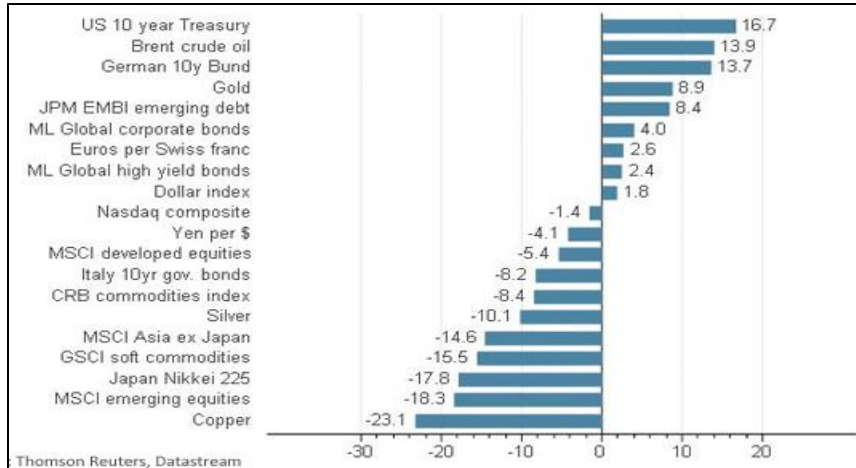


Market Recap

2011 Asset Returns Scorecard



Source: Thomson Reuters

S&P 500 Analyst Forecasts

	2012 FORECAST	2011 FORECAST*	S&P 500 actual close: 1257.6	% OFF FROM ACTUAL CLOSE
Average	1334		1372	8.3%
MORGAN STANLEY	1167	1238		1.6%
Adam Parker				
CITIGROUP	1375		1300	3.3%
Tobias Levkovich				
HSBC	1190		1320	4.7%
Gary Evans				
OPPENHEIMER	1400		1325	5.1%
Brian Belski				
UBS	1325		1325	5.1%
Jonathan Golub				
BANK OF MONTREAL	1325		1350	6.8%
Ben Joyce				
WELLS FARGO	1360		1390	9.5%
Gina Martin Adams				
BARCLAYS	1330		1420	11.4%
Barry Knapp				
J.P. MORGAN	1430		1425	11.8%
Thomas Lee				
GOLDMAN SACHS	1250		1450	13.3%
David Kostin				
DEUTSCHE BANK	1500		1550	18.9%
Binky Chadha				
CREDIT SUISSE	1340	Not applicable		
Andrew Garthwaite				
BANK OF AMERICA	1350	Not applicable		
Savita Subramanian				

Source: Birinyi Associates/WSJ

In 2011, the best-performing asset category was U.S. Treasuries. Not even a downgrade of the United States' AAA rating and constant wrangling with the deficit stopped the rally in Treasuries. Benchmark Treasuries returned nearly 17% in 2011, their largest gain since 2008. Growing fears about the euro-zone debt crisis, combined with a pledge by the U.S. Federal Reserve to keep interest rates low through 2013, made the appeal of Treasuries irresistible to investors. Other top performers included commodities (such as gold and oil), which finished the year with gains of 10% and 8%, respectively. Global stocks have lost more than 9% for the year, although a steady flow of encouraging U.S. economic data allowed the U.S. market to be one of the better relative performers, finishing the year close to where it started in 2011.

At the start of each year, market strategists typically attempt to forecast how the market will perform in the coming year. Most Wall Street strategists are optimistic that the stock market will increase in 2012 but are not forecasting a dramatic move higher. The current consensus estimate among strategists is for the S&P 500 index to end 2012 at around 1334, which would be 6.1% higher than the 2011 closing value of 1257. Given the current 2% yield for the S&P 500, the total return for the market would be ~ 8%. Many worry that there seem to be few solutions to the European sovereign-debt crisis and that corporate earnings growth in the U.S. may begin to slow. It is interesting to note that the average forecast for 2011 was 1372, which would have been an 8.3% gain. The market fell well short of that estimate.

