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THE HARBOR ADVISOR

Once again as I look around at the state of our economy and economies around the world, I'm reminded of one thing, change. Every time you look there is a new product on the market, a new treatment for illness and a new company leading the charge. Much of this exponential innovation is led by technology. Access to information and computing power has opened doors to entrepreneurship and innovation. The general shift away from human labor is not new; the rate at which jobs are being automated is, however, happening faster than ever. We see this as our economy has moved away from a manufacturing based economy toward a service based economy. It has been happening gradually for decades but seems to have hit a tipping point in recent years. Technology is more intertwined with our daily life than ever before.

Many of our investment trends rely on several key trends we see; artificial intelligence, smart everything (from refrigerators that order milk to watches which can predict a cardiac event), and increased productivity from technology. As with most change, there are downsides, perceived and real as well as potential opportunity. This tipping point with technology has many downsides, some that are not easily fixed. We will leave the socioeconomic planning to the experts, and will focus on where we see opportunities and risks within the public markets.

One of the many investment opportunities we see within this technological framework is semiconductor companies. Your new smart toaster connected to your smart phone will not work without these chips. The highest functioning chips enable us to have self-driving cars, virtual reality, lifesaving drones and advances in computing which previously were impossible. We have purchased iShares Semi-Conductor ETF to take advantage of this growth potential.

The economically prosperous people of the future will be those who embrace technology and learn to work with it rather than those who reject the change. As with most things, change is inevitable, we need to be flexible and adapt with the changes to be successful.

"I can't change the direction of the wind, but I can adjust my sails to always reach my destination"- Jimmy Dean



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Harbor's 30th Anniversary

**In 1988 Bobby McFerrin offered
his still excellent advice:**

"Don't Worry, Be Happy"



Third Quarter 2018 Market Recap

The strength of the U.S. economy catapulted U.S. stocks upward during the third quarter, perpetuating the economic expansion which is now well into its 9th year. Consumer confidence hit a high and unemployment posted a low during the quarter both at levels not seen since 2000. The Fed hiked interest rates a quarter of a point at the end of September indicating continued optimism about the economy. Stocks in the real estate sector felt the pressure of these rate hikes yet continued to increase during the quarter. The top performing sector was Healthcare, thanks to innovative new drug launches and corporate restructuring offerings allowing for strong dividends and acquisitions of smaller attractive companies.

The prospect for global growth remained positive, yet the quarter wasn't as kind to

international stocks, particularly emerging markets. The global economy has been vulnerable to consequences of trade tensions brought on by changes to trade agreements and tariffs, as well as tighter U.S. monetary policy.

Major indexes were positive for the quarter. The S&P 500 was up 7.20%. The Russell 2000 increased 3.26%, the MSCI EAFE was up 0.76% and the Bloomberg Barclay's Aggregate Bond posted an increase of 0.02%.

Sources:

Tony Thomas, 10/01/18, Third Quarter in U.S. Stock Funds: Pressing On, Regardless, Morningstar.com.

Michael Bell, 10/01/18, Review of Markets Over the Third Quarter 2018, JP Morgan Asset Management.

“Try not to become a man of success, but rather a man of value.” Albert Einstein

Fund Focus: iShares Semiconductor ETF (SOXX)

The iShares Semiconductor ETF (SOXX) is the most recent fund to join Harbor's portfolio. SOXX seeks to give investors a broad exposure to the semiconductor industry, rather than any one single semiconductor manufacturer. These manufacturers are responsible for creating the computer chips inside most of our modern electronics. Smart home devices, cell phones, cars, medical equipment and computers are all powered by the chips and memory produced by the semiconductor sector. The manufacturers include well-known companies such as Qualcomm, Nvidia, Texas Instruments and Advanced Micro Devices, as well as many other medium and large cap firms. The semiconductor industry is expected to continue to grow as more technology is integrated into our daily lives, driven by the continued increase in the computing power of semiconductor chips. SOXX has received a 4-star rating from Morningstar analysts, with a YTD return of 10.06% and 3 year annualized return of 33%. The addition of SOXX brings Harbor's portfolios a strong, tech-based fund with great potential for long term growth.

