

Market Recap

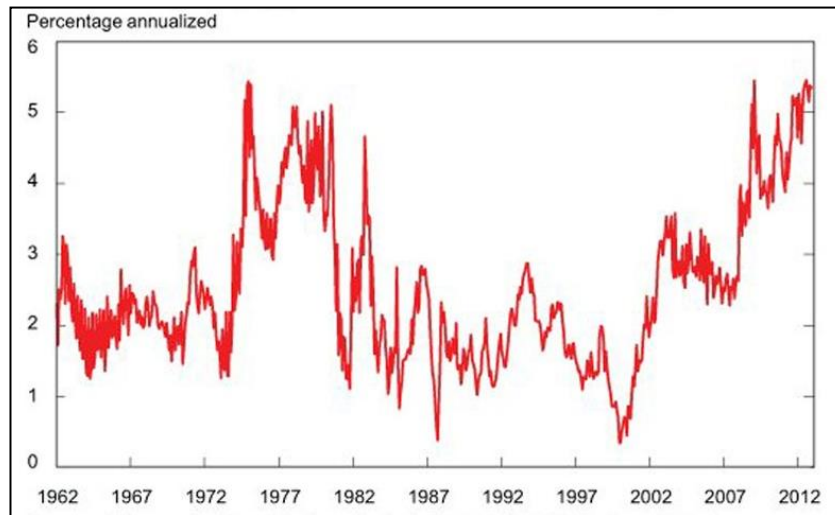
Federal Reserve Accommodative Activity and the S&P 500



Source: WSJ

When central banks print money, one goal is to push asset prices higher. Since the Federal Reserve launched “QE3” in September, the S&P 500 has risen 14%. The Stoxx Europe 600 has increased 22% since July when the European Central Bank vowed to do “whatever it takes” to save the euro. The Nikkei has advanced 22% since the Bank of Japan unveiled its bond-buying initiative in April. The focus of these central banks was not necessarily to drive stocks higher but rather to boost asset prices in general so businesses and consumers would spend more readily. The Fed’s actions have also, in turn, pushed mortgage rates lower, aiding home prices and construction. There are signs that rising stock and bond prices are doing more than fattening brokerage accounts. A surge in initial public offerings is providing companies with capital to expand. The strength of consumer spending despite stagnant wages reflects, in part, rising stock and house prices.

Equity Risk Premium

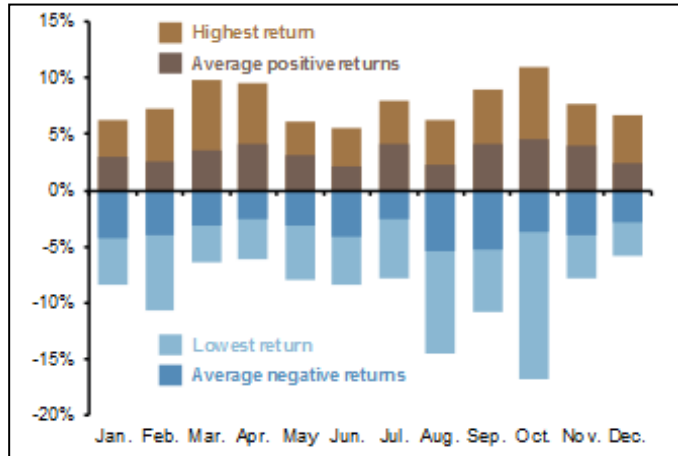


Source: New York Federal Reserve

With equity markets at all-time highs, many investors have grown increasingly cautious. However, one metric to which many market followers are pointing to justify continued optimism is the Equity Risk Premium (ERP). The equity risk premium is the excess return of stocks over a risk-free rate (typically measured by government bond yields). Based on traditional measures of ERP, stocks are about as cheap as they have been in 50 years, partially a function of ultra-low bond yields. The New York Fed analyzed twenty-nine of the most popular and widely-used models to compute the equity risk premium over the last fifty years. They include surveys, dividend-discount models, cross-sectional regressions, and time-series regressions. The current ERP value of 5.4% matches previous peaks in November 1974 and January 2009. The one-year return from those dates was 21.8% and 28.6%, respectively.

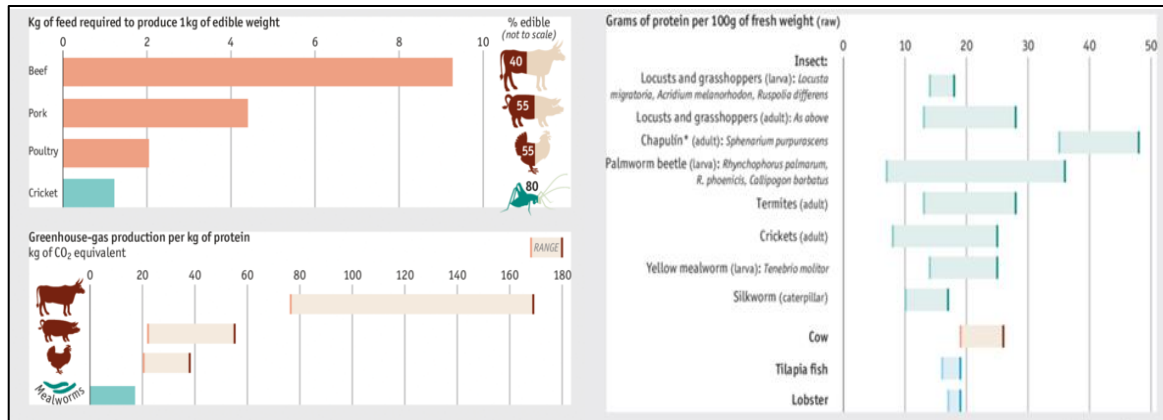
Market Recap

Seasonal Returns for S&P 500 (1993-2012)



