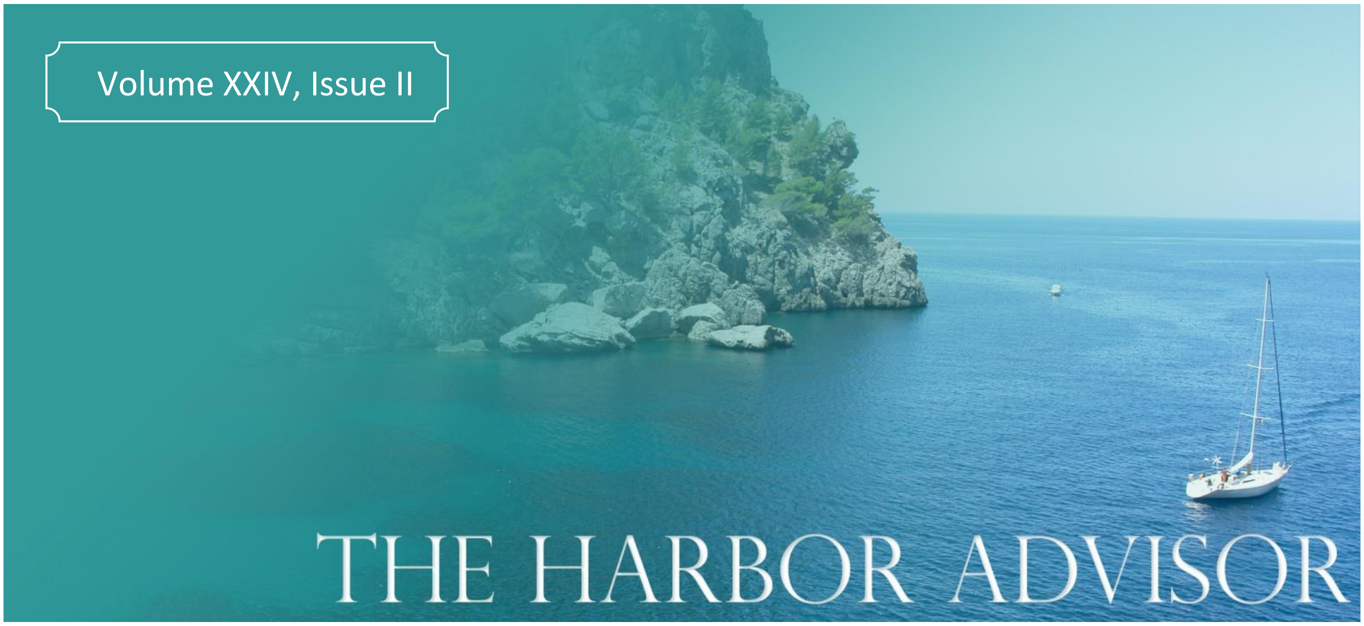

Federal Reserve Tapering:

Cutting Through the Fog

There have been numerous articles and much discussion about the market volatility caused by the uncertainty around the Federal Reserve tapering their $85 billion asset purchase program and the possibility of rising interest rates. Investors are especially nervous as the general opinion is that rates will rise quickly once they start. This is due in part to the long duration of the Fed easing program and the historic fact that interest rates can rise quickly. Given the inverse effect on bond pricing the decrease in the value of fixed income instruments value can be large and swift.

Fixed income had its fourth worst monthly return in 20 years in May. There was a selloff across all fixed income sectors due to the aforementioned uncertainty as to Fed action, concerns about the effectiveness of Japanese quantitative easing which lead to broader global interest rate volatility and the markets re-pricing based on inflation expectations and the resultant slower global growth. High yield bonds, intermediate bonds, emerging markets bonds, large value equities and real estate all dropped in value.

Most of the questions surround Fed tapering. The sources we follow believe the tapering is already priced into the market. Currently the Fed is purchasing $85 billion ($40 billion agency and $45 billion Treasuries*) in assets each month. The Fed is actually purchasing more than this amount if you include the reinvestment of interest and principal repayments from the mortgage-backed securites it currently owns. While the Fed could completely remove the stimulus we do not think this will be the case. The primary reason is employment figures, they are not where the Fed wants them and an increase in interest rates and inflation is seen to be bad for jobs creation. We think rates will trade in a narrow range.

Harbor is maintaining shorter durations on fixed income and has a quality bias. While we do not expect returns to be high for fixed income, multiple sources are predicting a return over cash of approximately 2.75%. In all we continue to think the economic recovery coupled with, on the whole, better earnings will continue to buoy market prices albeit with continued volatility.

Your team is available to discuss your portfolio and answer your questions.

Enjoy your summer!

