

Market Recap

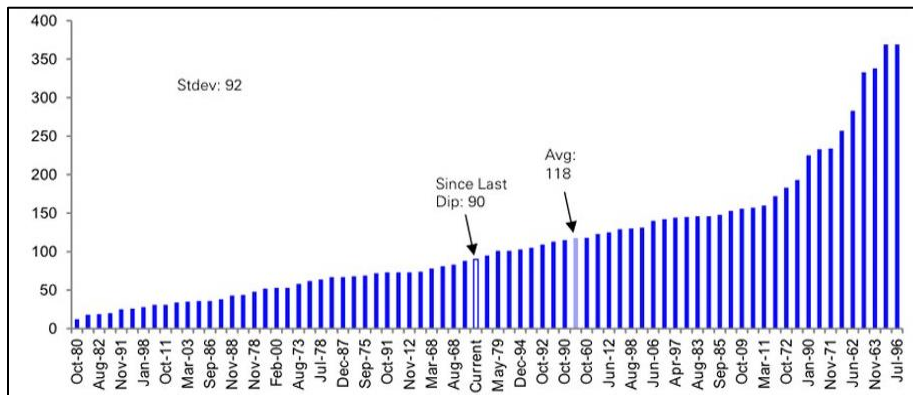
One-Year Barclays U.S. Aggregate Bond Index Price Movement



Source: Yahoo! Finance

Given the record-breaking quarter that the U.S. equity markets have enjoyed, there has been a reduced focus on the bond market. The Barclays U.S. Aggregate Bond Index, the most broadly cited bond index, declined 0.12% during the first quarter, its first negative quarter to start the year since 2006. Since 1976, the average annual return for the index has been 7.70%. Many investment funds are tied to this index, impacting how hundreds of billions of dollars are allocated in fixed-income investments. During its 37-year history, the index has only had two negative annual returns (1994 and 1999), representing a significantly steadier performance than that of the stock market. This year's decline in bonds is thought to demonstrate that investors are becoming more willing to take on risk or to believe that interest rates may finally be on the move higher. Rising interest rates would be punishing for all debt investors, as higher rates mean lower bond prices.

Number of Days Between 5% Declines in S&P 500

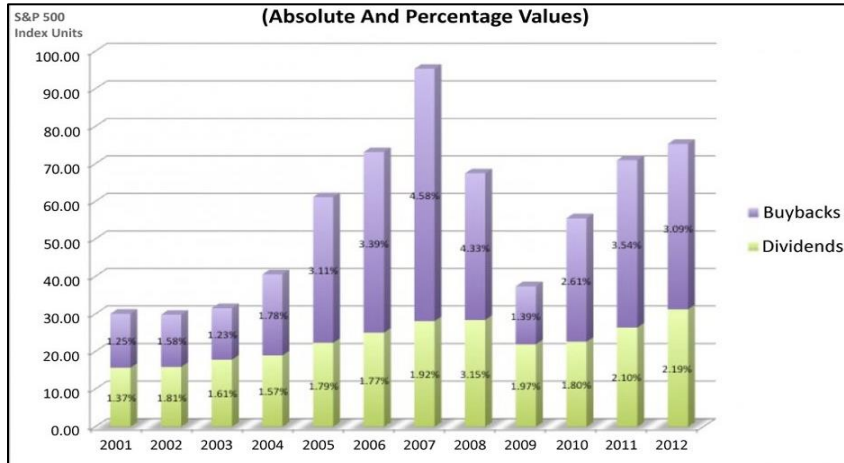


Source: Deutsche Bank

The S&P 500 closed the first quarter at an all-time high. One interesting side note to this historical event is that the Index achieved this record with very few notable pullbacks. The index has not had a decline of 5%+ in the last 90 trading days, and it has been 374 days since a correction of 10%+. Since 1960, the average number of trading days between 5%+ dips has been 118 days. However, the range has been as short as one trading day and as long as 350 days. There have been only three years since 1960 without a 5%+ dip (1964, 1993, and 1995). Given the impressive move of the market, many investors believe that the market is overdue for a sell-off. Market declines are inevitable, but they usually do not occur in the absence of bad news or increasing risk. Accordingly, it is unlikely that the market would see a significant pullback solely as a result of profit-taking by investors.

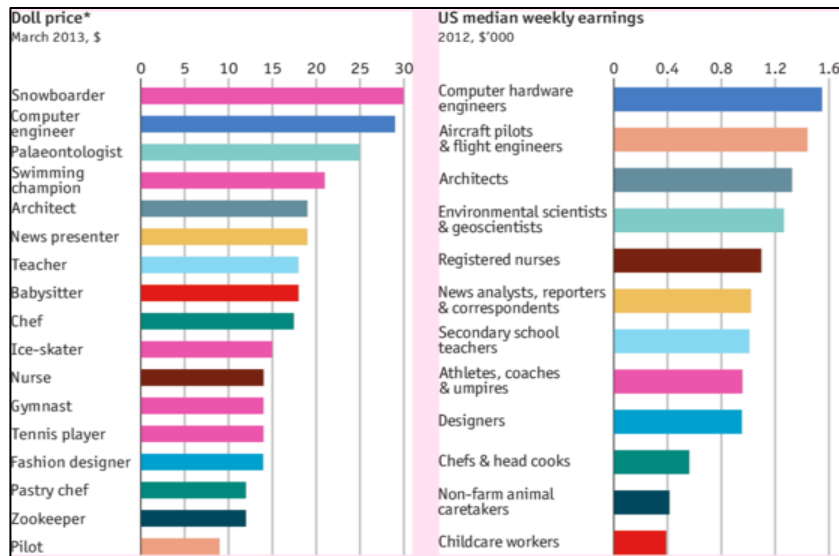
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Buybacks and Dividends of S&P 500



Source: Factset

Barbie Doll Price by Occupation versus U.S. Median Weekly Earnings



Source: Mattel, Bureau of Labor Statistics, The Economist

Traditionally, the two means that companies have to directly return capital to shareholders are dividends and stock buybacks. While most investors understand and appreciate the value of dividends, many investors overlook or underappreciate the impact that stock buybacks have on stock performance. Stock buybacks effectively increase each shareholder's claim on a company. While there are many strict value investors who believe that dividends are qualitatively better than buybacks, the aggregate amount returned to shareholders in the form of buybacks tends to be even greater than dividends. Over the last decade, the amount of capital returned in the form of buybacks has been almost double that returned in the form of dividends.

"Barbie" recently celebrated her 54th birthday. Throughout the years, Barbie has had more than 130 careers. Some command higher wages than others. What is surprising to many is that the price of a doll varies by profession. Most in the "Barbie I can be..." collection cost \$13.99, according to its maker, Mattel. But some, such as "snowboarder" or "computer engineer" cost two or three times more. The price differential cannot simply be explained by the accessories that come with the doll. According to Matthew Notowidigdo, an economist at the University of Chicago, a "Barbie Paradox," is at work, as sellers exploit parental hopes that children pretending to pursue a certain career through play may grow up to pursue the real thing. Interestingly, there is only a modest correlation between Barbie's occupations and real-world salaries. Inexpensive "pilot" dolls are one of the better-paying professions, and despite "babysitter" Barbie's moderately-high price, childcare worker ranks last in US median weekly earnings.

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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