

THE HARBOR ADVISOR

Universally We Have More in Common Than Not

Part of my job is communication and effective communication requires listening. As Covid-19 spread to the US conversations occurred around how people are handling the myriad impacts they face. Employed, unemployed, suffering a pay cut? Thrust into teaching children and working from home at the same time? Or worse, working in a critical field with no one to watch nor teach the children at home. Are their WFH arrangements adequate, barely working or a joke? We worry about loved ones, our own safety, and our responsibility to stay well so we can continue to care for others. Some of the conversations I have had are heartbreaking: doctors on the front lines having to choose who gets care and due to limited PPE concerned for their own lives. Those who have lost their job, are separated from loved ones and tragically those who have had loved ones die and can't mourn them. We are sad for life's milestones missed, a christening, wedding, or graduation. Some rites of passage are timely, it will not seem the same to celebrate a graduation from high school the second semester of college or well into your first job. We are all facing the same problem, it is a universal threat.

There is a reason the jokes around not knowing what day it is, only wearing nice clothes from the waist up and your cat or dog sitting on your computer keyboard are popular - they resonate with all of us around the globe.

The coping mechanisms are amazing, global biotech research reaching across borders to create a vaccine, volunteer meal delivery to those who can't leave home, online auctions for charities, virtual party and game rooms, outdoor dining for restaurants, renting camper vans to tour regionally, the list is endless. The kindness and caring I see is universal; people are genuinely concerned for others and universally grateful for what they have knowing others have less and are much more challenged.

I also find it interesting that so many are thinking about their finances and estate planning. This allows those of us at Harbor to be of assistance as we all want to be. We are focused on monitoring investment portfolios, creating financial plans to assist with decision making, trying to stay current on news events and looking for better and more creative ways to use technology to continue to deliver the services our clients have told us they value. Our industry will make permanent changes in how we operate based on the pandemic. We are focused on opportunities to grow and better our business and service. We are here to reassure, listen, assuage fears, commiserate, focus on the future, cope with the present and to communicate as effectively and as often as possible.

The future of the virus is unknown, we believe we will eventually have a vaccine but for the time being we must get even better at being patient, considering others and trying to move forward. We are actively engaged in these endeavors and know that too is universal.

July 16, 2020

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Women in Finance

2 in 3 women handle the majority of money management in their households



Second Quarter 2020 Market Recap

The markets closed out the second quarter with some of the best quarterly gains since 1998 and the S&P 500 regained nearly all of the ground lost in the first quarter. Despite the rally, it was a turbulent quarter as Covid-19 continued to dominate headlines. Investor optimism was felt however, as states and cities started easing lockdowns and economic stimulus payments from the Federal Government were distributed. Interest rates were kept near zero and the unemployment rate decreased from 14.7% in April to 11.1% in June. Retail sales, a

measure of purchases at stores, restaurants and online, increased 17.7% in May compared to April. Uncertainty remains however, as infection rates have ticked up in several states, resulting in the pause of reopening plans and resumed social distancing restrictions.

Major equity indexes were positive for the quarter. The S&P 500 was up 19.95%, the Russell 2000 was up 25%, the MSCI EAFE was 14.17%. The Barclay's Aggregate Bond was up 2.9%.

"Timing, perseverance, and 10 years of trying will eventually make you look like an overnight success." Biz Stone

Fund Focus: Vanguard Dividend Growth Fund (VDIGX)

This quarter, we are highlighting Vanguard Dividend Growth (VDIGX). A long-term holding in Harbor's portfolio models, this large cap growth fund is comprised of 40 to 50 high quality stocks of companies that are reasonably priced and have the potential for long-term growth and income. The companies have cash positions and competitive advantages to help maintain and grow their dividend payments. VDIGX is an actively managed fund with a turnover rate of 17% and an expense ratio of 0.27% both of which are low for this category of funds. This fund also provides broad diversification across targeted sectors including health care, industrials, consumer staples, consumer discretionary, financials and technology. VDIGX's performance may lag when equities surge, but its defensive stock positions provide protection during downturns. We value the stability of returns and efficient management as an important portion of our core US equity exposure.

