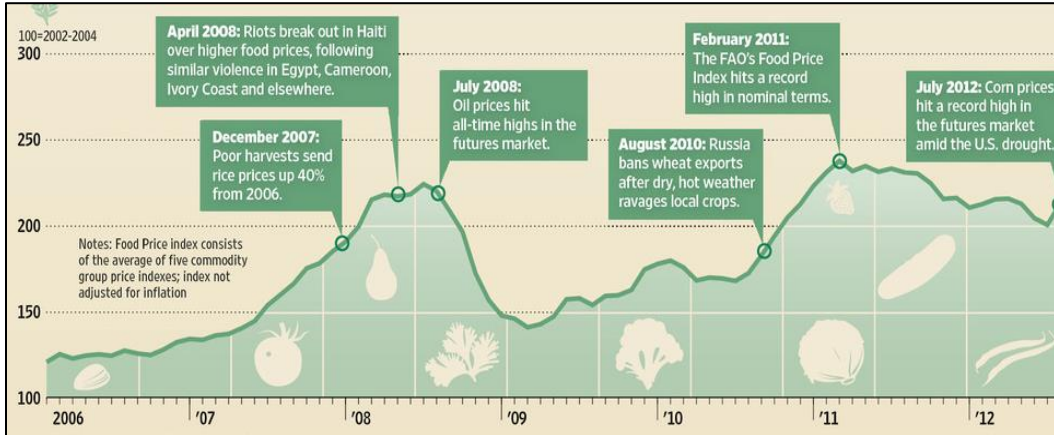


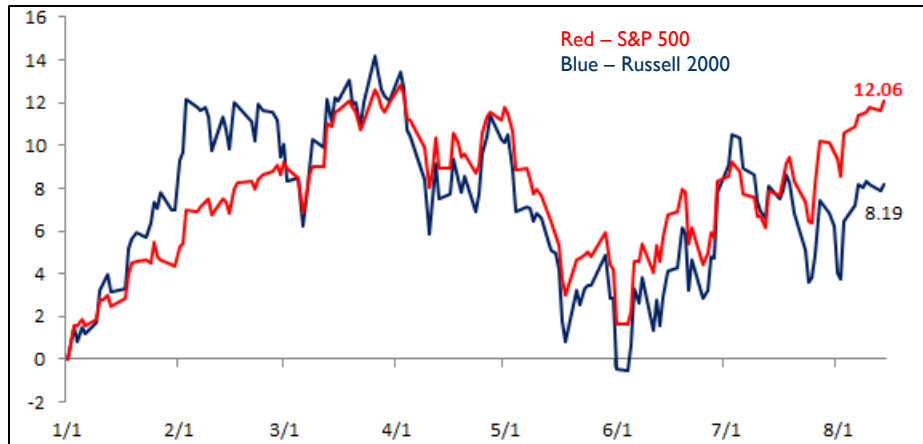
Market Recap

World Food Price Index



Source: Food and Agriculture Organization of the United Nations; WSJ

YTD S&P 500 vs. Russell 2000



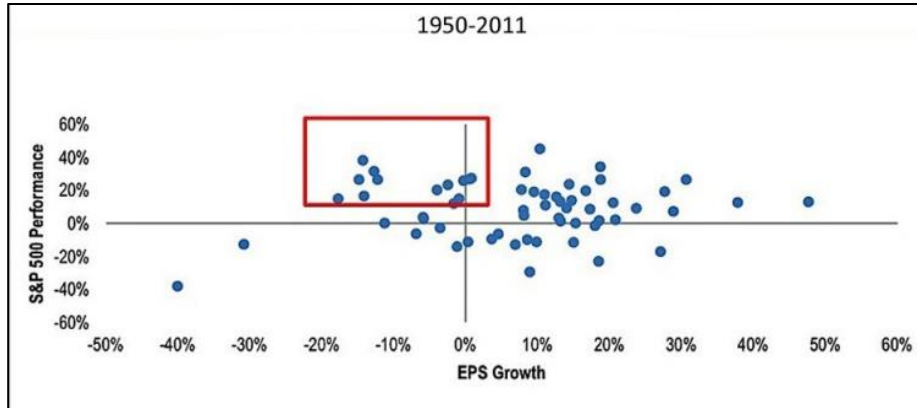
Source: Reuters

The United Nations Food and Agriculture Organization announced that the index of global food prices rose 6% in July, the largest monthly increase since November 2009. The index is now just 10% from its historical high set in February 2011. The global food chain has been under strain due to weather issues across the globe. The U.S. drought, extreme temperatures in Russia, and excessive rain in Brazil have made this one of the most challenging periods. In particular, prices for corn, wheat, and soybeans have increased dramatically. Corn is 47% higher since May 31st, before the U.S. drought took hold. Soybeans are 26% higher over the same time period. Corn and soybeans are critical livestock feeds that drive retail prices for meat and dairy. Warm weather in the former Soviet Union is pushing the price of wheat higher, while excessive rain in Brazil is damaging sugar crops. Officials at the World Bank and the U.N. World Food Program have cited concerns that governments will react to tighter food supplies by curbing food exports or hoarding, which would lead to still-further price increases in the months to come.

