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Inside this issue:

| | |
|--|----|
| Fraud Attempts on the Rise | 2 |
| Financial Changes for 2014 | 4 |
| Welcome to Parsec | 5 |
| Is It a Bubble? | 6 |
| Two Ways to Securely Share Information | 7 |
| Parsec Prize Celebration | 8 |
| Inflation is Definitely Not a Problem | 9 |
| Parsec Spotlight: Laura Greene | 10 |

Parsec Financial

WEALTH MANAGEMENT

First Quarter 2014

The Potentially Expensive “Free” Lunch



by Tracy Allen,
CFP®
Financial Advisor

I recently received a flyer in my mailbox advertising a free seminar on important Medicare, estate planning, and long-term care information for seniors. As a Certified Financial Planner® practitioner, I am interested in expanding my knowledge and understanding of issues facing today’s retirees. Looking for a number to call to register, I read some interesting fine print: “Brokers, agents, financial planners, and attorneys are not invited.”

One may be inclined to think this is merely because the presenters want to keep the competition away. In reality, many of these “free lunches” are the preferred vehicle for “Medicaid mills” and “pension poachers.”

With the cost of long-term care facilities approaching \$6,000 per month, families are desperate to find a way to protect their assets. These “mills” and “poachers” promise to help you legally transfer assets out of your or your loved ones’ names, thereby allowing you to qualify for Medicaid or VA Aid and Assistance benefits. In reality, what more often happens is the retirees end up buying financial products such as annuities and/or creating complicated, expensive business or trust entities after being told these actions will protect the elderly client against the costs of long-term care. Sadly, these transactions often place the seniors’ money out of their own control or come with large undisclosed withdrawal penalties. And worst of all, some of these transactions can actually make the elderly ineligible for necessary benefits.

Under current law, one cannot give away assets in order to qualify for Medicaid. In fact, the Balanced Budget Act of 1997 implemented a 36-month look-back period for simple gifts and 60-months for trusts. This look-back period was extended to 60-months for both simple gifts and trusts in 2005. This look-back period means that Medicaid will examine all your financial records for at least the past 60 months. If you transferred or gifted money to anyone during those five years, you will be penalized with a delay in your Medicaid eligibility.

As of now, the VA does not impose a look-back period. However, due to a backlog of more than 600,000 applications for the Aid and Assistance benefit, the VA is fighting back with the assistance of Senators Ron Wyden (D – OR) and Richard Burr (R – NC).

continued on page two

The Potentially Expensive “Free” Lunch

continued from page one

The “Veterans Pension Protection Act” seeks to protect the elderly from being preyed on by these pension poachers by establishing a three-year look-back period for applicants.

The VA has a list of accredited agents, attorneys, and representatives that are approved to assist you with your application. By law, no person or organization may charge claimants a fee for assistance in preparing applications for VA benefits or presenting claims to the VA. Additionally, there are more and more lawyers specializing in the area of “elder law,” which is designed to help our aging population navigate estate planning, long-term care, and other relevant issues. You can search for a representative in your area by going to: <http://www.va.gov/ogc/apps/accreditation/index.asp>

In summary, if you are helping a family member apply for or appeal a decision on the Aid and Assistance benefit or Medicaid, avoid people who start talking about annuities and trusts instead of looking at your real income and expenses and assets to see if you legitimately qualify.

Fraud Attempts on the Rise



*by Harli Palme,
CFA, CFP®
Partner*

Financial institutions around the world have seen a growing trend in fraud attempts to gain investors’ account information. We are concerned about our clients’ security and would like to provide you with some tips and information about protecting your financial information.

3. Don’t e-mail private and sensitive information. Your e-mail could be hacked, and this information could be found by hackers in Sent and Deleted folders. Parsec will use encrypted e-mail or a secure portal when sending you private information electronically.
4. Expect Parsec to verify information when transferring money between accounts of unlike registration. We may call to verbally confirm a transfer, or we may request a signature for a transfer. Each type of transfer has its own protocol. However, we will never ask for sensitive information via unsecured e-mail.