Passive vs. Active Management Strategies in a Covid-19 World

Active vs. Passive investment strategies are often compared when deciding whether paying a little extra for an actively managed fund is worth the cost. If a passive investment, such as an index fund, can return 9% and an actively managed one can return 10% but has a 1% expense ratio (management) fee, what makes active management worth it? This question becomes even more difficult when comparing returns of these two investment strategies over the last 10 years. In the most recent 10-year bull market, many passive funds outperformed actively managed funds and many of the investment icons, such as Warren Buffett and Peter Lynch conceded that passive investing would likely become the way of the future. If this is the case, then why would anyone pay for active management? The answer to this question requires a deeper look into history. Historically speaking, the cyclical nature of these two strategies shows them trading favor over time. Passive investments tend to come into favor when the dispersion of stock returns are low and there are few true leaders in the market. This is a market where 'a rising tide lifts all boats' and the strong returns from a few key players make the weaker ones look better. Active management tends to gain favor when volatility is more prevalent. When markets become volatile the agility and flexibility of an active manager is a competitive advantage. An active manager can make nimble decisions, based on forward looking analysis of which companies, sectors and styles will make for good investments. Passive investments do not have this ability since they must adhere to their portfolio weights, for better or for worse. Active managers also can make the decision not to invest at a certain time or into a certain sector. Again, the passive strategy does not have this flexibility.

In our current environment we are seeing businesses with more resilient models and healthier balance sheets in a better position to survive and prosper amid the uncertainty. Active managers will identify these firms and tilt their investment strategy towards them. Here at Harbor, we use a barbell approach of passive and active investments in our portfolio models. We believe portfolios benefit from the broad exposure of the passively managed investments in addition to lowering the overall expense ratio of the portfolio. But we rely on the expert strategies of our actively managed investments to navigate us through the storm during times of market volatility as we are experiencing now.

The Markets are Flat for 2020 . . . It's OK

As of this writing the return for the S&P 500 for 2020 is negative meaning a zero or perhaps even negative return for the year. While seen as disappointing, it is a normal occurrence in market cycles and has been for many years. According to a study conducted by ICMA-RC, "For the 92 years ended December 31, 2017, the S&P 500 Index posted positive calendar year returns 74% of the time and negative calendar year returns 26% of the time, with an average calendar year return of 21% over the positive years and -14% over the negative years."¹ This is the way markets work. Rather than a steady trajectory every day of every month of every year, returns come in fits and starts. This makes sense as markets react to external events and reprice accordingly. The fact that the volatility (also not a new phenomenon) has increased over the years does not change the longer-term returns. One way to see this clearly is to look at a daily chart versus a three-year chart. The returns become normative and the volatility evens out for the three-year period. Investors know that this is part of the investing process and plan accordingly.

One of the planning items we cover is to have enough cash and other assets on hand to meet your needs long enough to ride out a downturn. Not only practical, it is calming in the face of inevitable market volatility. By the time you need more cash, segments of the markets will have recovered their value. At Harbor we plan for client's assets to last throughout their retirement or financial independence requiring a distribution strategy. Ours is to raise enough cash and conservative assets to cover two or more years of cash needs when the markets are high and distribute it over the time frame in question. This strategy increases the overall rate of return on a portfolio considerably by selling when markets are high and holding through the downturns. We also plan for the occasional car purchase, house repair and unexpected medical expense. Since most of us invest and save to provide for our cash flow needs when we don't have earned income, the market can, if used properly neatly and conservatively provide for those needs.

