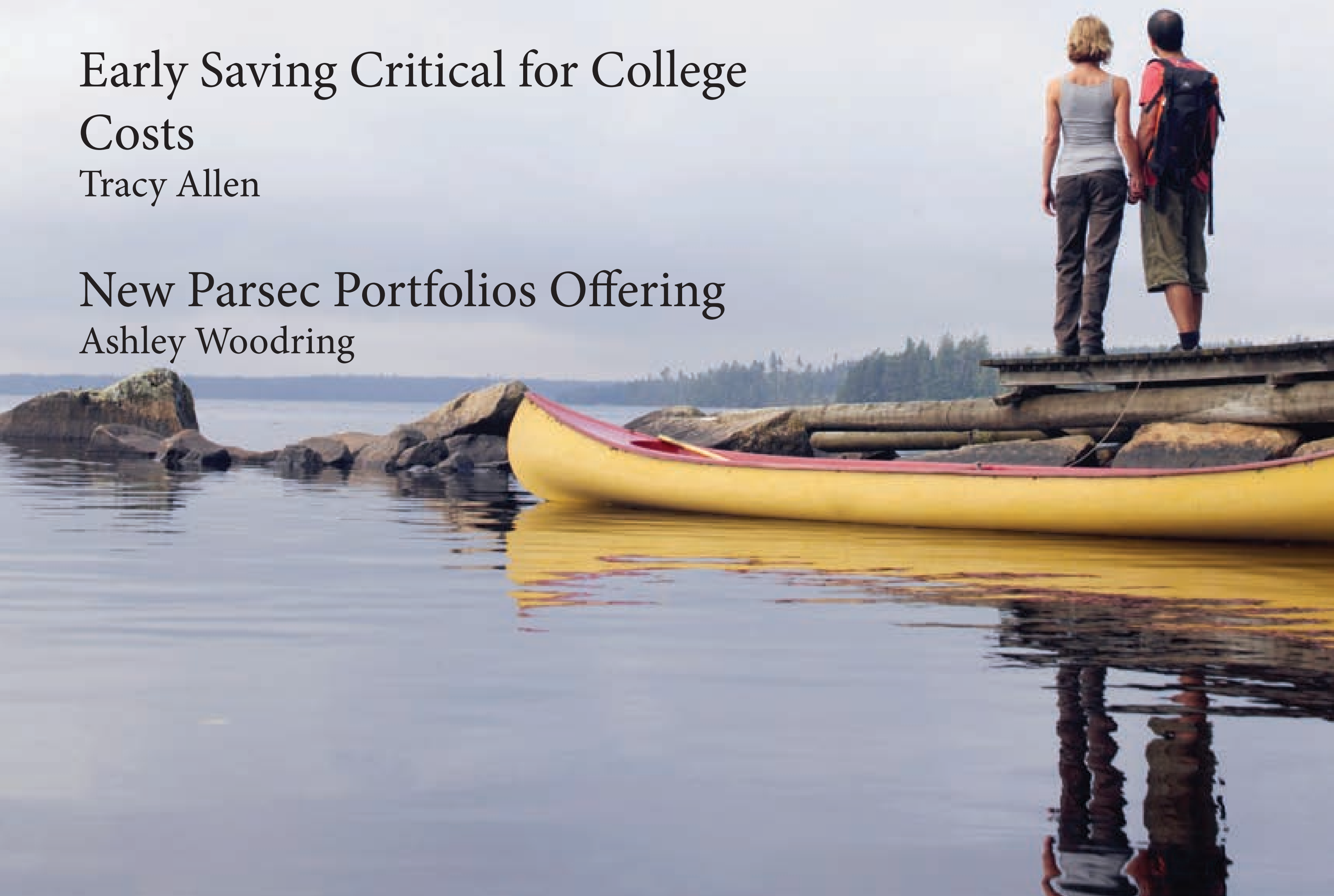
Parsec Financial
First Quarter 2015



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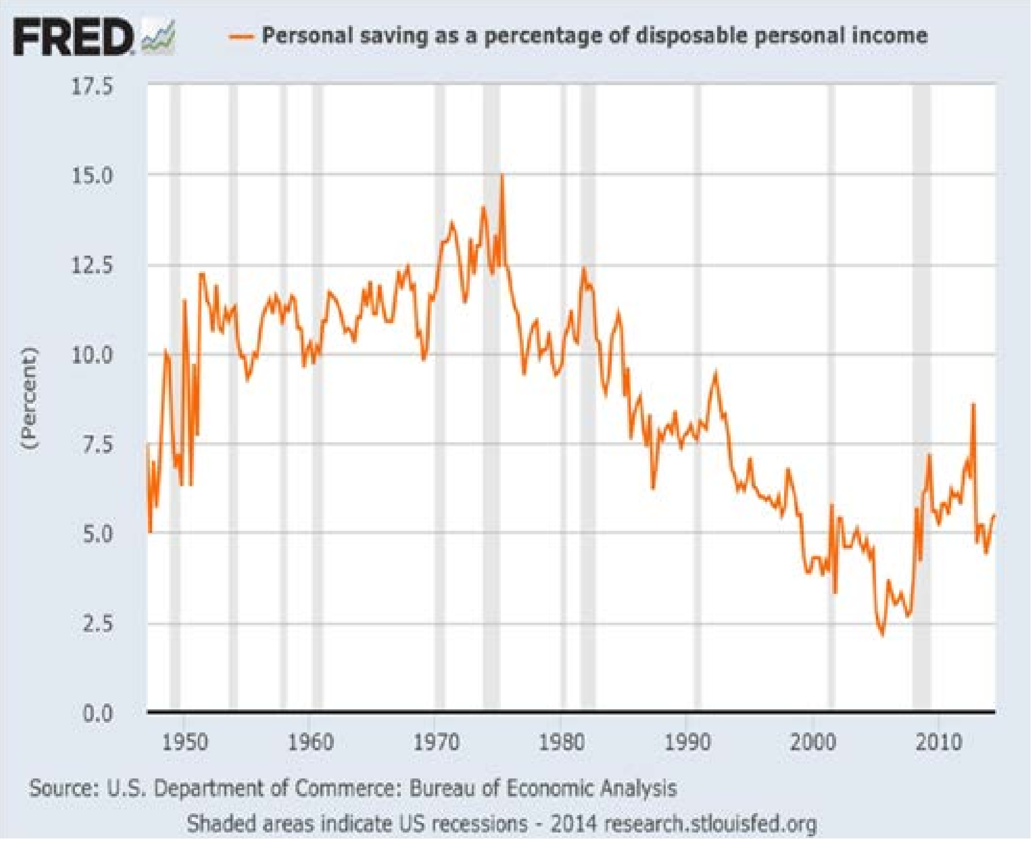
Consumers are Saving More

Periodically, many commentators and even a few economists who should know better, make loud complaints that consumers are not saving enough out of their current incomes. The chart below shows that consumers have been saving a much larger share of their disposable income (what you have left after taxes) since the recession ended in June 2009 than at any other time since the early 1990s.

The October 30 BEA GDP release showed that consumers saved 5.5 percent of their disposable income in the third quarter of 2014, up from 5.4 percent in the second quarter of this year. The total in the third quarter was a record $720.7 billion at a seasonally adjusted annual rate, up from $695.1 billion at a seasonally adjusted annual rate in the second.



What normally happens with data on the saving rate is that they are revised upward for previous years in the annual revisions the BEA does around the end of July. The main reason for this is that it is much easier to get comprehensive

Consumers are Saving More

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information in a timely fashion for personal consumption expenditures (PCE) than for all categories of personal income. Thus, the revisions usually raise income more than spending, which automatically increases the personal saving rate.

Of course, it is good news that consumers these days are both saving more and spending more. That is possible because disposable personal income is at record levels and rising. Both the second and third quarters of 2014 saw record levels of real disposable personal income, eclipsing the old record set in the fourth quarter of 2012 when many people were able to accelerate income such as bonuses and dividends into 2012 instead of 2013 in order to avoid the big increases in income tax rates in 2013.

Furthermore, at great long last the total number of people employed has broken the old record of 146,595,000 from November 2007. That level was first exceeded in September 2014 and October marked the first month in U.S. history with more than 147 million people employed on a seasonally adjusted basis.

Record levels of employment on both the non-farm payroll and household measures combined with record levels of disposable personal income mean that retail sales will set new records this holiday shopping season. Record levels of personal saving mean we can all pay the bills from all the shopping.

Happy New Year!

