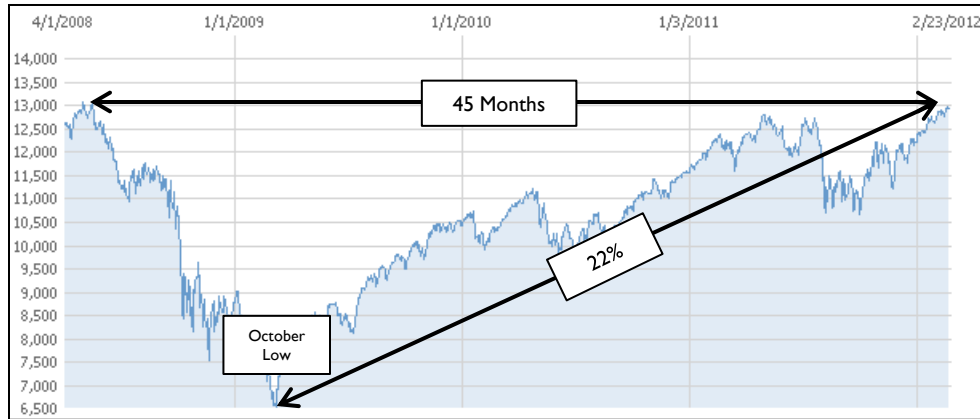


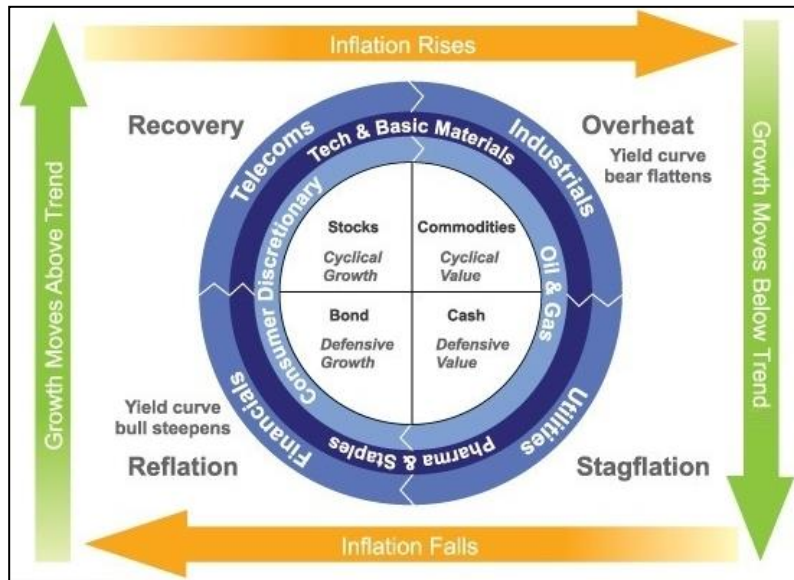
Market Recap

Dow Jones Industrial Average



Source: MSN

Typical Business Cycle



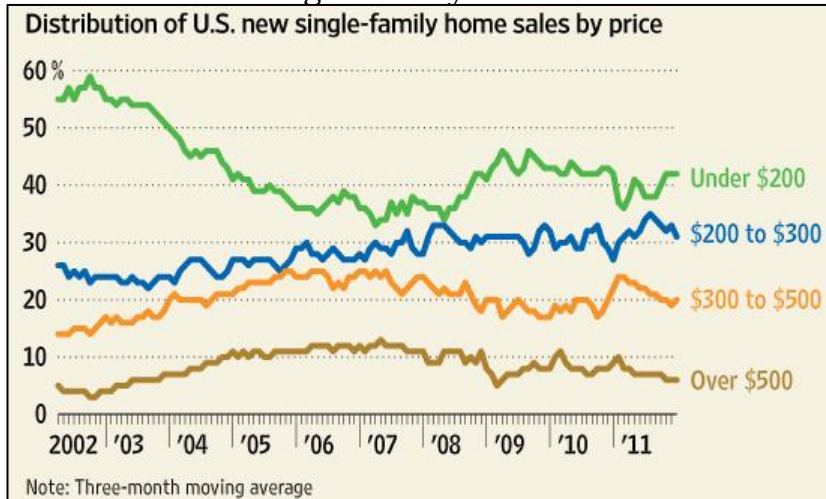
Source: Fidelity

The Dow crossed the psychological milestone of 13,000 for the first time since May 2008. The benchmark has risen over 22% from its 52-week low of 10,404 last October and is only 8.5% away from the all-time high of 14,164 reached in October 2007. There have been several contributing factors to the market's rise. First, Greece/Europe has not suffered a complete collapse. The ECB prevented a run on troubled EU sovereign debt by extending below-market loans to European banks. Second, the economic data in the U.S. has improved largely across the board. The greatest progress has been in jobs, but there has also been improvement in manufacturing and even in the beleaguered housing market. Finally, central banks across the world have turned on the spigots to make money supply abundant. With global central banks following a highly-accommodative monetary policy, investors have been more inclined to move into riskier assets, like stocks.

When positioning investment portfolios, careful consideration must be given to where we fall within the typical business cycle. Recently, the markets have been buoyed by good news, as Quantitative Easing seems to have finally given the economy a jolt. However, these sizable accommodative measures have also muddled the traditional transition from recession to recovery. The question now is whether this 'recovery' is sustainable despite the fact that it has been largely supported by stimulus rather than real capital/savings. We need to see healthier bank credit expansion and an increasing money supply without Fed assistance. Exports are another important area to be watched as the EU, China, and much of the world slows down. It remains plausible that the U.S. economy will see more weakness during the second half of 2012.