Tips to Protect Your Information

1. Be wary of any e-mail where you are asked to click on a link and login to your account. Be wary of any e-mail or site that asks you to provide personal information such as an account number, date of birth, or social security number.
2. Change the password on your e-mail accounts and other important financial accounts regularly – every three months. Don’t use the same password for these accounts. Use strong passwords that include capital letters, numbers, and special characters.

SEC Regulation S-ID

The SEC has recently adopted new rules requiring investment advisors to put measures in place to validate a client’s identification when opening an account. To do so we will now request your government issued photo ID to open a new account for you. We will be required to make a copy of this and keep it on file.

continued on page three

Fraud Attempts on the Rise

continued from page two

Security of Parsec Data

Parsec has a secure firewall in place that is monitored regularly. The access to this firewall is limited to those of our Information Technology technicians who monitor it. Old hard drives and computers are wiped clean and destroyed. All paper waste is deposited in a locked cabinet and shredded. We conduct background checks on all employees and conduct due diligence on third-party vendors.

Fraudulent Attempts We Have Encountered

E-mail hackers may find an e-mail that you have sent to your financial institution (Parsec or other) and e-mail that institution pretending to be you, asking for a wire transfer. We have security measures in place to avoid implementing these wire instructions. If a request comes in to move money to a third-party, we will call you at a known number and confirm verbally with you. We also have the ability to send you confidential information through a secure electronic portal when necessary.

Recently, we have heard of an increase in “phishing” scam e-mails. This is where you will see an official-looking e-mail from your custodian (Schwab, Fidelity, TD Ameritrade, etc) prompting you to click on a link and login to your account. The website to which you are directed is an almost perfect copy of the custodian’s actual website.

Please let us know if you have any questions or concerns. If you experience identity theft, security breaches, or fraudulent transaction attempts, please notify us immediately. We want to work with you to keep your financial information safe.

Custodian Contact Information

Here are the links and phones numbers for the three custodians that we use. Please keep this information for future reference.

Charles Schwab & Co.

Phone: 1-800-515-2157

Website: www.schwab.com

TD Ameritrade

Phone: 1-800-431-3500

opt 2- Customer Service

opt 3- Tech Support

Website: www.advisorclient.com

Fidelity Investments

Phone: 1-800-544-6666

Website: www.fidelity.com

Financial Changes for 2014

by Daniel Johnson III, CFP®
Financial Advisor

There have been some changes for 2014 annual account 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 those limits that will not be changed is contributions to 401(k), 403(b), and most 457 plans. The maximum contribution to these plans will stay \$17,500 for 2014. The catch-up contribution for those over age 50 will also stay the same, \$5,500. Thus, your maximum contribution amount if you are over 50 is \$23,000. One improvement from last year is an increase from \$51,000 to \$52,000 in overall total (employee and employer) contributions to these accounts.

Traditional and Roth IRA contribution limits will remain the same at \$5,500. Those over age 50 can make an additional, catch-up contribution of \$1,000, making \$6,500 the new maximum for those over 50.

SIMPLE IRAs will remain at \$12,000, as well as the catch-up contribution for those over age 50 at \$2,500. Thus, if you are over 50, the maximum contribution would be \$14,500.

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 \$181,000 to \$191,000 (it was \$178,000 to \$188,000 in 2013). For singles, this phase-out range is \$114,000 to \$129,000 (up from \$112,000 to \$127,000 in 2013).

The capital gains rate has remained unchanged. Individuals will be subject to long-term capital gains tax, depending upon their marginal tax bracket. There is no capital gains tax for those in the 10 or 15 percent tax bracket. For those in the 25, 28, 33, and 35 percent brackets, their capital gains rate is 15 percent. Lastly, for those in the

highest tax bracket, their capital gains tax rate is 20 percent. Short-term capital gains remain unchanged, which are taxed at ordinary income tax rates.

Last year, the healthcare reform law added a surtax of 3.8 percent. 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 singles earning more than \$200,000 and couples earning more than \$250,000.