What is the Business Cycle & How Does It Relate to Your Portfolio?

Our modern economy has four fairly well defined phases that make up a full business cycle. Many analysts are asking if we are entering into the late-cycle phase which historically has preceded recessions. We thought it would be helpful to outline the phases and explain why they matter and how we utilize them to make portfolio shifts.

A market cycle starts with the Early-Cycle phase which occurs immediately after a recession. This phase is marked by a return to positive growth in economic activity including gross domestic product (GDP) numbers and industrial production figures. Monetary policy is generally loose and credit becomes more easily accessible to promote growth. Companies typically have low inventory. Sales should start to increase creating a demand for growth as they boost inventories and production to keep up with the higher demand. This phase is usually short and sharp as investors and consumers find a solid floor for consumption.

Next, the economy typically moves into the Mid-Cycle phase which is usually the longest. Growth figures continue to be positive although at a more moderate rate than in the Early Phase. Economic activity continues to pick up steam, access to credit is readily available, and profitability is strong. This is typically when monetary policy begins to tighten to prevent run-away inflation and returns to a more normal policy trajectory.

Late-Cycle is defined by above trend rates of inflation and overheating economic factors. Growth generally begins to slow partially due to restrictive monetary policy, lowered corporate profit margins and expectations, less credit availability and slowing sales. Inventories start to rise as businesses have over-estimated demand.

The last and perhaps most discussed phase is the Recession Phase. This is marked by a contraction in economic activity with two or more quarters of contraction in the GDP figures. Corporate profits decline, credit is not readily available and consumer demand dries up. Monetary policy tends to start to become more accommodative to boost growth and ease access to credit.

We believe we are in the Late-Cycle phase of this cycle. The problem is we don't know for how long, and we don't know the duration or intensity of the Recession Phase. We are continually watching out for areas of the market we would like to trim back on and areas we need to reinforce given the historic trends during Late-Cycle markets.

So You Want to Get Away?

You are not alone! Americans are traveling more than ever. Europe and South America both saw an 8% increase in American visitors in 2017. Asia was an 11% increase and Oceania 13%. All told 80.2 million Americans took a trip in 2016, which is just a bit less than 25% of the country. But you know this by the crowds in all of the airports and in popular destinations.

Speaking of which, the least crowded spring destinations are South Padre Island, Austin, Myrtle Beach SC and Gulf Shores AL. The most relaxing? Sedona, Kauai and Austin. The most adventurous? Surfing in Kauai/Hanalei Bay, ice climbing in Ouray, skiing in Alaska, hiking the slot canyons in Capital Reef National Park, spearfishing in Florida, rock climbing in Austin. Austin appears to be the winner in all three categories!

Options on destinations proliferate each year. Do you want adventure? Relaxation? One destination or many? Plan ahead or decide as you go?

Travel outfitters and apps on your phone that can assist.

Outfitters can customize your trip and do the time consuming background work of choosing good hotels in your price range, arrange for transport and calculate connections.

Colorado Outfitters offers rafting, fishing hiking guided camping and many more.

Adventures Within Reach offers Africa, South America, Polar, Central America, Himalayas, South East Asia and Europe. They ask detailed questions about what you want to see, your budget and the type of travel you do and then customize a port to port trip for you. Ours were always fully guided, fun to have a group of our family of six. They send reminders, vaccination lists, packing lists and travel tips.

Inside Japan will plan your trip to Japan.

Tripit keeps track of your itinerary.

Roadtrippers plans out your driving route but lets you book hotels along the way. The app points out one of a kind places to visit along the way and good restaurants.

Happy traveling!



Alexa is Coming to a Hotel Near You!

Have you recently found yourself calling out to Alexa by mistake when traveling only to remember that she is at home and not in your hotel room? Amazon is stepping in to change that with their new program called Alexa for Hospitality. Partnering with Marriott to start featuring its Echo at select properties, they are also aiming to partner with other hospitality providers, including vacation rental companies.