July 1, 2013

*Source PIMCO market update June 2013

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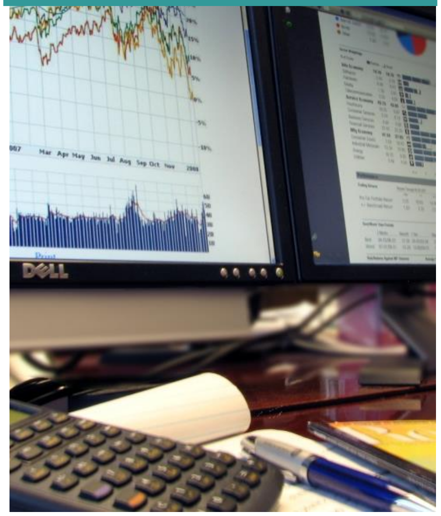
Individual Highlights

1988 Favorite Movies

Rain Man (I'm an excellent driver.)**, A Fish Called Wanda, Die Hard** (40 Stories of Sheer Adventure)**, Who Framed Roger Rabbit** (I'm not bad I'm just drawn that way.)**, The Accidental Tourist, Mississippi Burning**



Second Quarter 2013 Market Recap

Markets ended the second quarter with volatility as all eyes turned to the Federal Reserve and the eventual tapering of its quantitative easing program. Hawkish remarks by Fed officials towards the end of June sent interest rates rising and prices for high yielding equity and other interest rate sensitive investments falling. Investors ought to be encouraged by the idea that the US and global economy can expand without central bank intervention, yet investors appear to prefer short term easy money policies. Economic indicators such as US housing and consumer confidence point to a growing economy which is essential to absorb rising rates and continued strength in the equity markets.

Investors continue to witness a significant divergence in performance across US and international financial markets. The S&P 500 returned 2.3% for the quarter and 12.6% for the year, while the MSCI EAFE returned -2.1% and 2.2% respectively. Fixed income has struggled in 2013 as the Barclays Aggregate index posted a -2.3% return for the quarter and -2.5% return year to date.

"In the business world, the rear view mirror is always clearer than the windshield." – Warren Buffett

Fund Focus: Principal Global Real Estate

Principal Global Real Estate is one of the newest mutual funds in our portfolios. This fund seeks to provide exposure to the global real estate markets through purchases of individual securities of all sizes in markets around the world. A primary goal of this fund is to purchase real estate investment trust securities which provide a generous total return. With a yield currently hovering around 5%, this position provides income as well as the potential for capital appreciation.

This fund currently has 52% of its holdings in North American companies, 35% in the greater Asia region and roughly 13% in the greater Europe region. We believe the breakdown within those regions to show positive growth possibilities as well as relatively favorable political environments. In addition to the various regional exposure, this fund predominately invests in developed markets with only 3% of the fund invested in emerging markets.

As we all know, real estate took a major dive during the great recession. However, we believe fundamentals and valuations have since stabilized and will prove to be a valuable addition to our portfolios.

¿¡Que Pasa Emerging Markets?!

Emerging markets had a tough second quarter, as reflected by the MSCI Emerging Markets index posting a loss of 10.89%. You only needed to watch the evening news to see the challenges faced by several developing countries last quarter. In Turkey, what originally began as a riot over the government's plan to replace a park with buildings escalated into a violent demonstration against the prime minister's move away from democracy.

China showed more signs of an economic slowdown. Since 2008, China has attempted to stimulate its economy by spending heavily on infrastructure projects, such as apartment buildings, shopping malls and airports that have not generated sufficient on-going revenues to support them. Last month, China's banking system suffered a cash "crunch" due to liquidity issues. The People's Bank of China intervened, stating it would do what is necessary to support local banks tight on cash.

In Brazil, riots ignited initially because of an increase in public transportation fares. Frustrations have been mounting as a result of poor public services and a lack of funding for education and health. Brazil's government has instead diverted funds to build stadiums for the 2014 World Cup and the 2016 Olympics.

The US recovery has actually had a negative impact on emerging markets. In the past, a boost to the US economy benefitted emerging markets because the US was typically a consumer of commodities and energy. However, with this recovery, the US's domestic supply of energy sources is seen as competition. Recently, the Fed announced plans to taper its quantitative easing bond buying program and slowly increase interest rates. While the Fed has kept interest rates low, capital has flowed to the higher-yielding foreign markets, but capital will flow back to the US as the Fed tightens its monetary policy and rates begin to increase.

With all this volatility, why invest in emerging markets? We continue believe that emerging countries have higher growth potential than the developed world. As these countries become more industrialized, consumption will increase as the standard of living improves for their people. The demographics in emerging nations are more favorable because of their younger populations. Developed nations are already feeling the strain of their entitlement programs as their populations age. Also, credit risk in these nations is relatively low, given that they have much less government debt on average.

Medicare: Parts and Pieces

Health care insurance is complicated and when you add the federal government into the picture it, predictably, becomes even more unclear. The good news is that there is a fairly user friendly web site www.medicare.gov with lots of information. For the next two quarters we will be offering a snapshot of the salient points regarding Medicare, the different parts and pieces.

