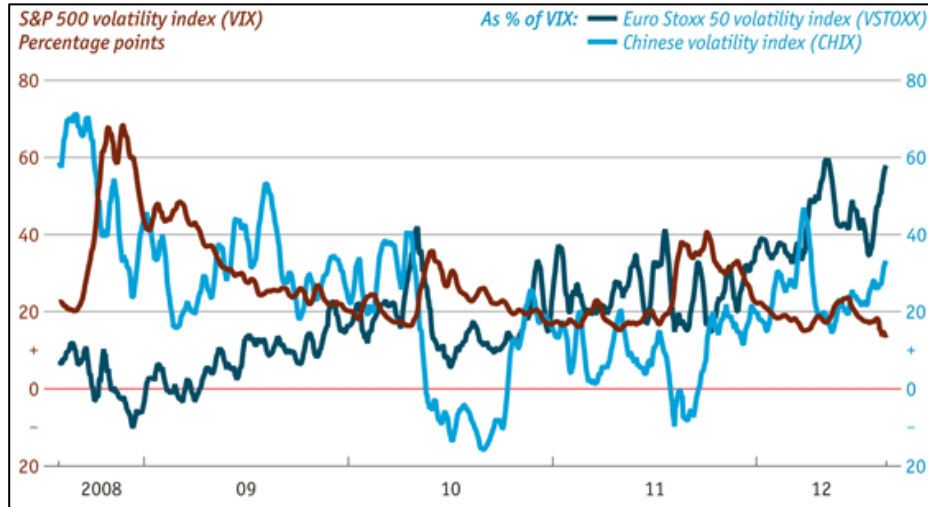


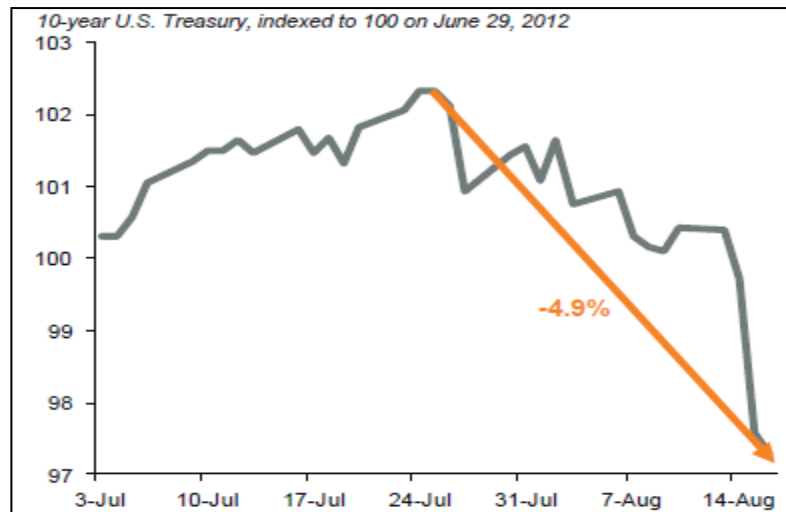
Market Recap

Volatility Measures



Source: Thomson Reuters

10-year Treasury Price



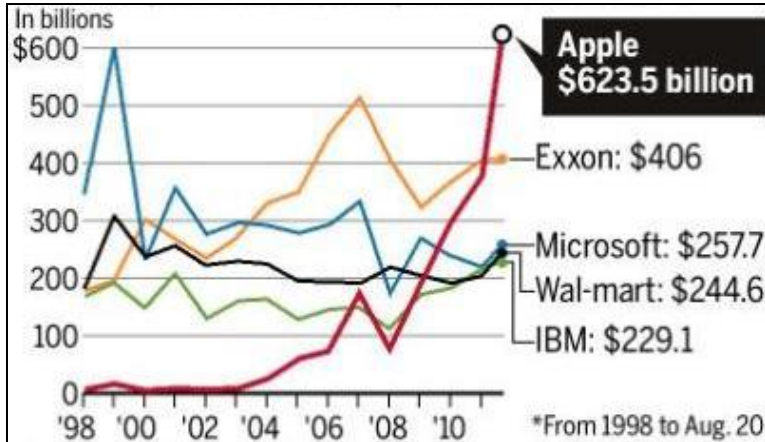
Source: Bloomberg; JP Morgan

Despite the current domestic and global economic concerns, market volatility, as reported by the volatility index (VIX) has fallen to levels not seen since before the financial crisis. The VIX, often cited as the “fear gauge,” recently traded at 13.30, its lowest level in more than five years. The VIX measures market volatility calculated using S&P 500 option prices. Investors typically use these options to hedge against future price movements by buying or selling shares within a specific period. Higher option prices signal higher volatility, as uncertain returns require higher premiums. Some believe investors are being complacent or underestimating current risks. Trading volume has also slowed, helping to suppress the VIX. Investor sentiment in Europe and Asia is decidedly different. The VSTOXX (Europe volatility) and the CHIX (China volatility) are currently trading 35% and 60% above the VIX, respectively, signifying that investors outside the U.S. have a different view of the market prospects.

