

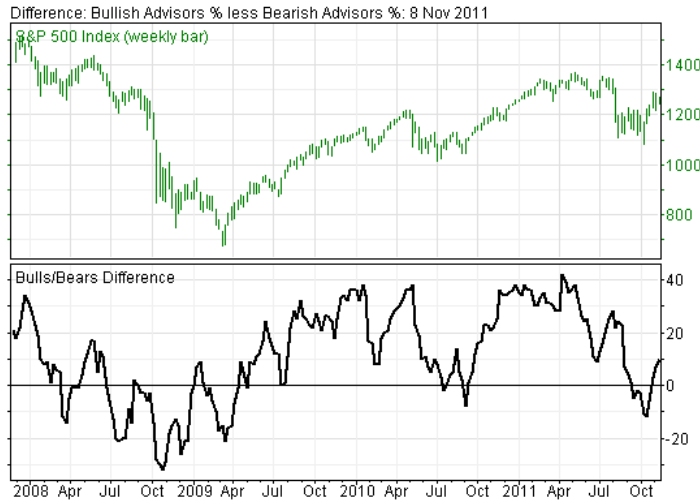
Market Recap

Italian – Germany 10-year Yield Spread



Source: Reuters

Ratio of Bullish to Bearish Advisors



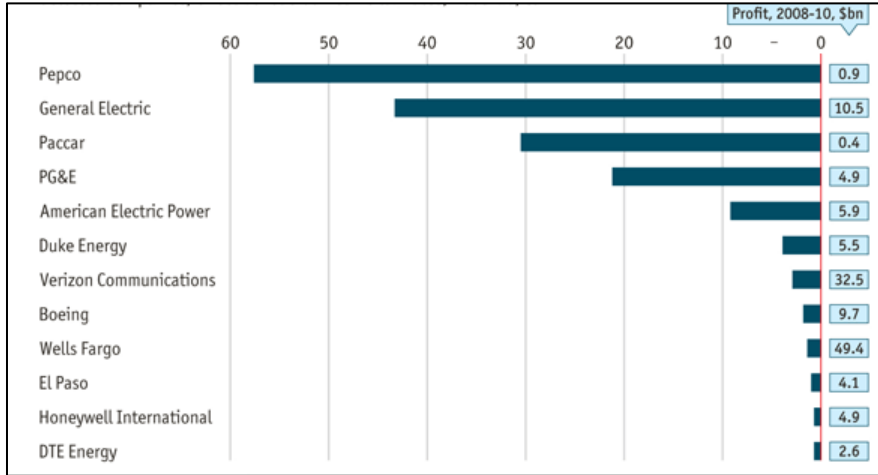
Source: Factset

On Wednesday, we had a global market sell-off sparked by concerns that Italy, the world's fourth largest borrower, may lose access to financing. Italy's debt load of €1.9 trillion (\$2.6 trillion) is the second largest in Europe behind only Germany. This escalates fears that the Eurozone crisis has perhaps migrated from small fringe economies to one of their major economic powers. The risks to the global economy are broad. The European and U.S. financial systems are deeply intertwined, and Europe is a major export market for U.S. companies. The Italian 10-year bond yield rose above 7%, as buyers for the debt could not be found. Italy is under enormous pressure to demonstrate that it can deliver enough growth to work off its debt burden of 120% of annual GDP.

Despite the recent market volatility, investor sentiment continues to trend higher. The number of optimistic investors in the latest survey from Investors Intelligence increased for the fourth straight week to 44.2%. Sentiment has dramatically increased from the low reading of 34.4% just a month ago. However, the current level of optimism does not suggest an end to the market advance; historically, the ratio has exceeded 50% before the market tops and investors take profits. The ratio is still well below its April and July 2011 highs. During those periods, bullish sentiment was above 50%, peaking at 57.3%. Current sentiment data suggests that we will continue to see advisors commit more assets to the market.

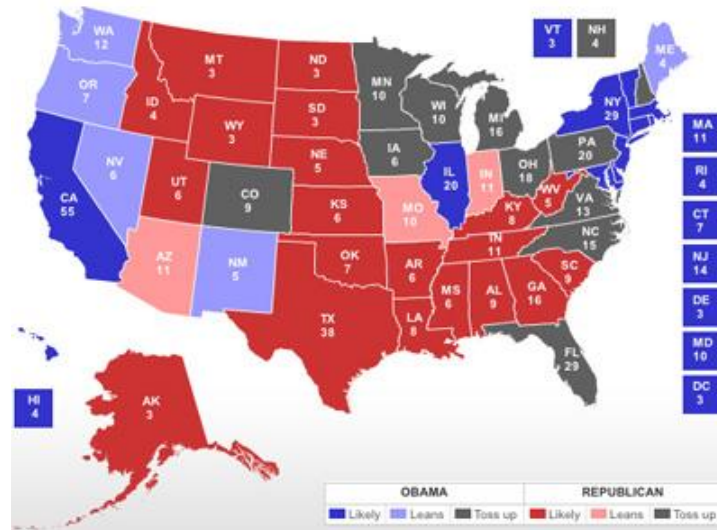
Market Recap

U.S. Corporate Tax Rates (negative rates)



Source: Institute on Taxation and Economic Policy

Electoral Map



Source: Gallup

The statutory corporate federal income tax rate is 35%. However, a study by the Institute on Taxation and Economic Policy evaluated the tax records of 280 companies from the Fortune 500 list with reliable pre-tax profit reports. Among these companies, the average effective tax rate between 2008-10 was 18.5%. While 71 companies paid over 30% of their profits in federal income tax, 30 had negative tax rates over the entire three year period. Pepco had the lowest effective tax rate of -57.6%. In at least one of the three years, 78 firms paid no taxes or had a negative tax rate. A negative tax rate often reflects, among other things, the write off of capital investments before they actually wear out (known as "accelerated depreciation"), making use of tax-deductible stock options and industry-specific tax breaks, and utilization of offshore tax havens.

Much of the current focus of the direction of the economy centers on the upcoming election. President Obama faces one of the most challenging political environments, as he prepares to try to win a second term next November. A state-by-state examination of the electoral map suggests that the president faces a far more challenging election than in 2008. President Obama was swept into office with 365 electoral votes (270 needed to win the election), having won several traditionally-Republican states. He is currently falling behind in several of the battleground states that he won in the last election. Based on current polling data, the upcoming election will be decided by 12 swing states, with Florida, Pennsylvania, and Ohio being the most highly-contested.

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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