Market Recap

2012 S&P 500 Market Forecast

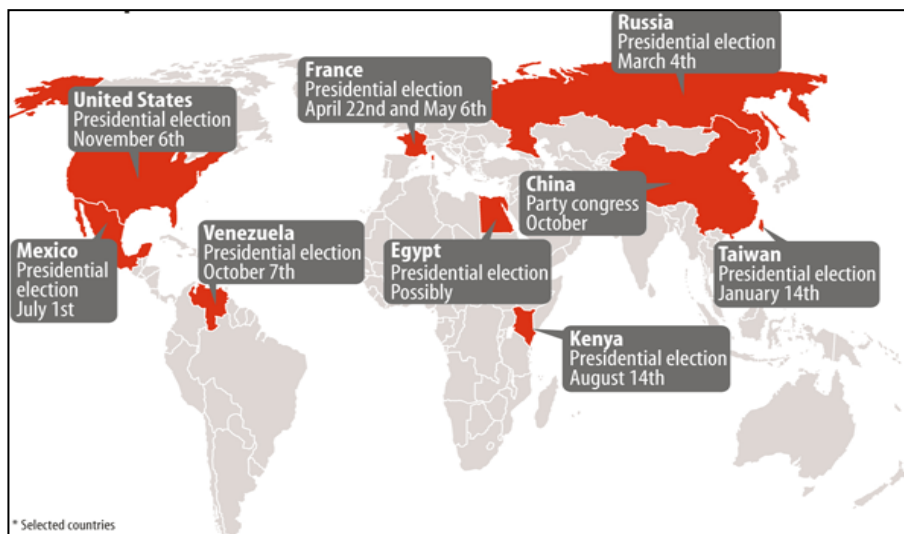
EPS (\$)	P/E									
	9	10	11	12	12.5	12.8	13	14	15	16
90	810	900	990	1080	1122	1155	1170	1260	1350	1440
95	855	950	1045	1140	1257	1274	1235	1330	1425	1520
98	882	980	1078	1176	1222	1257	1274	1372	1470	1568
100	900	1000	1100	1197	1247	1283	1300	1400	1500	1600
105	945	1050	1155	1252	1309	1347	1365	1470	1575	1680
107	963	1070	1177	1284	1334	1373	1391	1498	1605	1712
110	990	1100	1210	1320	1372	1411	1430	1540	1650	1760
115	1035	1150	1265	1380	1434	1473	1495	1610	1725	1840

Blue - 2011 Reported Red - 2012 Consensus Forecast

2012 Consensus EPS Forecast

Source: Reuters

Worldwide Elections in 2012



Source: The Economist

How is a market forecast calculated? Market forecasts are largely a reflection of two components – profit (earnings) growth and a multiple to profits (P/E). The current baseline for 2012 forecasts reflects S&P earnings of \$98 per share and a P/E multiple of 12.8. The market can rise as profits increase and/or if investors are willing to pay more for profits (multiple expansion). We typically see multiple expansion when investors feel optimistic about the direction of the economy and market. That is not the case today. The current consensus forecast for the S&P 500 is 1334 (6.1% higher than the 1257 starting value). Profits are projected to grow 6% to 107, with the multiple remaining relatively unchanged at ~12.5. Harbour Capital Advisor's forecast is 1297. We are anticipating more moderate profit growth, as the market has not fully discounted the impact of European debt and the sluggish economy. Along with the 2% yield of the S&P, our total return target for the market is a modest 5% in 2012.

This week saw the traditional start to the Presidential election season with Mitt Romney's narrow victory in the Iowa Caucus. 2012 stands a good chance of being exceptionally pivotal as elections throughout the world can change the leadership and ideology of many nations and perhaps the world. Among the five permanent members of the UN Security Council, only Britain's David Cameron does not face re-election this year. President Obama and President Sarkozy of France face presidential elections that are expected to be highly contested. Russian President Medvedev has already ceded the presidency back to Vladimir Putin. China is also preparing a turnover in power at the end of the 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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