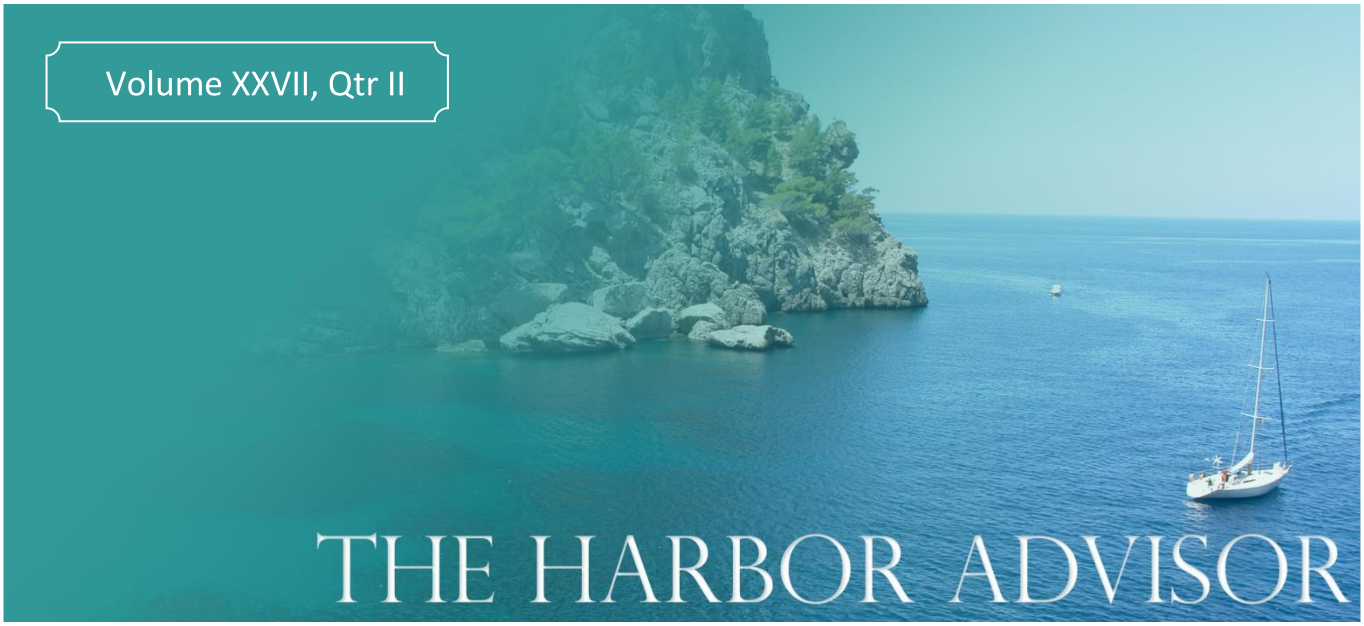


Trump vs. Clinton: Election Year Predictions Are Hard to Make

The most frequent question I am receiving is how the election cycle and results will affect the markets and pricing. Normally, an election year absent recessions, there is not much of an election cycle. Excluding 2008, presidential election years going back to 1960 have seen an average return of 9.1% versus 8.8% as an average for all years.[1] Midway through this election year already many think this one will be different: the unusual candidate selection pattern so far is different, it is the incumbent's last year of an 8 year term, global markets have been unsettled and the Brexit situation adds turmoil. All of these factors can lead to uncertainty which markets react unfavorably towards.

We are looking at U.S. economic fundamentals including but not limited to employment, inflation, economic growth, manufacturing and wage growth. We believe that the economic backdrop will have a bigger effect than either candidate's platforms, promises and misstatements. If the economy looks favorable, we do not believe the markets will overreact to either candidate's election to the extent that there will be long term effects.

Politically we have a Republican controlled Congress which will make it difficult for the Democrats to accomplish much of their platform based agenda. The Republicans are engaged in considerable infighting given their candidate's split from the party and general disdain for the Republican status quo. The overall result may be a stalemate and, while frustrating for the electorate, may have a neutral effect on the markets.

We will continue to watch portfolio performance. As of this writing Harbor portfolios are outperforming the S&P 500 by a wide margin with less risk. This is where we want to be on the investment front. Also, it bears mentioning, that since it is midway through the year, it is time to make sure your 2016 financial plan is in place and your goals for this year have been monitored and reviewed.

You might also have time to fit in a Glamping trip to experience a different way to enjoy our beautiful Colorado mountains. Read more on page 3. Glamping or not-enjoy your summer.