The individual estate tax exemption will receive an inflation adjustment up to \$5,340,000. In addition, the annual exclusion for gifts will remain at \$14,000.

For those of us who reside in North Carolina, there have been many changes and simplifications to how your state tax bill will be calculated in 2014. It is never too early to begin planning to reduce the effects of taxation on an annual basis, as well as on your overall estate. Contact your advisor now to begin this conversation!

Welcome to Parsec



by *Cristy Freeman, AAMS*
Senior Operations Associate

You probably read the last article and thought, “Who in the world is Daniel Johnson???” Over the last several months, we have added new employees to our team here at Parsec. I would like to take a moment to introduce you to two of them in this newsletter.

Wendy Stokes joined us in August as a Client Service Specialist. A native of Fort Lauderdale, Florida, Wendy has actually lived in Asheville most of her life. She attended Asheville-Buncombe Technical College and Cecil’s Junior College. Her career path has varied—from a position in the commercial loan department at First Union National Bank to a career as a travel agent. After years of traveling the world, Wendy returned to Fort Lauderdale in 2001 and joined a Registered Investment Advisor group.

The mountains called Wendy’s name, though. She missed the area and recently returned to

Asheville.

Daniel Johnson also joined us in August. He is a Financial Advisor and is part of Rick Manske’s team of professionals. Daniel moved here from the Raleigh area.

He is no stranger to Asheville. He earned a Bachelor of Science degree in accounting from the University of North Carolina at Asheville. He also holds a Master in Business Administration with a certificate in finance from East Carolina University. He is a Certified Financial Planner™ practitioner.

Daniel has a young, growing family, with another child due any day now. When they are old enough, Daniel looks forward to introducing his sons to mountain biking. He is happy to be back in an area where we have real mountains, not the rolling hills around Raleigh.

We are happy to welcome Wendy and Daniel to our own growing family. In the months to come, I will introduce you to the rest of the staff we have added. Stay tuned!

Save the date!

The 2014 UNCA Crystal Ball will be held on April 17, 2014. Parsec sponsors the event which features interesting economic forecasts. Dr. James F. Smith, our chief economist, will be one of the speakers.

We will post more details about the event on our Facebook page. We hope to see you there.

Is It a Bubble?



by Rick Manske, CFP®
Managing Partner

The 2013 stock market returns can only be categorized as great. The S&P 500 index of U.S. large cap stocks is up 29 percent as of the writing of this article. The market's relentless ascent was in the face of many skeptics and dire views. Notable negatives to the bull market thesis started with the fiscal cliff, then the fear of sequestration, taper talk and then a government shutdown. As 2013 wore on, the market met each concern with a little negative volatility and then a continuance of the pattern of higher highs, dumbfounding many market participants. A growing number of financial journalists and market strategists are questioning the record highs on U.S. stocks, implying that they are now in bubble territory. While stocks are not the value they were a couple of years ago, we do not necessarily agree with this assessment. Before sharing why, let's talk about a few of the themes that have market commentators baffled.

The Federal Reserve's quantitative easing program has led many to contend that stocks are doomed once the committee begins tapering the purchases of mortgage-backed securities (MBS) and Treasuries. This argument fails to fully appreciate the economic bright spots that are forming – improving deficit numbers, growing employment, recovering real estate and improving confidence. By itself, we do not think the end of quantitative easing is going to cause a significant decline in stocks. The improving economy suggests we no longer need the extraordinary monetary policy, which to us sounds like a positive.

Record low interest rates have enabled companies to embark upon some basic financial engineering that has improved earnings per share at many companies. Investment grade bond markets can facilitate a company's borrowings at a low rate of 3.5-4.5 percent. Many CFOs look at this cheap money as an opportunity to expand stock buyback programs. Oftentimes, a company can borrow at 3.5 percent and buy back company stock that has an earnings yield of 6-7 percent. This positive leverage is akin to refinancing your home at a low rate and pulling cash out to invest in a higher yielding investment. Earnings per share will rise even though the company's overall revenues or earnings did not rise. While this is clearly financial engineering and not sustainable long-term, it does have the economic effect of increasing earnings per share and is a perfectly good reason for a stock to rise.