Jim joined the firm in 2006 as Parsec's first chief economist. He has had an outstanding 30-year career as an economist in business, government, academic, trade association settings, and has been an Adjunct Professor at Kenan-Flagler Business School at UNC Chapel Hill since 1988.

2015 Financial Changes

There have been some changes for 2015 annual contribution limits. In addition, there are also some plan limits that will remain unchanged because the Consumer Price Index did not meet the threshold for adjustment. One of the limits that will be changed is contributions to 401(k), 403(b), and most 457 plans. The maximum contribution to these plans will change to $18,000 for 2015. The catch-up contribution for those over age 50 will also change to $6,000. Your maximum contribution amount if you are over 50 is $24,000. The maximum annual plan contribution will rise as a result to $53,000 per year.

Traditional and Roth IRA contribution limits will remain the same at $5,500, as well as catch-up contribution for those over age 50 at $1,000, leaving $6,500 as the maximum for those over 50.

There is an income limitation on the ability to contribute to a Roth. For married couples filing jointly the contribution is phased out if your income is between $183,000 to $193,000 (it was $181,000 to $191,000 in 2014). For singles, this phase-out range is $116,000 to $131,000 (up from $114,000 to $129,000 in 2014).

The capital gain tax rates have remained unchanged from 2015. Individuals will be subject to long term capital gains tax depending on which marginal tax bracket they are in. There is a 0% capital gains tax rate for those in the 10% or 15% tax bracket. For those in the 25%, 28%, 33%, and 35% brackets, their capital gains tax rate is 15%. Lastly, for those in the highest tax bracket, their capital gains tax rate is 20%. Short term capital gains remain unchanged, being taxed at ordinary income tax rates.

In 2013, the health care reform law added a surtax of 3.8%. This surtax remains in the tax code and is officially called the Net Investment Income Tax. This tax is assessed on all types of unearned income (capital gains, dividends, interest, royalties and rent) for all single individuals earning more than $200,000 and couples earning more than $250,000.

The individual estate tax exemption will receive an inflation adjustment up to $5,430,000. In addition, the annual exclusion for gifts will remain at $14,000.

For North Carolina residents, 2014 was the first year of the new "flatter tax", which was 5.8%. This rate will drop for everyone in 2015 to 5.75%.

Daniel joined Parsec in 2013. Daniel is a CERTIFIED FINANCIAL PLANNER™ practitioner, as well as, a member of the Financial Planning Association (FPA) and a Registered Financial Advisor of the National Association of Personal Financial Advisors (NAPFA).

Aligning Your Money with Your Time Horizon

A critical piece of the financial planning process is to have an understanding of what your time horizon is for your money. Knowing at what point you will need access to your money will guide how you invest your money in order to meet your future spending needs. Investment time horizons can be as short as having cash available for a down payment on a home in a few months all the way to an infinite time horizon as seen in college endowments. Selecting the appropriate mix of investment assets to align with your time horizon will allow you to have the safety and liquidity for near-term financial goals or to achieve growth over longer time horizons.

However, many times investors can't say with certainty what their investment time horizon is. When saving for retirement many investors are likely still unsure of an exact date of retirement, and nobody can say with certainty when the end of their retirement (and thus their time on Earth) may be! For ambiguous time horizons like retirement it is likely advantageous to keep a long time horizon in mind to ensure that your assets can grow to meet ongoing spending needs for many years in retirement. But for specific short-term financial goals you will want to identify the amount of cash needed and gradually make your mix of assets more conservative as that spending need approaches. Here we will outline several examples of financial goals over various time horizons and potential investment approaches to meet those goals. While every individual's specific circumstances will vary, these can serve as approximate guidelines with details to be confirmed with your financial advisor:

Time Horizon < 2 years: If you have a goal to put money down on a home within 1-2 years, or you want to buy a car with cash in a few months, then it is time to have the money readily available in a safe and liquid investment. This suggests a cash equivalent like a federally insured bank checking, savings, or money market account that you have easy access to. Even a bank CD may not be advisable since if you, for example, happened to find a new home on the market sooner than you originally thought you would put an offer down then you don't want to have to pay a penalty to get access to your money early. Interest rates these days are pitiful, but for this time horizon you aren't looking for growth, you are looking for certainty of the money and easy access. So don't take undue risk chasing yield that may sacrifice the stability and ease of access to your money in the near-term.