July 12, 2016

[1] http://www.marketwatch.com/story/2016-predictions-what-presidential-election-years-mean-for-stocks-2015-12-29

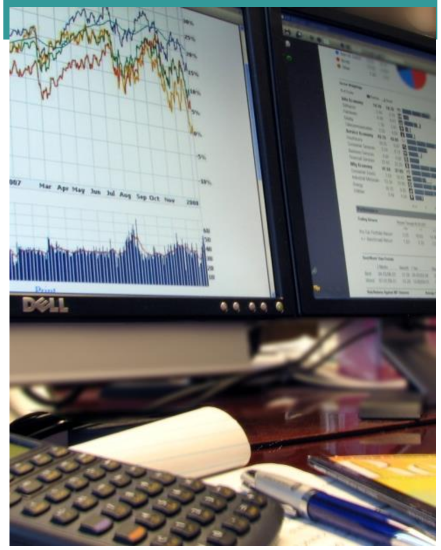
Contents

Main Articles

Individual Highlights

2016 Anniversaries

50 Years Ago
The first episode of Gene Roddenberry's 'Star Trek' aired on NBC.



Second Quarter 2016 Market Recap

A re-reading of the past few quarters' market updates yields a consistent theme: uncertainty and volatility. While not ideal for market performance, this quarter proved once again that staying the course and sticking with the plan is a prudent choice. The start of the quarter generated little market movement and generally low volatility. Economies were chugging along, both in the US and in overseas markets. Then, in the final week of the quarter, the markets woke to a surprise vote from the UK to leave the EU. This was not predicted and the markets do not like surprises. The next two trading days led to severe declines domestically and internationally. Exiting the EU will be slow and there are several European countries who operate well while maintaining their independence from the union. We stayed the course with our investments and were fully invested during the final run up in the quarter. These last few days brought returns back to "pre-Brexit" levels and we ended nicely for the quarter. While we remain cautious on the outlook for the UK, we believe the US continues to be relatively strong with many developed and developing countries looking positive as well. That same theme of uncertainty and volatility will likely continue. History has shown us that a diversified portfolio which has been appropriately invested for an investor's specific goals will stand the test of time.

The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell." John Templeton

Fund Focus: JP Morgan Small Cap Equity Fund (VSEIX)

This quarter's fund focus will bring light on the newly added JP Morgan Small Cap Equity Fund, VSEIX. This fund seeks to invest in companies defined as "small capitalization" meaning the company's market cap (share price x outstanding shares) is less than $4 billion. Created at the end of 1994, this fund has had a track record of exceptional performance earning a 5-star Morningstar rating for 3, 5, and 10-year performance. A $1,000,000 investment at the 1994 inception date would have turned into a nice $14,386,810 today. VSEIX offers diversification by holding 94 different positions, with the top ten holdings comprising 9.8% of the portfolio. Small cap companies often stay out of the mainstream media because of their size and impact on the global business landscape, making the top 5 holdings - Toro Co., Spectrum Brands Holdings, AptarGroup, Waste Connections and IDEXX Laboratories less than household names. The small cap sector continues to offer growth potential at attractive valuations and Harbor likes the opportunity for capital appreciation in the years to come.

The Illusion of Index Investing

Beating the market is something all investors aspire to do. Easier said than done. Many tried-and-true financial professionals aren't able to beat the market in any given year and most certainly not over the life of their career. So, like the old saying goes, if you can't beat 'em, join 'em, right? Not so fast.

The growing popularity of index investing has skyrocketed over the past decade. Index funds, known as passively managed funds have seen nearly $3 trillion dollars of inflows over the past 10 years. Going from under $1 trillion in total assets in 2005 to now over $4 trillion in assets through 2015, this trend is simply impossible to ignore. While passive index investing does have some great attributes like lower expense ratios, broad diversification and a consistent simple approach, there are many downfalls that investors may not be aware of.

The S&P 500, like most other indices, is market capitalization weighted. Many investors have a misconception that when they buy an index fund they are getting equal shares in every company that make up the index, when in reality that is not the case. With the S&P 500, Apple alone makes up over 3% of the index. Meaning that whenever Apple moves $1 in price the index moves more than 30 times as much as when American Airlines moves $1, which makes up just 0.1% of the S&P 500. The top 10 companies in the S&P make up more than 17.5% of the index and the top 50 companies make up more than 50% of the index. This isn't the broad diversification many investors thought they were getting by buying an S&P 500 index fund, but instead the performance of their investment is largely correlated to that of the top 50 companies.

Another problem with index investing is that stock valuation is simply not taken into consideration. When you buy an S&P 500 index, you are buying all the companies, the good, the bad and the overvalued. Index investors end up getting stuck with a lot of companies in which they wouldn't have the confidence in to buy on their own. Would you be willing to pay extra at the grocery store or car lot? So why would you do the same for your investments?

Index investing offers a great opportunity for investors to participate in the marketplace and put their hard earned dollars to work, but it is crucial to understand the not so talked about negatives surrounding index investing.

Brexit: Early Fallout

Just as Christopher Columbus sailed the uncharted waters of the Atlantic, the United Kingdom finds itself now in the same position as the fallout from the June 23rd Brexit vote leaves a sea of uncertainty ahead. Brexit, referring to Britain voting to exit the European Union, shocked individuals and financial markets as the leave vote went against the consensus that the British would vote to stay. This historical event marks the first time any EU partner has voted to leave in the 23 year history of the Union.

