be facing structural issues including the unwind of the investment bubble in China and unprecedented stimulus from Central Banks, cyclical forces (e.g. low inflation, low interest rates) support positive global growth prospects.

Market Recap

Minimizing Variance in Returns



Source: Matias Rodlauer

Fantasy Sports Meets Wall Street



Source: Fantex Holdings

Warren Buffet offers investors the following sage advice: “Rule No. 1—never lose money; Rule No. 2—don’t forget rule No. 1.” A great way to illustrate the significance of one’s ability to minimize variance in returns (and, in turn, avoid big losses) is to consider the effect one year of highly negative returns would have upon performance of a portfolio across a multiple-year time frame. If one were to hold one stock in a portfolio and suffer a (50%) loss in one calendar year, one would then need to see a 100% gain from that point forward just to break even. Along the same lines, a (33%) decrease in a given calendar year would necessitate a 50% gain in the following year to break back to even, while a (20%) loss would require a 25% gain. The importance of reducing the standard deviation of returns, thus mitigating the chances of encountering a large depreciation in value, is clear.

One can now buy a stake (similar to a single stock of a publicly-traded company) in one’s favorite NFL players. Fantex Holdings has created stocks tied to the future cash flows that certain athletes will earn as they progress through their careers. Fantex makes an initial payment to the athletes (thus far 6 NFL players have been brought to market) and then sells a given number of shares to retail investors at a starting price of \$10. Each investor is then entitled to dividend payments that make up a percentage of the athlete’s career and brand income, which in theory should vary according to the player’s performance on the field. This translates, then, into the price a potential investor is willing to pay for an existing share of a certain player’s stock. While highly speculative and only a shallow market today, it will be fascinating to see whether the sporting and investment world will embrace these investments.

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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