¹ (ICMA Retirement Corporation)



Wearable Technology

Wearable technology has become more mainstream in the past few years. One in five Americans now wears a smartwatch or other health tracking device.¹ These devices are becoming more adept at measuring important markers for possible illness and health concerns even before the wearer feels indications. Currently, there are a variety of studies being done using wearable technology data to anticipate a viral infection prior to more noticeable symptoms showing up. One promising device for this is a ring called Oura. Even the NBA is getting on board and recommending its players wear the ring to track health statistics. The ring tracks the basic data you would get with a smartwatch such as movement, heart rate, and sleeping patterns but also more advanced sensors track temperature, heartbeat pattern changes, and your respiratory rate. These additional sensing capabilities can help predict a viral infection prior to the onset of noticeable symptoms. Other research facilities are using smartwatches as the data source for these studies which could give us an interesting insight in how to be more in tune with our health before we start to feel sick or injured. Some indicators of an infection are an increased resting heart rate, increased sleep, and less movement. All of these are things that are hard to measure subjectively based on how you feel but are very clear with wearable technology. Using these technologies doesn't guarantee detection of infections and signs of infection can be hard to notice without AI technology but it does provide an exciting look towards what wearable technology might be able to do in the future.

¹ (Vogels, 2020)

Living Well/Living Smart

STAFF SPOTLIGHT

Elyse Foster is the founding principal of Harbor Wealth Management, founded in 1988. Read her full bio [HERE](#).

What is the one thing you cannot resist? *A cookie*

Where is your favorite place to be? *My garden*

What was your favorite vacation? *Galapagos*

Tell us something that might surprise us about you. *I am an [ambivert](#)*

How do you balance your career and family/friends? *Carefully - it is a constant process*

What is your favorite part about working for Harbor? *Helping people by sharing the knowledge I have accumulated over my career*

What book did you last read? *The Splendid and the Vile: A Saga of Churchill, Family, and Defiance During the Blitz* by Erik Larson

Carolyn Rice has been with Harbor since 2001. Read her full bio [HERE](#).

What is the one thing you cannot resist? *My morning cup of tea with cream. Coffee just doesn't do it.*

Where is your favorite place to be? *My front porch in the summer with a book and a glass of wine (tea works too).*

What was your favorite vacation? *It's usually wherever we went last. So currently it's our trip to Newfoundland last year.*

What is your favorite part about working for Harbor? *My co-workers, of course.*

Are you an early bird or night owl? *Early bird but don't try to engage me in conversation until I've had my tea.*

See more Q & A's from **Elyse** and **Carolyn** on our blog!

<https://harbor-wealthmanagement.com/news-views/staff-picks/staff-spotlight-elyse-foster/>

<https://harbor-wealthmanagement.com/news-views/harbor-staff/staff-spotlight-carolyn-rice/>

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Images: David Lat

Harbor Happenings

Harbor is Working Remotely

In support of the various governmental guidelines to combat the spread of the COVID-19 virus, Harbor is working remotely and our office is closed. We can still be reached at our individual email addresses and our main phone number of 303-939-8788, or direct staff phone lines. When it has been established that we are safe to reopen our office, we will send out a communication. If you have any questions, please feel free to reach out to us. We wish all of our clients and partners well during this challenging time.

Welcome Jordan!

Jordan Nelson is the newest intern at Harbor Wealth Management. Jordan is a recent graduate of The University of Colorado Boulder Leeds School of Business, where he received a Bachelor of Science degree and majored in both Finance and Real Estate simultaneously. Jordan will be moving on in the academic world to complete his master's degree at the University of Colorado Boulder this coming school year. He will be attending the MS Finance program.

Jordan will be assisting with market research and analysis, portfolio management tasks, investment/financial planning related projects, business strategy, economic impact and operations analysis projects, client requests, communication, and various other tasks.

New Form-CRS Available

A full copy of Harbor's new Form-CRS (a uniform disclosure document prescribed by the SEC) is now available on our website. Please notify us if you would like a hard copy sent to you by mail.

Harbor on Facebook

Visit us on Facebook! See the latest happenings at Harbor and get tips and financial information!

Coming Soon – Harbor on Instagram!

Be on the lookout for Harbor's new Instagram account!

2020 Office Closures

Our office is closed on the following New York Stock Exchange holidays in 2020:
September 7, Labor Day; November 26, Thanksgiving Day; November 27, half day;
December 24 half day, Christmas Eve; December 25, Christmas.

Securities Offered Through Schwab Institutional. Member FINRA and SIPC

The majority of our growth over the past 30 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.