The low interest rates on bonds and cash equivalents make fixed income an unattractive investment. Investors have to buy equities in order to have an expected return that will achieve their financial goals. Many people have been, and are still, under-weighted to equities. With a desire for a higher return, they have set off a rotation from bonds and cash to stocks. The rotation creates more demand for stocks, leading to higher prices. This cycle of higher prices begetting more demand translates into yet higher prices, creating a positive feedback loop that is somewhat self-fulfilling. We know this all too well from the negative feedback loop that we bitterly felt in 2008-2009 during the height of the financial crisis.

The combination of financial engineering and panic-buying hardly elicits a positive sentiment about the health of this rally and creates fertile ground for bubble talk. The market's advance from here will depend on economic growth and a period of rising prosperity, where a stock's price ascent is fueled by increasing revenue, earnings and rising dividends. We strongly believe that this can happen. A budget compromise would help to reduce uncertainty and allow the Federal Reserve to taper. This is a potent combination that

continued on page nine

Is It a Bubble?

continued from page eight

should help to renew investors' confidence in a more normal market rise and sustainable economic growth than in recent years.

It seems more likely to us that we will be in a bubble when no one is talking about bubbles. In the past, bubbles were unforeseen, happening at a time when nobody thought they could lose money in the given investment. There is a healthy amount of skepticism surrounding the current stock market highs. We think that this signals there is still more room for it to grow.

Of course, we expect the market to fluctuate and will not be surprised whenever stocks do head downward. As always, we urge clients to not change their asset allocation in response to perceived future market movements. Your allocation should be set based on the risk/reward profile you are aiming for over a long-time period. Getting in and out of the market based on guesses about the market's direction is how money is lost, not made.

Two Ways to Securely Share Information

Have you signed up for e-delivery of your Parsec reports? If not, you might want to give it another thought. We now have the ability to send and receive *any* document through the same secure portal.

This feature allows you to have one login for all secure communications with Parsec. If you are interested, please call our client service department. Setup is easy.

For those of you who do not have e-delivery, Parsec can encrypt e-mails containing sensitive information.

For many years, we have used Smarsh Encrypt.

We recently changed providers. In the future, when you receive an encrypted e-mail from us, you will see the message shown above in the body of the encrypted e-mail.

You must create a new login and password the first time you check an encrypted message. Your Smarsh credentials will not work with the new system.

Rest assured, you will not be required to access this system for *every* e-mail communication with Parsec. We only use the system whenever we have sensitive information to share with you.

We know the change can be disruptive and greatly appreciate your patience and cooperation.

New ZixCorp secure email message from ZixMessage Center

Open Message

To view the secure message, click Open Message.

The secure message expires on Dec 16, 2013 @ 01:35 PM (GMT).

Do not reply to this notification message; this message was auto-generated by the sender's security system. To reply to the sender, click Open Message.

If clicking Open Message does not work, copy and paste the link below into your Internet browser address bar.
<https://zixmessagecenter.com/s/e?>

Want to send and receive your secure messages transparently?
[Click here](#) to learn more.

Parsec Prize Celebration

On November 21, we held a reception at our office to honor the recipients of the 2013 Parsec Prize: the Asheville Design Center, Arts for Life, CarePartners Foundation, and the Western North Carolina Junior Golf Association. The organizations received \$20,000 each.

Our goal with the Parsec Prize is to support organizations focused on the broadly defined fields of education and economic development who hold the most potential to improve the quality of life and provide access to meaningful opportunities for the general public. We are committed to supporting these non-profit organizations by dedicating 2 percent of our revenues, half of which forms the Parsec Prize.

