

# THE HARBOR ADVISOR

## Planning For Change in a Changing World

We live in an era where many bemoan the speed of change and wax nostalgic about the past. It is no wonder. With our recent election, this past year has brought what we would describe as sea-change in our U.S. political climate. Added to this are numerous cyber-attacks each year, an event that was rare just 10 years ago. Terrorist attacks are more numerous each year. Earlier in the year we were surprised by the Brexit vote which in turn was at least partially in response to large numbers of refugees seeking asylum from war torn countries. We are looking at the world differently as the world itself is different. We believe one's perspective regarding change is key to understanding and then trying to craft a positive plan around the change. The positive aspect of change is that some change is good, very good in fact.

There are many examples of change in the investment world. As an individual investor, the changes have been mostly positive: information is more readily available, barriers to invest are fewer and costs are lower. Unfortunately the advent of fake news and the receipt of current events via your own personal echo chamber make it more difficult to decipher truth from fiction, and facts from conjecture. This requires us to engage in critical thinking and avoidance of the pack mentality.

Our role at Harbor is to assist in gathering information of import versus the inane, providing assistance to you in a world that looks different today than it did yesterday. Your personal plan plays a pivotal role as well. Your plan will help you stay organized in a chaotic world, focus on the areas of import to you when it seems you are pulled in multiple directions, ensure that you meet your individual goals and position you to take advantage of the changes that 2017 will bring. Looking forward we see uncertainty regarding our U.S. political structure, an unsettled European Union, and continued terrorist threats. We also see a strengthening U.S. economy, jobs creation, wage growth and growth in manufacturing. Opportunities exist with each of the changes 2017 will bring. Our advice is to refresh your plan and think about your goals for this year. Then, observe events and the effects on your financial plan and investments, gather the facts, get advice on your perspective and make decisions accordingly.



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**2017  
Anniversaries**

**40 Years Ago**  
**The original Star Wars, now known  
as episode IV, debuts.**



## Q4 2016 Market Recap

The U.S. Presidential election overshadowed the media and financial markets in the fourth quarter. Equity markets consolidated in October as investors began positioning for what they believed would be the outcome of the election. November 8<sup>th</sup> results gave investors a wave of newfound confidence in the market and the proclaimed “Trump Rally” created strong gains in equities on prospects of lower taxes and less business regulation.

Fixed income markets sold off in a broad rotational trade as the Federal Reserve raised rates 0.25% for the first time since last December. Rising rates indicate a strong,

growing U.S. economy and low unemployment. Rates are expected to continue rising with three hikes perceived for 2017.

Fourth quarter returns were mixed, domestic equities gained while international equities and bonds declined. The Barclay’s Aggregate Bond Index and the MSCI EAFE were both down, 2.98% and 1.04% respectively. Domestic equity markets showed strong results with the large-cap S&P 500 up 3.25% and the small-cap Russell 2000 soaring 8.43%.

“A goal without a plan is just a wish.” — *Antoine de Saint-Exupéry*

### *Fund Focus: Loomis Sayles Growth Fund (LSGRX)*

For the final fund focus of the year, we will concentrate on Loomis Sayles Growth Fund, LSGRX. This is a large capitalization growth fund (companies worth \$5 billion or more), meaning portfolio manager, Aziz Hamzaogullari, invests in widely known companies with high future growth potential. The top five holdings in this fund include Amazon, Facebook, Cisco Systems, Visa, and Alibaba, making up 28% of the portfolio. LSGRX has seen huge growth in assets under management over the past five years, growing from only \$60 million in 2010 when manager Aziz Hamzaogullari took over, to now approaching \$3.7 billion. These inflows can largely be attributed to Loomis Sayles’ strong performance record combined with management’s ability to reduce investor fees every year since 2010. LSGRX now has a 0.66% expense ratio down from 0.93% in 2010 and 13 basis points lower than the large cap growth fund average of 0.79%.

LSGRX has been a strong addition to the portfolio and continues to outpace its peers in the large cap growth space.

## Market Outlook

As we welcome 2017, we enter the 8<sup>th</sup> year of this bull market cycle. Over the next year, we expect economic expansion to continue on a similar trajectory. In the U.S., GDP growth is forecasted to be approximately 2%. While consumer spending has been a significant driver of growth recently, it is expected to moderate due to inflation caused by increasing interest rates. With healthy inflation and a strong labor market, we can expect additional interest rate increases in 2017.

Global economies should continue to grow as well, although at a slower pace. The EU is expected to grow by approximately 1.5% this year led by improved employment conditions and easing fiscal policy. Populism is a growing theme largely stemming from immigration, terrorism and the refugee crisis, increasing political risk in many of the countries in the EU. Growth in the U.K. is projected to slow to the 0.5% to 0.6% range as it prepares to exit the EU. The devaluation of the Sterling has caused higher inflation constraining consumption.

Emerging market countries are feeling some relief as commodity prices come back from their lows. Most are in gradual recovery mode and continue to face political and geopolitical risks. China is focusing on growth through infrastructure spending and consumer spending but risks longer-term debt growth that is unsustainable. While emerging markets countries face headwinds as the dollar strengthens, valuations are at levels that are attractive for investment.

Effects of the Trump presidency are unknown at this time although mostly positive in U.S. equity markets so far. Issues campaigned on included deregulation in financial services and energy, immigration reform, decreases in corporate and personal tax rates, changes to the Affordable Care Act, reforming trade agreements and spending on infrastructure. With a Republican Congress, there should be more consensus in moving forward with new policies, yet it remains uncertain how much pushback Trump will receive from Congress. We expect it will take time to implement policy changes.