Historically, small cap stocks outperform large caps during market rallies and underperform large caps when the market trades lower. Over the last several weeks, however, this trend has not held true. The performance of the S&P 500 (large caps) exceeded that of the Russell 2000 (small caps) over the past three weeks. While the two indices tracked each other fairly closely for the first half of the year, thus far in the second half they have diverged. For the month of July, the Russell 2000 declined (-1.45%), while the S&P 500 rose (1.26%). So far during this rally, instead of focusing on undiscovered or little-followed small cap stocks, investors have preferred mega-cap stocks. The view seems to be that, in light of widespread economic uncertainty, the world's largest companies are better equipped to weather the stress.

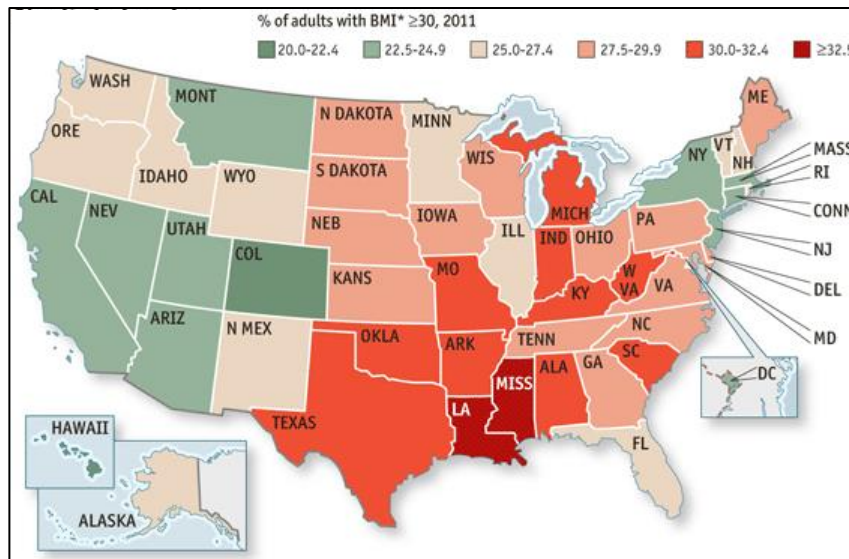
Market Recap

S&P 500 Annual EPS Growth vs. Performance



Source: Factset, Bloomberg, BMO Capital

U.S. Obesity Rates



Source: U.S. Centers for Disease Control and Prevention

Despite the market's recent advance, investor sentiment about the stock market has grown pessimistic due to the perception that slowing economic growth is impacting corporate earnings. An analysis of S&P 500 earnings indicates that, even when earnings decline, stocks often perform well. During the years 1951, 1952, 1961, 1967, 1975, 1980, 1982, 1985, 1986, 1989, 1991, and 1998, EPS growth averaged -6.6%, but the average S&P 500 return was +22.1%. While periods of higher earnings growth have generally led to higher stock prices, periods of weakening earnings growth do not necessarily lead to lower stock prices. There are simply times in which stock fundamentals and macroeconomic indicators disconnect.

Despite recent heightened attention on Olympic-caliber athletes, it appears that the rest of the country is not in such good shape. The latest survey from the Centers for Disease Control and Prevention highlights the nation's continuing battle with obesity. The survey uses people's self-reported height and weight to determine body mass index; a BMI of 30 or above is considered obese. 'Outdoorsy' states such as Colorado and Hawaii are the slimmest states, with 20.7% and 21.8% respectively of adults reporting an obese BMI. The heaviest states were Mississippi and Louisiana, where obese adults make up 34.9% and 33.4% respectively of the population. Extremes seem to correspond to general regional patterns, with western states tending to be leaner and southern states more portly. The District of Columbia and commuter states around New York are also notable for their relative thinness. A separate study based on actual (not self-reported) height and weight released in February put the national obesity rate even higher at 36%.

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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