Aligning Your Money with Your Time Horizon

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Time Horizon 2-5 years: This time horizon could be for a 529 account for a child entering high school, or someone who knows they want to buy a home a few years after they move to a new town. You may not want to leave the money in the bank at near 0% interest for this long of a period. You may choose to place a near majority of the future cash need in fixed income via diversified bond mutual funds. According to Ibbotson since 1926 there has never been a 5 year rolling period of negative returns for intermediate term government bonds. However, in any one year you are certainly at risk of a decline in value. Taking marginally more investment risk by buying bond funds instead of leaving cash in the bank can help you generate more income which can also be used towards your future cash need.

Time Horizon 5-10 years: With an even longer time horizon until you need cash for a purchase, it may be time to consider a diversified portfolio of stocks and bonds. By taking more investment risk you can achieve growth in account values over time. As your cash need approaches you can gradually sell your riskier assets, and this exposure to stocks will ideally grow over longer time frames to give you more assets to put towards your goal. According to Ibbotson there has never been a negative 5 year rolling return since 1926 for a portfolio of 30% equities and 70% fixed income. Over a 10 year rolling period a 70% stocks and 30% bonds portfolio was positive in every measurement period. Determining the exact mix of stocks and bonds over this time horizon to meet your goal, and how it is adjusted over time, is an important conversation to have with your financial advisor.

Time Horizon 10+ years: Once your cash need has passed you may not have any remaining notable goals for your investments in the near term. When that is the case you are likely back to building assets focused on retirement or estate goals. In these situations where there is no ongoing spending from a portfolio or no sizable near-term cash needs we recommend a heavy allocation of your investments to equities (except for keeping your ongoing emergency cash reserve). If you are comfortable with the near-term volatility, then a 100% equity allocation has proven to be the best allocation for growing assets over long time periods (Ibbotson tells us that a 100% equity allocation was the best performing asset allocation in 59 out of 69 rolling 20 year periods). In any one year your return will vary significantly, which makes equities not a good choice for near-term cash needs. But if you hold your investments over longer time periods and have a goal for asset growth then equities should be a main component of your portfolio.

Many times we have clients in their later years of retirement that suggest their time horizons are not long due to their own longevity expectations. However, those with goals of leaving assets on to their children and grandchildren actually do have a long time horizon since they wish that their money will outlive their own lives. With generational wealth passing goals your time horizon could be up to 100 years or longer! Whatever your financial goals may be it is important to identify your expected timing and size of your cash need to meet your goal, and then to work with your advisor to craft the appropriate mix of assets to meet that goal.

Travis returned home to join Parsec in 2012. He is a CFA charterholder as well as a CERTIFIED FINANCIAL PLANNER™ practitioner. Travis is a member of the CFA Institute and the CFA North Carolina Society. Previously, he had worked as an Analyst with Wells Fargo Advisors and as a Client Service Associate with Edelman Financial Services.

Parsec News

From left to right: Chad Foster, Mark Lewis, Rick Manske, Daniel Johnson, Brian Smith, and Neal Nolan.

Have you heard of the "No Shave November" movement? Started in 2009, the movement seeks to raise funds for cancer research for the American Cancer Society. According to the group's website (www.no-shave.org), every untrimmed whisker represents hair lost by cancer patients.

Parsec formed its own team, the Financial Follicles, and reached its goal of raising $1,000. We thought you might like to know that our gentlemen were unkempt for a good cause.

From our Charlotte office: Greg James and Aaron Combs.

Congratulations to Karen Augliera! She is now a Registered Paraplanner® designee. According to the College for Financial Planning, individuals who hold the RP® designation have completed a course of study encompassing the financial planning process; the five disciplines of financial planning; and general financial planning concepts, terminology, and product categories.

Karen works in our Charlotte office as a client service specialist. She joined the firm in 2012. Originally from New Jersey, Karen has lived in the Charlotte area for over 16 years. Karen graduated from Iona College with a Bachelor of Business Administration in business economics.

Did you know that Wendy Beaver of our Southern Pines office once worked on the floor of the New York Stock Exchange?

In October, she gave a tour of her old stomping grounds to Greg James from our Charlotte office. Her former colleague from Prime Executions, Dan Tandy, joined them.

Parsec Prize Celebration

Parsec has long maintained a significant commitment to charitable giving throughout the regions it serves. We are committed to supporting local non-profits by dedicating about 2% of our revenues annually. Each year, we dig through a huge stack of applications and determine which worthy organizations should be the recipients of the Parsec Prize.