We do not plan to take immediate action with our portfolio models based solely on what we think might happen once Trump is in office but believe the portfolios are well-positioned in several sectors that we expect to perform well regardless of the new administration. The portfolios are built to benefit from exposure to companies in the financial, aerospace, medical, industrial and material sectors. Diversification is an essential component of your portfolio’s construction, as it protects your assets during volatile and uncertain times.

Sources: “The Investment Outlook for 2017”, JP Morgan Market Insights. “2017 Macroeconomic Outlook”, Goldman Sachs.com.

## Fake News Epidemic – Do we have one?

Throughout history individuals who want to be informed have had the responsibility to determine truth from fiction and fact versus conjecture in written and verbal dissemination of information. Stories of unscrupulous people taking advantage of and misleading others with false claims are historically common. Why does it surprise us that as a society we have an epidemic of what we have dubbed ‘False News’ and out and out lies? We live in an era where fact checking is relatively easy and we hold journalists to a high standard. Perhaps this adds to our disbelief that someone would lie to us, create false statements and do so in print and in widely disseminated video casts. Who does this?

Apparently a lot of people. While fake news isn’t new, incidences of untrue news releases overtook real news in 2016 according to numerous sources. The fact that the definition of fake news differs depending on who you talk to does not help. Nor does the fact that with the advent of personal news sources, think Flipboard, the Skimm, Webhose, and even The Heritage Foundation or Center for American Progress, we have created what Carl Quintanilla recently referred to as ‘our own personal echo chamber’. We surround ourselves with news that agrees with us. This has in turn caused some to simply deny the veracity of any news that they don’t agree with. This is dangerous.

Since when does one shut off all discourse that they don’t agree with? In doing so how will anyone learn, understand a different point of view or change their own? Critical thinking depends on disparate information sources, points of view and basis of view. A well informed opinion does as well.

We can combat this myopia by subscribing to, reading and listening to numerous information sources. Vetting the accuracy of the reporting is critical so that we don’t waste time on made up drivel - Fake News. We can engage in discourse, open sharing of opinions and encourage opinions that differ from ours. While we are at it, we can converse with different age groups, socioeconomic groups and geographic groups.

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## Tech Tools

We are all attached to our mobile devices these days. They provide great convenience but also expose us to identity theft and internet scams. According to Homeland Security in 2015, roughly half of American adults had their personal information exposed by cybercriminals.

Here are some simple steps to ensure the security of your personal information online.

1. Keep your private information private. Don’t share your full name, address, or other personal information online. Don’t broadcast your location. This can alert a potential burglar that you are on vacation.
2. When in doubt, throw it out. Links in emails, posts, and online advertisements can compromise your device. If it looks suspicious, delete it.
3. Set strong passwords that are long, unique, and hard to guess. Change your passwords regularly and use different passwords for different accounts.
4. Secure your accounts by asking for protection beyond passwords. Many websites now offer additional ways for you verify your identity before you conduct business on their sites, such as two-factor authentication.
5. Secure your mobile device by requiring a passcode to unlock it and always lock it when it’s not in use. Never leave your mobile device unattended in a public place.
6. Check your accounts regularly to ensure there are no unauthorized charges or withdrawals.
7. Properly secure your wireless network and be cautious when using public Wi-Fi. Avoid conducting sensitive activities through public networks, such as online shopping, banking or anything that requires passwords or credit card information.

## Living Well & Smart

### New Year – New You!

Overly ambitious New Year’s resolutions - we’ve all made them. Speaking from personal experience, once February 1<sup>st</sup> rolls around I’ve lost sight of my goals, until December that is. Trust me, you aren’t an undisciplined, lazy failure. Our brains are actually programed to boost our morale with dopamine when we succumb to those desires of eating chocolate or buying that perfect pair of shoes. So how can you reverse psychology and manage those goals? Here are three things to consider when making your New Year’s resolutions this year:

1. **Start Small**- We’d all love to run a marathon in record time but if you haven’t jogged in five years you’re setting yourself up for failure. By starting with small, realistic, attainable goals, you are much more likely to stick with them. Try something like “run for 15 minutes three times a week,” you’d be surprised how much your psychology changes.
2. **Have Family and Friends Hold you Accountable** - In the age of social media, you have hundreds of fans in your cheering section. By making your goals public to your friends and family you feel much more motivated to make good on your word. It can be awkward and embarrassing, but if you want to succeed, be held accountable.
3. **Reward Yourself**- With a carrot dangling in front of your face, it’s a whole lot easier to get up and attack your goals. Reward yourself with small things during the hardest first days and weeks, gradually spacing things out to months or quarters, ultimately culminating with something substantial like a trip or shopping spree for all your hard work.

It won’t be easy, but with these three simple tips, you can make 2017 the year to dominate those looming resolutions!

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What do you have to lose? What you can gain is immeasurable. You might find that your opinion is not all that different from the next person's, that your goals and objectives are similar and that the biggest difference is how you choose to get there.

You might also find that you improve your ability to discern real from illusion, logic from spurious, intention to hype versus intention to communicate. If accomplished you will be a better consumer, voter, citizen, friend, investor and conversationalist.

## 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>

### **Harbor Named a Best Wealth Management Blog for 2017!**

We are excited to announce that our website blog was named one of the "Best Wealth Management Blogs for 2017"! You can read all about it at <http://www.creditdonkey.com/wealth-management-blogs.html>.

### **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.

### **2017 Office Closures**

Our office is closed on the following New York Stock Exchange holidays in 2017: February 20, President's Day; May 29, Memorial Day; July 4, Independence Day; September 4, Labor Day; November 23, Thanksgiving Day; November 24, half day; December 25, Christmas.

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