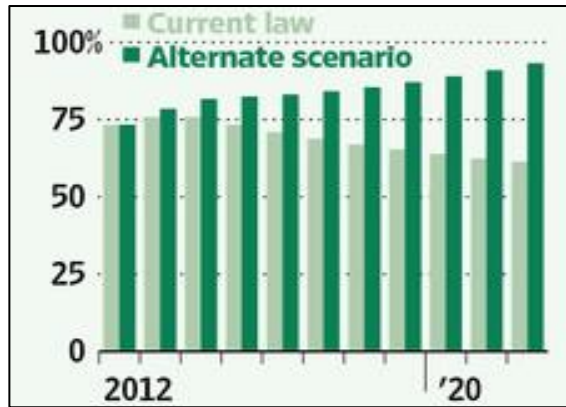


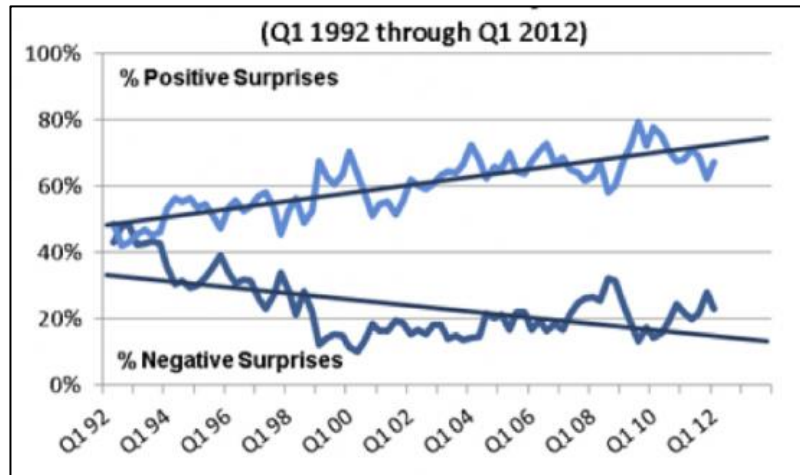
Market Recap

Projected U.S. Federal Debt as Percentage of GDP



Source: Congressional Budget Office; WSJ

S&P 500 Earnings Surprises



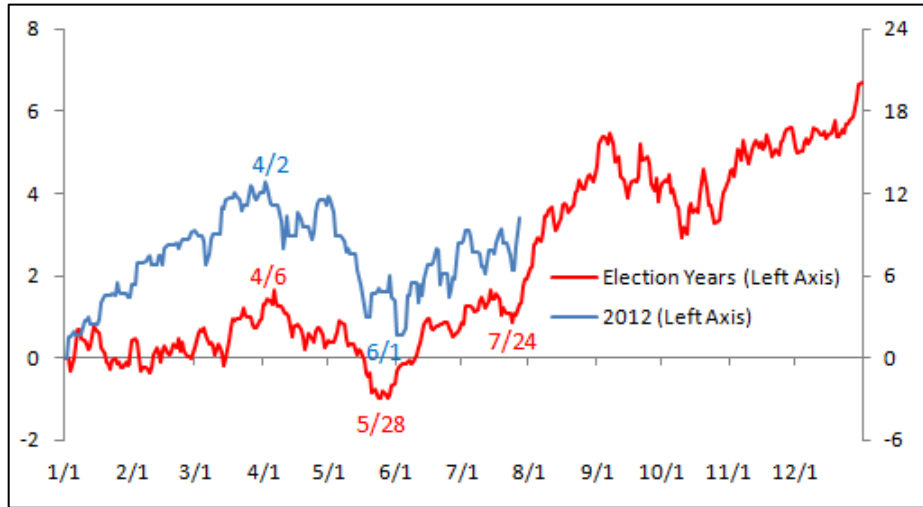
Source: Business Insider

Investors who were anticipating announcements of policy change or quantitative easing when the two most powerful central banks met this week were disappointed. The ECB indicated continued support of the Euro and troubled nations. The Federal Reserve decided to wait further to act. The problem with waiting is that the Fed's next meeting comes in September, less than two months before the election. Action then might send an untimely message that the Fed has lost confidence in the economy, thus influencing voters. Instead, the Fed may have more reason to hold its powder dry until after the election when it faces the looming fiscal cliff. The series of expiring tax and spending measures is believed to have the potential to impact GDP by 3.3% to 5%. Long-term projections by the Congressional Budget Office focus on two potential scenarios: current law that includes the fiscal cliff and the status quo. Under the latter scenario, federal debt held by the public is projected to reach an unsustainable 93.2% of GDP by 2022. Even that scenario assumes an idealistic gradual rise in interest rates and economic growth, possibly beyond the Fed's ability to engineer.

More than half of the companies of the S&P 500 have reported second quarter earnings. Despite warnings by several companies of potential disappointment, 71% of companies have reported earnings above the mean estimate (only 43% have reported sales above the mean). Perhaps these results should not come as a surprise. There has been an upward secular trend of companies reporting positive earnings surprises. Many believe that the trend is attributable largely to companies guiding stock analysts to earnings projections that they know they can exceed. Twenty years ago the ratio of positive to negative surprises was roughly 50/50. For the past 5 years or so, the ratio of positive to negative surprises has been 70/30.

Market Recap

S&P 500 Presidential Election Average Annual Return (1928 to 2012)



Source: Bespoke; Standard & Poor's

One of the positive data points that has been cited this year is that election years tend to be favorable for the stock market. An analysis of this year and prior Presidential election years demonstrates that, thus far, the market is tracking the historical pattern. The forecast correctly called an April peak and a May/June trough. Most recently, the S&P 500 experienced a modest pullback in mid-July coinciding with the kick-off of earnings season, but it rebounded shortly thereafter. Holding to the historical pattern, that rebound came right at the same time that the market historically sees its summer low. If the pattern continues, the S&P 500 would be poised for a rally to end the summer, followed by further strengthening post-election.

2012 London Olympics Opening Ceremony

<p>ISLES OF WONDER IN NUMBERS</p> <p>LONDON OLYMPICS OPENING CEREMONY</p>	<p>\$42 million</p> <p>Cost of the opening ceremony</p> <p>Directed by Oscar-winning film director Danny Boyle</p>	<p>500 speakers</p> <p>and a million watt PA system used</p>	<p>23 tonnes</p> <p>Weight of the harmonically tuned bell rung to mark the start of the ceremony. Produced by the Whitechapel Bell Foundry, it measures 2 m high by 3 m wide, and is the largest of its kind</p>		
				<p>25 tonnes</p> <p>Weight that can be lifted by the flying system that was used in suspending the Olympic rings in the air</p>	
<p>15,000 sq. meters</p> <p>Staging area used - equivalent to 12 Olympic-sized swimming pools</p>	<p>10,000 volunteers</p> <p>Spent an average of 150 hours in 284 stage rehearsals. Includes volunteers from NHS</p>	<p>900 children</p> <p>Aged 7-9 years and 11-13 years chosen from schools in the six host boroughs</p>	<p>12,956 props produced</p> <p>Over 100 times more than a West End musical</p>		

Source: Reuters

A worldwide audience estimated at one billion viewers watched the opening ceremony of the London Olympics. Director Danny Boyle, best known for directing films such as "Trainspotting" and "Slumdog Millionaire," as well as the National Theatre of Great Britain stage production of "Frankenstein," delivered an opening ceremony that celebrated both the uniqueness and enlightenment of Britain's culture. Viewers' expectations for theatrics were perhaps higher than usual due to London's reputation as a preeminent site for artistic creation in the performing arts, especially theater and music.

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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