Despite the recent strength of the equity markets, more capital continues to flow into fixed income. Bonds have traditionally been viewed as safe investments. For the last decade, bond market performance has been driven primarily by capital appreciation (not coupon yield). However, the bond market has experienced a recent pullback that should serve as a reminder of the risks inherent in the asset class. The price of the 10-year Treasury has fallen 4.9% since the July 24th record high price (record low yield). The move has effectively wiped out three times the annual interest income investors were to receive. With interest rates at historic lows, bond prices are much more sensitive to changes in interest rates. A 0.5% rise in the yield of the 10-year Treasury would cause its price to decline by 4.8%, highlighting the need for investors to be aware of the various risks that could affect their portfolio returns.

Market Recap

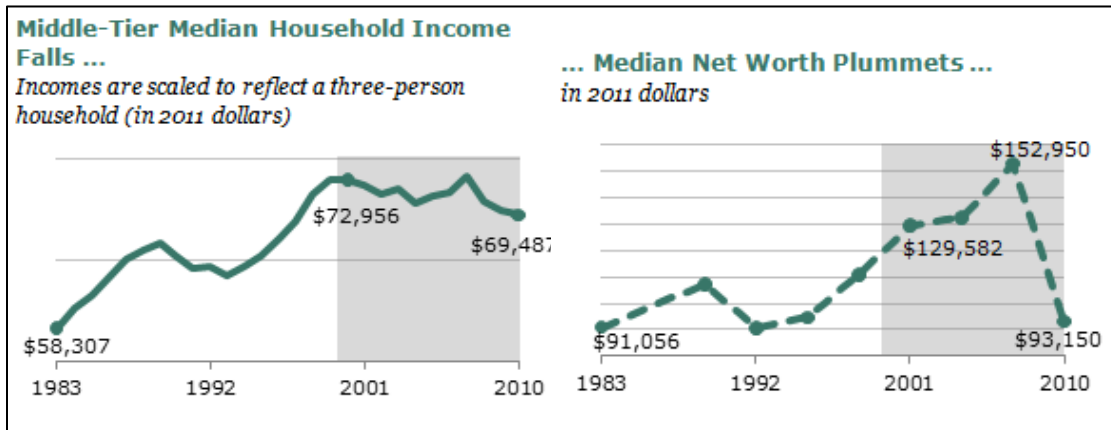
Apple Market Capitalization



Source: Bloomberg

This week, Apple surpassed Microsoft as the company with highest historical U.S. stock market value. Apple eclipsed Exxon a year ago as the current leader in market value but was still well short of Microsoft's record. Apple's recent stock market surge has come despite the October death of its co-founder and creative visionary Steve Jobs, and despite investor disappointment with its recent quarterly sales and profit results. The company has not introduced a major new product line since the iPad, in early 2010. Apple remains the leading technology and consumer products company, becoming the standard for others. Apple's challenge going forward is the same as that faced by Microsoft, GM, IBM, and other once-dominant companies. The bigger it gets in both sales and bureaucracy, the more challenging it is to maintain profit and revenue growth levels and to continue developing innovative products and maintaining a culture that inspires customers and employees.

U.S. Middle Class



Source: Pew Research Center

The U.S. middle class has endured a lost decade for its economic well-being. Since 2000, the middle class has shrunk in size, fallen backward in income and wealth, and shed some of its faith in the future. Most people like to describe themselves as "middle class," but the recent Pew Research Center's survey suggests that the proportion of Americans actually in the middle class (defined as those with income between two-thirds and double the national median) has fallen since 2008. The share of total household income going to all middle-income Americans has been overtaken by those in the upper income group. This is not a case of a rising median pushing people out of the middle-income category, as the median wage actually declined between 2000 and 2010. As the Presidential candidates prepare their closing arguments, the middle class is the group that they are most aggressively courting.

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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