We honored this year's recipients in November at a reception held in our Asheville office. The Council on Aging received $12,500. These organizations received $14,000 each: Asheville Parks & Greenways; Asheville Area Habitat for Humanity; Homeward Bound; All Souls Counseling Center; Catawba Riverkeeper; and Child Abuse Prevention Services.

Congratulations to all of the recipients. We are proud to support non-profit charities that are so dedicated to improving the community.

Early Saving Critical for College Costs

We've all heard the news. The cost of a four-year degree is sky rocketing. Students are graduating with tremendous debt that they cannot manage. For parents facing the cost of tuition many years from now, the horizon can look rather bleak.

My co-worker Michael Ziemer is a father of three young children. He cringes when I tell clients that they should count on 6.5% inflation for education expenses. Surely, I am being overly negative. To prove my point, I only have to give him the statistics from my alma mater: Southern Methodist University. The cost of tuition, room and board and fees my freshman year 34 years ago was $6,500. Today, the school estimates a student paying full tuition, room and board and fees will need $60,500 per year. That works out to a whopping 6.7% inflation rate!

So, what are parents and grandparents to do? Save. Start early. Be consistent. Certainly, we believe you should save for your retirement and emergency funds first, but, if there is spare cash to save for college, do so in a 529 plan.

Here are some key features of a 529 Plan:

- Anyone can open a 529 plan for a beneficiary. The only caveat is that total 529 Plan contributions per beneficiary vary by state. In North Carolina, that amount is $410,000 and in South Carolina it's $370,000.
- The assets can be used for qualified expenses at a wide variety of institutions, including trade schools, technical schools, graduate schools and even some international.
- When determining financial aid eligibility, only 5.64% of 529 assets under parental control are assessed. Investments in the student's name are assessed 20%.
- Grandparents who gift to a 529 plan get the assets out of their estates. Better yet, 0% of the assets are factored into the financial aid assessment. Be advised, however, that the distributions the child receives could be factored in for subsequent years.
- The assets do not automatically transfer to the beneficiary. In fact, the grantor can change beneficiaries at any time. One caveat: the new beneficiation must be a family member to avoid negative tax consequences.
- If you hold any old savings bonds, you may want to cash them in and roll the assets over to your 529 plan. There's no penalty, and if you file form 8815, the interest will be excluded from income taxes.

Is the current inflation rate for tuition costs sustainable? It's probably not. However, that doesn't mean you can hope for the best and stick your head in the sand.

Tracy joined Parsec in 2008. Prior to joining Parsec, she spent 13 years with Charles Schwab & Co., Inc., most recently as a manager of Charlotte's South Park office. She is a CERTIFIED FINANCIAL PLANNER™ practitioner and a member of the Financial Planning Association.

New Parsec Portfolios Offering

Parsec Portfolios is our new offering designed for young professionals who are in the early years of building wealth and would like to establish a relationship with a trusted financial advisor.

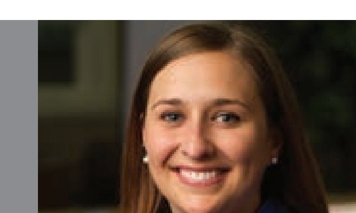
The investment management-only service includes a written Investment Policy Statement that addresses your financial needs and goals; a personalized asset allocation assessment; and a portfolio of industry-leading mutual funds, ETFs and index funds. We focus on funds with reasonable expenses and good long-term track records. As always, Parsec receives no commission.

As a Parsec Portfolio client, not only will you receive individualized attention from a credentialed financial advisor, but the peace of mind that comes from starting your financial future on the right foot. You can pick up the phone and call anytime you have questions.

The Parsec Portfolios offering also offers financial planning on a one-time basis for current and prospective clients. The financial plan includes, as needed, retirement savings goals and projections; education savings goals and projections; debt management review; asset allocation recommendations; and other important features. The current fee for the plan is $1,500.

Please share our new offering with friends and family that may benefit from Parsec Portfolios!

Ashley joined Parsec in 2010. She is a CERTIFIED FINANCIAL PLANNER™ practitioner and a member of the Financial Planning Association. Ashley was awarded the Claritas® Investment Certificate in 2014 by the CFA Institute.



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