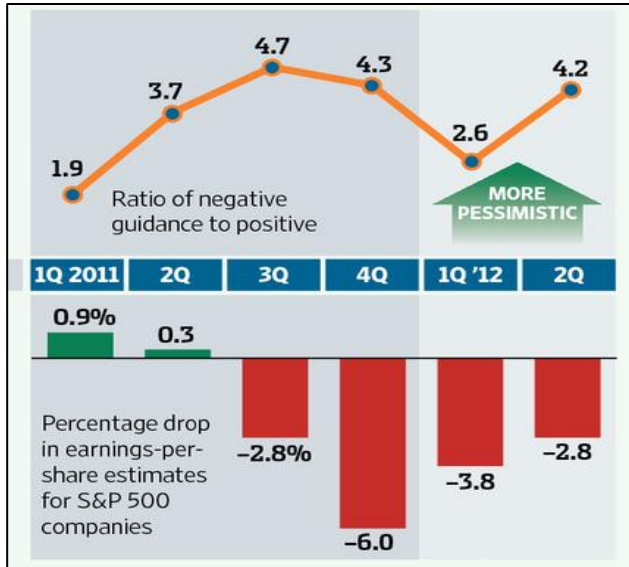


# Market Recap

## Second Quarter Earnings Expectations



Source: Brown Brothers Harriman; WSJ

## Earnings Scorecard

Stock	Company	Sector	Reporting Date	EPS			1-day % change
				Reported	Estimate	vs. Est	
AA	Alcoa	Materials	7/9/2012	0.06	0.06	Inline	-4.11%
WDFC	WD-40	Consumer Staples	7/9/2012	0.57	0.61	Missed	-4.11%
PSMT	PriceSmart	Consumer Staples	7/9/2012	0.52	0.6	Missed	5.69%
SHLM	A.Shulman	Materials	7/9/2012	0.69	0.61	Exceeded	8.70%
HELE	Helen of Troy	Consumer Discretionary	7/10/2012	0.74	0.88	Missed	-13.49%
SHAW	Shaw Group	Indrustrials	7/10/2012	-0.09	0.58	Missed	-9.19%
LEDS	SemiLEDs	Technology	7/10/2012	-0.29	-0.23	Missed	-5.40%
HITK	Hi-Tech Pharmaceutical	Healthcare	7/10/2012	0.73	0.78	Missed	-1.74%
WWW	Wolverine	Consumer Discretionary	7/10/2012	0.41	0.44	Missed	6.89%
VOXX	VOXX International	Consumer Discretionary	7/10/2012	0.14	0.15	Missed	-17.71%
OCZ	OCZ Technology	Technology	7/10/2012	-0.17	-0.12	Missed	-17.43%
ADTN	ADTRAN	Technology	7/10/2012	0.33	0.36	Missed	-15.37%
HCSG	Healthcare Services	Indrustrials	7/10/2012	0.17	0.17	Inline	7.39%
SVU	Supervalu	Consumer Staples	7/11/2012	0.19	0.38	Missed	-25.33%
MAR	Marriott	Consumer Discretionary	7/11/2012	0.42	0.42	Inline	-2.52%
DRWI	DragonWave	Technology	7/11/2012	-0.35	-0.27	Missed	0.51%