The voice activated virtual assistant will provide guests with information about the hotel – like where the fitness center is located or when the pool is open. Alexa will also serve as a virtual butler. Need more towels? Alexa will contact housekeeping. Room too cold? Alexa will adjust the thermostat. Hungry? Alexa will order room service.

At launch, this version of Alexa won't sync to your personal Amazon account. However, Amazon is working on adding this feature, thereby allowing you to turn the hotel Alexa into "your" Alexa with access to your playlists, audiobooks and contacts. Marriott has also leveraged its partnership with TED, allowing guests to request a TED talk via Alexa.

Amazon maintains that the hotel will have zero access to your personal data. Recordings of Alexa commands are deleted daily and hotels are not given access to the voice recordings. The system is also programmed to automatically disconnect your Amazon account upon check out.

At the end of your stay, simply say "Alexa, check me out" and skip the visit to the front desk.

Living Well/Living Smart

Buying a House? Protect Yourself From Wire Fraud

Do a Google search with 'wire fraud' and 'title company' and you get over six million results, not nearly as high as the estimated losses for 2017. According to the Washington Post, the FBI estimates that "nearly \$1 billion was 'diverted or attempted to be diverted' from real estate purchase transactions."¹

How does it work? Fraudsters hack into your email, assume the identity of your real estate or title agent, and provide you with wire instructions to the criminal's bank account rather than the title agent's account. In another scenario, the title company's email is hacked and the wire information changed that way. Either way, your funds for the closing on your house are wired to the criminal and then quickly wired on to yet another bank account making them impossible to recover. Here's how to protect yourself:

- Never share sensitive information using regular email. Use a secure, encrypted email system or deliver the information some other way.
- Ask your real estate or title agent about their security measures.
- Do not trust closing information or wire instructions delivered via email. Use a verified phone number (not the one from the email with the wire instructions) or video chat to confirm the instructions.
- Be especially wary of last minute changes. Wire instructions change rarely so question any last minute adjustments to the instructions.
- If you are victimized call the local FBI office immediately and file an online complaint with the Internet Crime Complaint Center.

¹ Harney, K. (11.1.2017) 'Hackers prey on home buyers, with hundreds of millions of dollars at stake', *The Washington Post*.

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Images: Nat Arnett

Harbor Happenings

Divorce – What Now? Workshop Date

Megan Miller, CFP® CDFA® (Certified Divorce Financial Analyst), along with other professionals, are hosting a divorce workshop for women going through or contemplating divorce. Divorce – What Now? Workshops were designed to help you take the next step, no matter where you are in the process of untying the knot. Please call us for more information. Next workshop date: October 25th, 4-6 PM

Harbor's 30th Anniversary

Help us celebrate Harbor's 30th anniversary! Please join us on Wednesday October 24th from 5-8PM and enjoy delicious appetizers and a variety of wines and beer! RSVP to denise.g@harborfin.com

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>

2018/2019 Office Closures

Our office is closed on the following New York Stock Exchange holidays in 2018 and early 2019: November 22, Thanksgiving Day; November 23, half day; December 24, Christmas Eve, half day; December 25, Christmas; January 1, New Year's Day; February 18, President's Day.

Year End is Around the Corner!

Year-end continues to get more challenging for the financial industry with more delays and red tape every year. Consider acting now to make sure everything needed is completed before the end of the year. Possible tasks:

- If applicable, take your required distribution from your IRA or inherited IRA.
- Make a contribution to your child's 529 account.
- Consider any estate planning that might need to be done before year-end and phone your attorney for an appointment.
- Discuss with your accountant whether or not you might be eligible to contribute to a Roth or Traditional IRA for 2018 and, if needed, contact us to open the account.
- Take care of any gifting, transfers of stock or cash that might need to be done by year-end.

Please contact our office today if we can help with any of these items. Thank you!