Part A is often referred to as major medical or the hospital coverage. It is not optional, nor would you want it to be and, for the most part, the premiums are covered by the funds you or your spouse have already paid into the Medicare system during your working years. Among the things Part A covers are semiprivate rooms, meals, general nursing, home health care under certain conditions, durable medical equipment (wheelchairs, hospital beds, oxygen, and walkers), hospice care, and blood transfusions. The deductible costs are confusing, utilizing a 'benefit period' versus being annualized. For more information on benefit periods: http://www.medicare.gov/glossary/b.html.

Part B is the traditional medical coverage for doctors' services, clinical laboratory services, outpatient medical and surgical services, supplies, and outpatient hospital services. There is a monthly premium (most people pay $104.90 per month) which is deducted from your social security but which you can refuse if you are under some other plan that covers your medical insurance. After a small deductible ($147 in 2013) Medicare will pay 80% of the remaining eligible portion of any medical bills.

Since being responsible to pay 20% of your medical bills over the course of a year can still be an expensive proposition there are **Medi-gap or Medicare supplement** policies sold through private companies. You must already have Medicare Part A and B (waivers apply in some instances) in order to apply for a Medi-gap policy and the monthly premium varies depending on which company and plan you choose and your state of residence.

Stayed tuned next quarter for information on Medicare Part D as well as the somewhat elusive Medicare Part C.

Identity Theft: The Latest Targets

A recent check of 40,000 children by an identity monitoring company found that 4,000 or 1 in 10 had their identities compromised in some way making children, in actuality, an even bigger target for identity thieves than adults. Unfortunately, unless you already suspect that your child's identity has been tampered with, both the Federal Trade Commission and the Identity Theft Resource Center do not recommend checking your child's credit report annually as that can actually create a credit file prematurely, making the child an even easier target for fraud. Signs that your child may already be compromised include offers of credit or other offers mailed to the home in the child's name, trouble opening bank accounts for the children or strange identity-related questions when applying for schools or outside activities. Their recommendations: Check your child's credit history every 3 to 4 years making sure you check at age 16 to allow time for any corrections that might need to be made before the child applies for college and financial aid.

Checking a child's credit report is a different, more complicated process than checking an adult's. All three credit bureaus require direct contact versus the online process available for adults. The most parent friendly bureau and a good place to start is Transunion. More information on child identity theft and on checking your child's credit report is available on the Identity Theft Resource Center web site or on the Federal Trade Commission web site at the links below.
http://www.idtheftcenter.org/artman2/publish/v_fact_sheets/Fact_Sheet_120_A_-.shtml
http://www.consumer.ftc.gov/articles/0040-child-identity-theft

Living Well/Living Smart

Local Brewery Bus and Walking Tours

Colorado is the home to over 160 breweries with MANY more currently in the works. How about spending a day sampling some of these craft beers? To make this even better, no driving is required! Here's a list of some local tours that would make for a fun afternoon.

Banjo Billy's Brewery Tours
I'm sure most of you have seen the Banjo Billy Bus cruising the streets at some time or another. You can't miss these old-school buses, decked out to look like hillbilly shacks cruising around Denver and Boulder.

Denver Microbrew Tour
This guided walking tour through downtown Denver's historic LODO and Ballpark neighborhood includes beer samplings at several microbreweries, a stop at a local tap room and lots of scandalous Denver history tidbits.

Magic Bus Tour
Thirsty in Fort Collins? Then this is the one for you. They offer a Craft Brews Cruise for those that want the super diva limo treatment and a Craft Brew Walkabout for those that want a bit of exercise, so take your pick!

Colorado Brewery Bus
This all day tour picks up and drops off in multiple Denver locations. Hop aboard for a 4-stop microbrewery tour in either Fort Collins or Boulder/Longmont.

Custom Limo Brewery Tours
With so many breweries to choose from across the state, why not gather a group of friends and plan your own custom brewery tour!

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Images: David Lat

Harbor Happenings

Welcome Chris!

We are pleased to announce the hiring of Chris Farmer as Harbor's Office Manager. She is responsible for overall office management, taking your phone calls and scheduling appointments, client services, assisting with events and special projects as well as bookkeeping for the firm. Please join us in welcoming her!

Doggy Dash 2013

Mark your calendar to join us for the Humane Society of Boulder Valley's 24th Annual Doggie Dash 5k on Saturday, Sept 7 at 9:00am at the Boulder Reservoir. More details to follow.

Webinars

Stayed tuned for a late summer webinar on Harbor's investment models.

Securities offered through Schwab Institutional. Member FINRA & SIPC.

2013 Closures

Our office is closed on the following New York Stock Exchange holidays in 2013: Monday, September 2, Thursday, November 28, Friday, November 29 ½ day closure, Tuesday, December 24 ½ day closure, Wednesday, December 25.

Celebrating 25 1988 YEARS 2013