

Market Recap

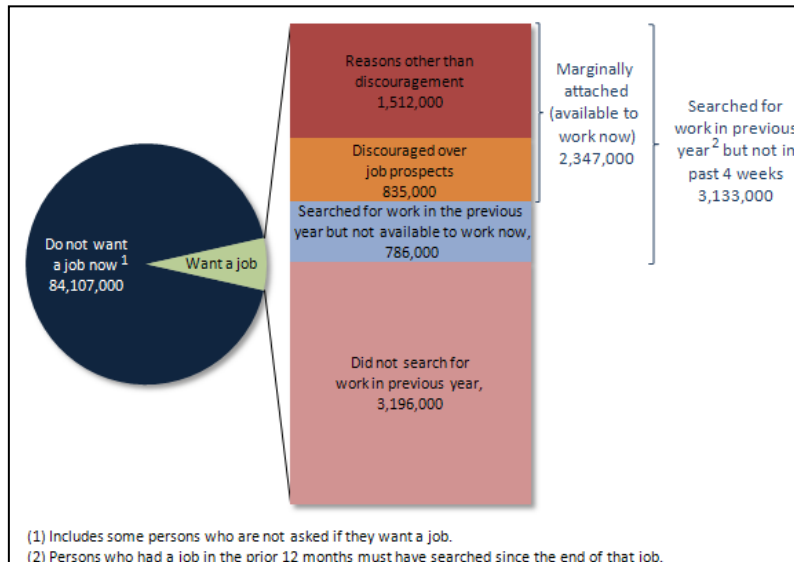
Dow Jones Industrial Average at 15,000



Source: WSJ

This week, the Dow Jones Industrial Average closed above 15,000 for the first time. The index is off to its best start of any year since the technology-fueled bull market of 1999. Unlike 1999, the current market advance has not been driven by blind optimism. Many investors have marveled at the market's resilience and simply see few alternatives to stocks. Since the market bottomed in March 2009, the Dow has more than doubled without suffering a single bear market downturn (a decline of 20% or more from a recent high). The Federal Reserve's efforts to suppress interest rates are a key driver of the rally. In recent months, stocks have seemed impervious to economic and political headwinds. The market has advanced 15% this year, despite political battles over the federal deficit and sequestration, as well as a banking crisis in Cyprus that threatened a flare-up in the euro zone's continuing debt concerns.

People Not in the Labor Force by Choice and Availability for Work

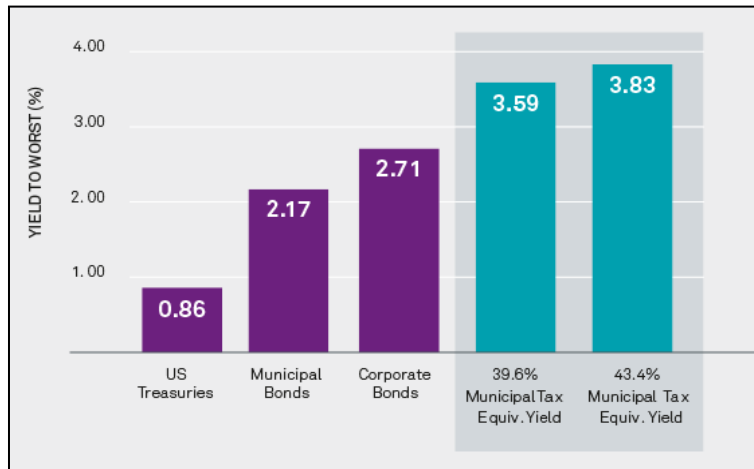


Source: U.S. Bureau of Labor Statistics

Despite relatively slow job growth, the unemployment rate has fallen from 10% in October 2009 to 7.5% today. Many economists have suggested the decline is largely a reflection of a sharp fall in labor force participation (the share of workers that are either working or actively looking for a job) due to so-called 'discouraged workers' (people who give up on searching for work because they feel there are no jobs available). However, the number of people who identify themselves as discouraged workers has actually fallen significantly since 2010. In truth, most of the decline in labor force participation has been due to changing demographics: more retirement; a greater number of workers leaving to go back to school; and family members staying at home to care for other family members. This trend is expected to continue even as the economy improves.

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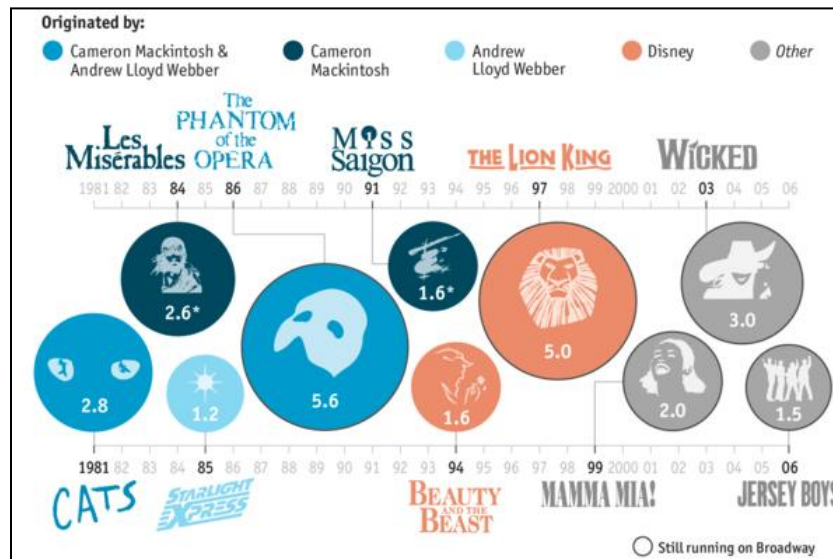
Municipal Bond Yields versus Treasury and Corporate Bonds



Source: Barclay's

Over the last several years, municipal bond yields have been higher than Treasury yields, even before taxes. With investors seeking sources of income, and facing higher tax rates, the after-tax return for municipals seems even more compelling. The newly-increased tax rate for high earners (highest margin tax rate of 39.6%, plus 3.8% Medicare tax) makes municipal income relatively more valuable. Thus far in 2013, municipal bonds have not enjoyed the price run-up that many had been anticipating due to the higher tax rates. There is currently a push-pull dynamic with municipals, with higher tax rates being offset by talk of the potential for a change in the tax-exempt status of the bonds. Current expectations lean in favor of maintaining their exempt status, which will result in renewed interest in municipal bonds.

Global Gross Sales of Select Musicals (\$billions)



Source: The Economist

Broadway musicals have pay-offs similar to venture capital: more fail than succeed but some can earn enormous profits. Overall, only one in ten makes money, and two out of ten lose it all. However, it is the potential for a megahit that leads many to look for “the next big musical.” It is estimated that “Cats” earned a 3,500% return for its initial investors. Since its debut 27 years ago, “The Phantom of the Opera” has grossed \$5.6 billion worldwide, more than any film or television show. Such success has given rise to heightened interest by Hollywood studios in the production of Broadway shows perhaps even bypassing film production altogether. In the 90s, Disney led the way with such hits as the “The Lion King” and “Beauty and the Beast.” More recently, Universal Pictures struck gold with “Wicked.” Initially, the studio bought the rights to the book with plans to turn it into a film. Instead, they opted to make it into a musical, which has grossed \$3 billion.

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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