Source: Standard & Poor's; J.P. Morgan

Insect Consumption



Source: UN Food and Agriculture Organization; The Economist

A well-known trading adage warns investors to “sell in May and go away” in order to avoid a seasonal decline in equity markets. The strategy states that investors who sell their stock holdings in May and return to the equity market in November avoid the typically volatile May-October period. Returns for the S&P 500 reveal mixed results for the theory. Summer month returns for 2001, 2002, 2008, and 2011 averaged -18%. Investors who followed the adage during these years were quite pleased to have missed these market declines. However, in 1997, 2003, 2005, and 2009, investors would have missed average returns of +15% during the summer months. A plot of the highest and lowest monthly returns throughout recent years gives equally mixed results. It seems that the reliability of a seasonal trend in returns should be viewed with some degree of skepticism.

As we in the Eastern half of the U.S. await the dreaded arrival of cicadas this summer, it is interesting to consider that other cultures might welcome their presence. Around 2 billion people (approximately 30% of the world's population) eat insects as part of their traditional diet, says the UN's Food and Agriculture Organization. In a new report, the FAO extols the merits of increasing insect consumption globally. Meat has been the main source of protein in developed countries for years, and its consumption is increasing in middle-income countries such as China and Brazil, where eating meat is a signifier of wealth. However, eating meat exacts a high toll on the planet. The bigger the animal, the more food, land, and water is needed to produce the final edible product. A cow takes 8kg of feed to produce 1kg of beef, and only 40% of the cow can be eaten. Crickets require just 1.7kg of food to produce 1kg of meat, and 80% is considered edible. In addition to protein, insects are also considered high in minerals and micronutrients.

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.

Disclosure: Harbour Capital Advisors, LLC (“HCA”) is an SEC-registered investment adviser located in McLean, Virginia. HCA and its representatives are in compliance with the current filing requirements imposed upon SEC-registered investment advisers by those states in which HCA maintains clients. HCA may only transact business in those states in which it is registered or qualifies for an exemption or exclusion from registration requirements. A direct communication by HCA with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For information pertaining to the registration status of HCA, please contact the SEC or the state securities regulators for those states in which HCA maintains a notice filing. A copy of HCA’s current written disclosure statement discussing HCA’s business operations, services, and fees is available from HCA upon written request. HCA does not make any representations or warranties as to the accuracy, timeliness, suitability, completeness, or relevance of any information prepared by any unaffiliated third party and takes no responsibility therefor. All such information is provided solely for convenience purposes only and all users thereof should be guided accordingly. Past performance may not be indicative of future results. Therefore, there can be no assurance (and no current or prospective client should assume) that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by HCA) made reference to directly or indirectly by HCA will (i) be suitable or profitable for a client or prospective client’s investment portfolio or (ii) equal the corresponding indicated historical performance level(s). Different types of investments involve varying degrees of risk. Historical performance results for investment indices and/or categories generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, or the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. The material contained herein is provided for informational purposes only and does not constitute an offer to buy or sell or a solicitation of an offer to buy or sell any option or any other security or other financial instruments. Certain content provided herein may contain a discussion of, and/or provide access to, HCA’s (and those of other investment and non-investment professionals) positions and/or recommendations as of a specific prior date. Due to various factors, including changing market conditions, such discussion may no longer be reflective of current position(s) and/or recommendation(s). Moreover, no client or prospective client should assume that any such discussion serves as the receipt of, or a substitute for, personalized advice from HCA, or from any other investment professional. HCA is neither an attorney nor an accountant, and no portion of the content provided herein should be interpreted as legal, accounting, or tax advice. The tax information contained herein is general in nature and is provided for informational purposes only. HCA does not provide legal, tax, or accounting advice. HCA cannot guarantee that such information is accurate, complete, or timely. Laws of a particular state or laws which may be applicable to a particular situation may have an impact on the applicability, accuracy, or completeness of such information. Federal and state laws and regulations are complex and are subject to change. Changes in such laws and regulations may have a material impact on pre- and/or after-tax investment results. **CIRCULAR 230 DISCLOSURE: To comply with Treasury Department regulations, we inform you that, unless otherwise expressly indicated, any tax information contained herein is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties that may be imposed under the Internal Revenue Code or any other applicable tax law, or (ii) promoting, marketing, or recommending to another party any transaction, arrangement, or other matter.** Rankings and/or recognition by unaffiliated rating services and/or publications should not be construed by a client or prospective client as a guarantee that he/she will experience a certain level of results if HCA is engaged, or continues to be engaged, to provide investment advisory services, nor should it be construed as a current or past endorsement of HCA by any of its clients. Rankings published by magazines, and others, generally base their selections exclusively on information prepared and/or submitted by the recognized adviser.