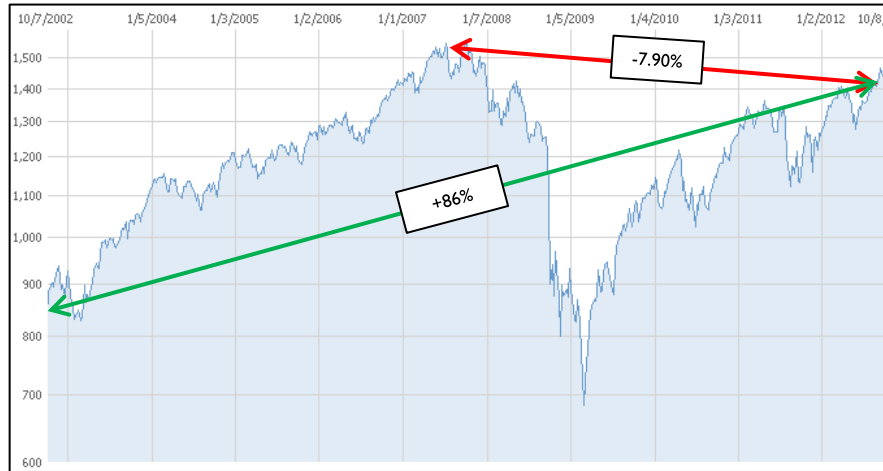


Market Recap

S&P 500 (October 9, 2002 to October 9, 2012)



Source: MSN Money

S&P 500 Quarterly Earnings Year-over-Year Growth Rate



Source: S&P Capital IQ; WSJ

Five years ago, the S&P 500 index closed at a peak of 1,565 on October 9, 2007. Since then the index has experienced a substantial decline, followed by a significant rally. The net impact of those swings is a 5-year net decline of 7.9% (annualized decline of 1.63%). However, if you widen the lens and review a longer timeframe, you set a different picture. Ten years ago on October 9, 2002, the S&P, driven by the bursting of the internet bubble, bottomed out at a level of 776. Subsequently the index rallied more than 100% from October 9, 2002 to October 9, 2007, before it fell off more than 50% (through March 8, 2009). After then bottoming out, the index once again rallied 100% through October 9, 2012. Netting out the three moves, the S&P 500 is currently 85.6% higher than it was ten years ago (6.38% on an annual basis). Despite all the talk of the stock market's "lost decade," 6.38% is fairly close to its historical average return and considerably better than the potential return of many of the options investors are considering today.

This week marked the start of the third quarter earnings period. Most investors and analysts are anticipating earnings to be weak. For the first time in 11 quarters, companies in the S&P 500 index are likely to report a decline in year-over-year earnings. The forecast for overall earnings among the companies in the S&P 500 is for a 1.34% decline versus the third quarter of 2011. While earnings during the second quarter posted a modest gain of 0.81%, third-quarter earnings forecasts have been steadily reduced over the past three months. The consensus forecast for third-quarter earnings on S&P 500 companies is down 4.5% from June 30. A poor showing, particularly in the form of declining revenue and profit margins, could signify a serious deterioration in corporate health that could undermine the stock market's current momentum.

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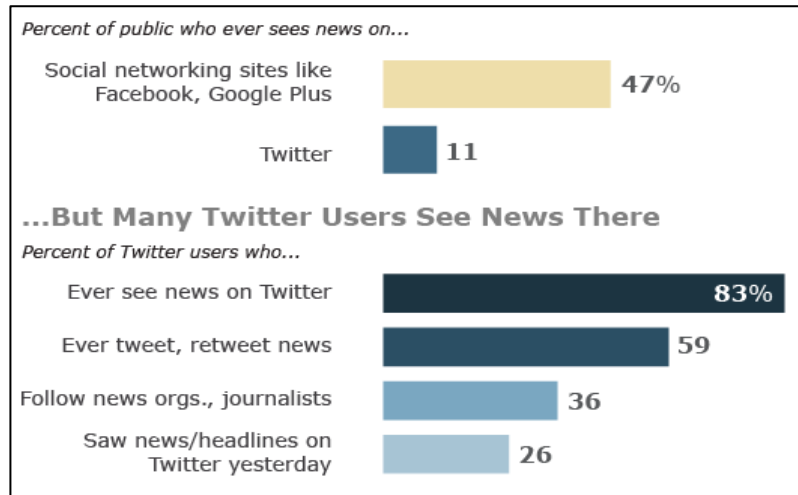
Sovereign Credit Ratings

Country	Ratings Agency			Investment Grade Ratings
	Moody's	S&P	Fitch	
U.S.A.	Aaa	AA+	AAA	Aaa/AAA Minimal risk
Japan	Aa3	AA-	A+	
Euro zone				
Finland	Aaa	AAA	AAA	Aa/AA Very low
Germany	Aaa	AAA	AAA	
Luxembourg	Aaa	AAA	AAA	
Netherlands	Aaa	AAA	AAA	A/A Low risk
Austria	Aaa	AA+	AAA	
France	Aaa	AA+	AAA	Baa/BBB Moderate risk
Belgium	Aa3	AA	AA	
Estonia	A1	AA-	A+	
Slovakia	A2	A	A+	Ba/BB Substantial risk
Slovenia	Baa2	A+	A-	
Malta	A3	A-	A+	
Italy	Baa2	BBB+	A-	B/B High risk
Spain	Baa3	BBB-	BBB	
Ireland	Ba1	BBB+	BBB+	
Cyprus	B3	BB	BB+	Caa/CCC Very high
Portugal	Ba3	BB	BB+	
Greece	C	CCC	CCC	SD/RD Selective Default Restricted Default

Source: S&P; Moody's; Fitch; Reuters

Standard & Poor's cut Spain's sovereign credit rating two notches to BBB-minus (just above a junk rating). The credit agency cited a deepening economic recession that is limiting the government's policy options and significant risks to economic growth and budgetary performance. The S&P also issued a negative outlook for the country. S&P's downgrade brings their rating in line with Moody's Investors Service's Baa3 rating and is one notch below Fitch's BBB rating. All of the rating agencies have a negative outlook for Spain, with the possibility for further downgrades. The latest downgrade highlights both the divergence of credit standing among the Eurozone nations, as well as the ongoing trend of credit ratings being downgraded (including that of the U.S.) and negative outlooks being issued.

Twitter as a News Source



Source: Pew Research Center

Many Twitter enthusiasts argue that the service will soon surpass traditional media as the primary source of information. Twitter now boasts over 500 million global accounts. Investors have also embraced the company's stock, bidding its market valuation above \$10 billion. Despite these successes, it is hard to make the argument that Twitter has gone mainstream. Only a small fraction of those who have signed up for accounts on Twitter use it regularly and even fewer use it as a news source. According to Pew Research, only 11% of Americans have ever accessed news on Twitter, with only 3% of Americans using it to receive news on a regular basis. Overall, only 13% of Americans have used Twitter for any purpose. Mainstream technologies and media tend to have 30%-100% penetration, not 10%. Twitter seems to be a technology of which almost everyone is aware, but it is also a technology that only a small slice of the population has actually adopted.

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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