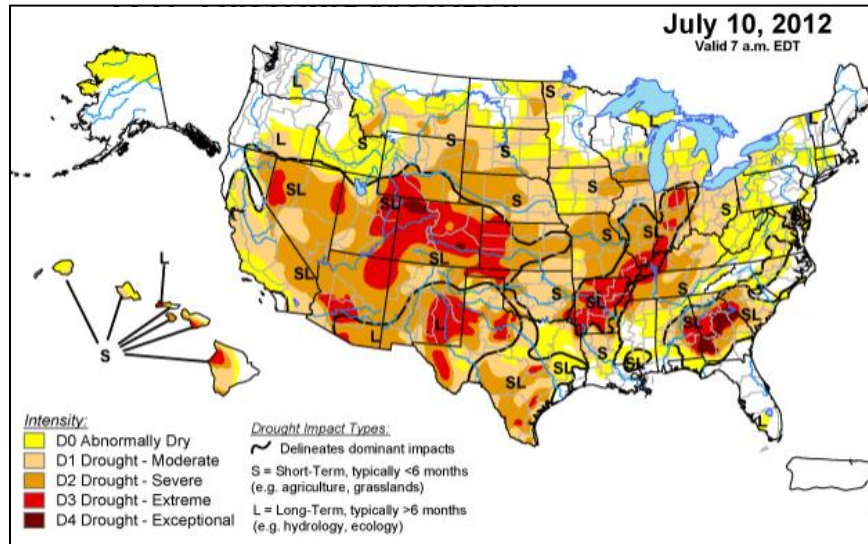
Source: Bloomberg; Reuters

The second-quarter earnings period began this week. Investors already worrying about the health of the world's economies now have disappointing earnings to consider. Company profits are being hit on several fronts. Slowing economic growth in China, Europe, and the U.S. is hurting companies dependent on demand from those countries. The U.S. dollar strength against the euro and other currencies reduces profits derived from international sales of U.S. companies. Earnings have been the primary driver of the rally in the stock market since its 2009 lows. Analysts say the darkening outlook is only partly reflected in current share prices. The recent spike in earnings warnings is similar to that seen this time last year, which resulted in a sharp decline in U.S. stocks. At that time, investors also were beset by worries about Europe and a standoff in Washington over the budget deficit.

As many forecasts warned, initial earnings reports have in large part disappointed. Only one of the first 16 companies to report second quarter earnings exceeded estimates, while 12 missed. The stock price response to these earnings has been equally as negative. The average one-day change for these stocks on their report days has been -5.45%. Analysts have been slashing earnings forecasts in recent weeks leading up to this reporting period, but there remained a big question whether they had reduced estimates enough. It should be noted that last earnings season started out extremely positive, with nearly every company beating estimates. As the season progressed, the 'beat rate' dropped, and the season ended up weak. The bulls are hoping the opposite occurs this time around.

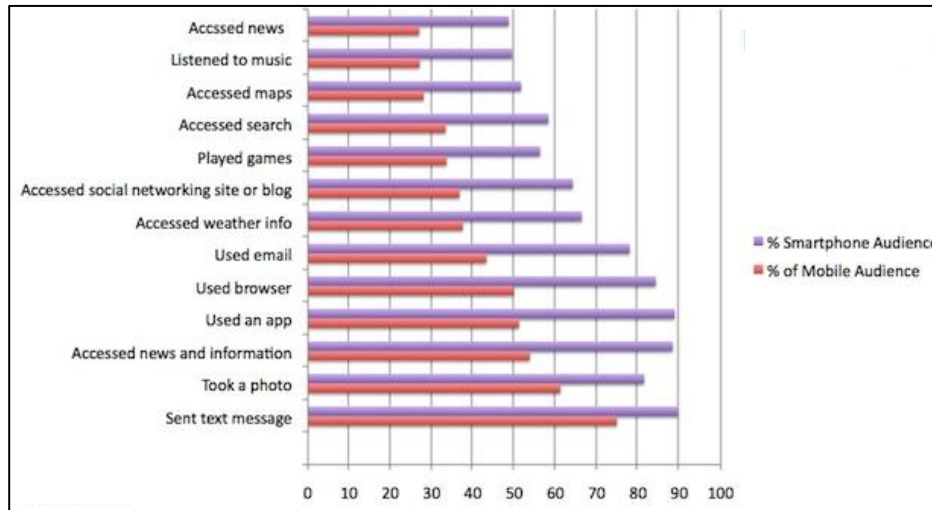
# Market Recap

## U.S. Drought Monitor



Source: U.S. Drought Monitor

## U.S. Mobile Phone Usage



Source: ComScore

The Midwest has been hit with the worst drought in a quarter century as sweltering temperatures and scarce rainfall has punished grain, corn, and soybean crops. According to Drought Monitor, nearly two-thirds of the nine-state Midwest region was in some stage of drought in the week ended July 10, up from just over 50% a week earlier. A third of the region was in severe to exceptional drought, up from about a quarter of the region a week earlier. The worst conditions (D3 to D4) were assessed along and near the lower Ohio River and in northeastern Indiana, where rainfall was 7 to 11 inches below normal for the last 3 months. The deepening drought has dragged down the yield potential of the developing soybean crop and the pollinating corn crop, which is in a growth stage – a time when its water needs are highest. The ongoing drought has caused grain and agricultural prices to increase substantially, with more price hikes anticipated. Latest forecasts indicate that rain is expected to move across the Midwest over the next 10 days, including parched southeastern areas, but coverage may be spotty.

According to a report from comScore, mobile users consume an enormous amount of content on their phones. The top activities on mobile phones (texting and taking pictures) predate smartphones. However, the smartphone's larger screen size, touch screen, always-on data connection, and ease of installing applications means that many other activities have become far more popular, such as using email, accessing weather information, and accessing social networks. Mobile content consumption appears to be an additive activity — mobile users are accessing more content than they would otherwise, rather than replacing their desktop web consumption altogether.

**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](http://www.harbourcapitaladvisors.com).

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