Fallout from the leave vote was felt throughout global financial markets as the British Pound plummeted to a 31 year low, the U.K. FTSE 100 lost more than 5.5% and the U.S. S&P 500 dropped over 5%. After a two day sell-off following the vote, shockwaves calmed and the news began to be fully digested by markets and the media. Beginning to assimilate the consequences of the leave vote on the U.K. and the world, British citizens had to look themselves in the mirror and gut check what they had done. A petition to re-vote was created, generating over four million signatures. Like many things in life, there are no do-overs. British Prime Minister David Cameron explained that the vote would be binding, but that he would not be around to deal with the fallout. Theresa May, Home Secretary of the United Kingdom since 2010, will succeed Cameron and captain the ship of the U.K. as it enters new territory.

Financial markets have recovered since the vote, with the U.K. FTSE and the U.S. S&P 500 both higher than before the vote, erasing the large losses. London, the financial capital of the world, is expected to be hit hard as many global financial institutions will move their headquarters out of the U.K., cutting jobs, slowing economic growth and causing trickle down repercussions in real estate. Political tensions remain high in the U.K. as the 48.1% of citizens who voted to remain in the EU worry about the exodus of jobs, people and capital from the U.K. While the fallout from Brexit has already been felt across the world, the real fallout, and the impact it will have on the world is still largely unwritten.

For more information on the creation and history of the European Union: http://www.telegraph.co.uk/news/2016/06/20/what-is-the-eu-why-was-it-created-and-when-was-it-formed1/

Tech Tools

Looking to jump start your savings? **Digit** is a free app that saves your money for you, "so you don't have to think about it." It analyzes your spending patterns and automatically moves small amounts of money from your checking account to your online Digit account. Simply connect your bank account and Digit will start analyzing your income and spending. Every couple of days, it transfers small sums of money, usually $5-$50, from your checking account to your Digit savings account.

They are so confident in their math and ability to analyze what you can afford to save, that they offer a no-overdraft guarantee. You can withdraw your money any time and with no fees. Simply send Digit a text message, and they will transfer your money back to your checking account within the next business day. Digit touts "state-of-the-art security" to keep your personal information secure and all funds are FDIC insured up to $250,000. Current users have used their Digit savings to start an emergency fund, pay for a vacation or to pay down debt.

Level Money is another interesting app geared to helping you "spend smarter". After connecting your bank and credit cards, Level Money analyzes your spending and tracks your essential expenses, such as rent and bills. It then helps you set a target savings goal and tracks how much you have left over to spend on non-essentials expenses.

Level Money uses the same 128-Bit Encryption as banks and other financial institutions. They also offer shared and joint account access so you and your partner can monitor your accounts and create a plan that works for both of you.

Living Well/Living Smart

Glamping

Have you done it? Would you like to? Do you know what it is?

Glamorous + Camping = Glamping. This global trend allows outdoor enthusiasts the opportunity to enjoy the wilderness and be outdoorsy without sacrificing comfort and luxury. So you can forget about pitching a tent and sleeping on the ground.

You can choose your level of luxury whether it be a comfortable tent with running water or a five star treehouse with a full kitchen and home theatre. You can still sit by a campfire at night roasting marshmallows or fall asleep to the sounds of nature if you'd like. You don't have to give up anything you don't want to. There are many types of glamping at all levels of comfort. Tree houses, yurts, safari tents, campervans, tepees, pods, barns, caves or igloos – just take your pick.

Destinations are endless. Google "glamping" and you'll get multiple pages of information and amazing destination spots. Glamping.com is a highly ranked search result for this popular keyword. In 2015 "glamping" search volume reached over 3 million annual searches. Many destinations are right here in Colorado while others are all around the globe.

Don't want to leave your furry friend at home? Bring him along. There are many pet friendly glamping sites that will welcome Fido with open arms.

Camping is defined as temporarily living outdoors. But to the millions of people that love it, camping amounts to so much more – reconnecting with nature, escaping the daily hustle and bustle, and spending quality time with family and friends. According to a leading statistics company, Statista, approximately 45 million people camped in 2015. I was not one of those people. But then, I have never gone glamping; maybe I will now that I know what it is.

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Images: David Lat

Harbor Happenings

Harbor on Facebook
Visit us on Facebook! See the latest happenings at Harbor and get tips and financial information from market experts. https://www.facebook.com/harborfin

Save the Dates!
Harbor's Client Appreciation event will be Thursday, October 13 here at Harbor. Mark your calendar!

Wise Women, Smart Investors – this informational seminar will be held in multiple locations. Watch your email for the details.

Privacy Policy and New ADV Available
A full copy of Harbor's updated ADV (the form used by investment advisors to register with the SEC) is now available on our website. Please notify us if you would like a hard copy sent to you by mail.

2016 Closures

Our office is closed on the following New York Stock Exchange holidays in 2016: September 5, Labor Day; November 24, Thanksgiving Day; November 25, half day; December 26 in observance of Christmas.

The majority of our growth over the past 28 years has come from referrals from clients and other professionals. We thank those of you who have referred your friends and colleagues. If you know of anyone who might be interested in our services, please ask them to give us a call at 303-939-8788.