Market Recap

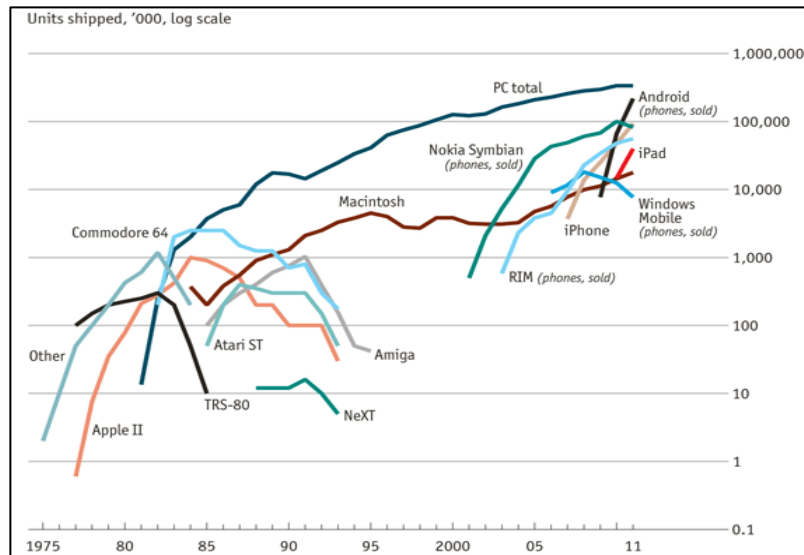
U.S. New Single-Family Home Sales Prices



Source: Census Bureau

It has not been easy being a homebuilder these past few years: total sales have hit record lows; foreclosure-based sales have pulled away would-be new home buyers; access to mortgage financing has remained challenging; the average price of new homes has fallen. Since new-home prices peaked in 2007, new single-family sales of more than \$500,000 have gone from 13% to 6% of the market. Sales of new homes priced under \$300,000 now account for roughly 75% of all new single-family deals. These price drops have come as buyers have sought smaller homes. The view is that sales of houses between \$200,000 and \$300,000 are perhaps the 'new normal.' In order for a strong spring selling season to materialize, builders must seemingly pay close attention to this structural pricing shift and construct lower-cost houses.

Personal Computing Units Shipped



Source: Asymco

The computer industry is often defined as a series of 'platform wars.' When a new computing platform is introduced, many different systems fight it out until one or two standards emerge. Data from consulting firm Asymco illustrates that this was the case with the personal computer in the 80's and is now happening in the market for smartphones and mobile devices. It is still too early to declare the winner(s), but the outcome may be similar to the one in the PC industry. Apple's iPhone, an off-shoot of the Macintosh platform, is the oldest and largest participant. However, Android, an operating system maintained by Google, could play the role of Microsoft's Windows. One thing seems certain: the PC's dominance in the computer industry is coming to an end.

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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