This year's recipients represent a diverse group:

- The Asheville Design Center seeks to create design solutions for communities. One recent project involved creating a playground in the Pisgah View community.
- Arts for Life supports people with serious illnesses and disabilities by providing educational art programs. According to their website, they believe their art, writing, and music programs decrease patient stress and anxiety. The programs also help families cope with the illness and keep patients active.
- CarePartners Foundation has served Asheville and the surrounding region for many years. They offer a wide range of services to patients suffering from illness, injury, disability, or age-related issues. They provide rehabilitation, home health, adult care, and hospice and palliative care.
- The Western North Carolina Junior Golf Association is a non-profit organization that provides an opportunity for junior golfers to play competitive golf. They seek to teach sportsmanship and golf etiquette while teaching students the game of golf.

Members from each organization were on hand to join in the celebration. We snapped a few pictures and hope you enjoy them.

To learn more about the 2014 Parsec Prize, please like us on Facebook or follow us on Twitter. Congratulations again to the 2013 Parsec Prize winners!



Shown left to right: Chris Joyell, Asheville Design Center; Tracy Buchanan, CarePartners; David Scupidier, WNC Junior Golf Association; and Rachel Zink, Arts for Life.

Inflation is Definitely Not the Problem



by Dr. James F. Smith
Chief Economist

There are many things you might want to worry about concerning the U.S. economy, but inflation is definitely not one of them. We continue to get nothing but good news on that front.

There are two primary measures of inflation in the U.S. The one that people are most familiar with is the Consumer Price Index (CPI). It is based on the prices of a basket of goods using fixed weights and is calculated and reported every month by the Bureau of Labor Statistics. BLS reported the data for October 2013 on November 20.

Chart 1 shows the pattern for the overall CPI since 1946.

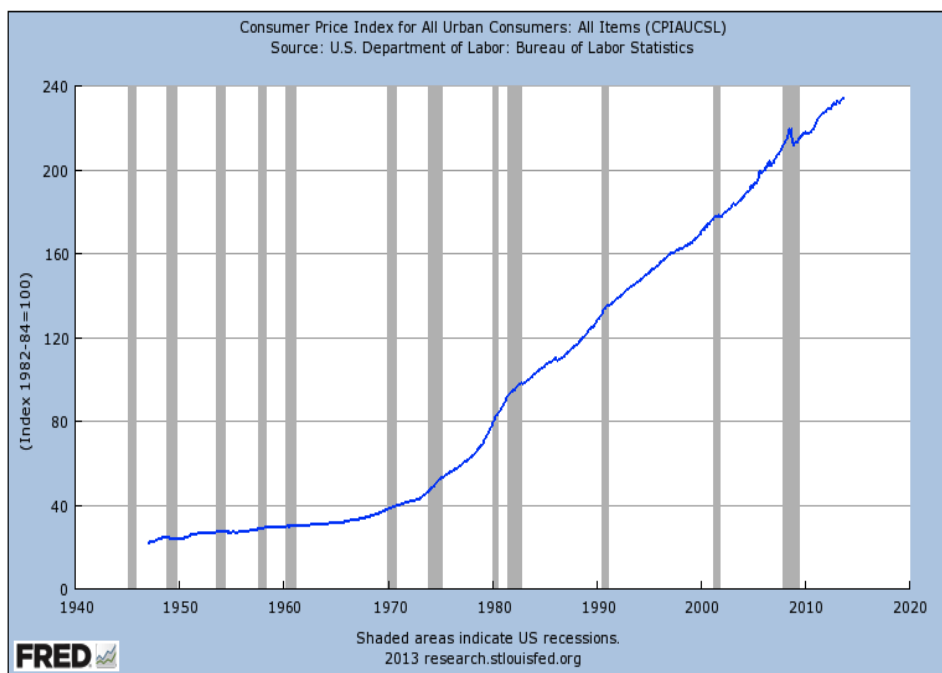


Chart 1

The base for this index is 1982-1984=100. The index in October was 233.5. This is the index for all urban consumers, the CPI-U. BLS also publishes a CPI for urban wage and clerical workers, the CPI-W.

There is also the chained CPI index for all urban consumers (C-CPI-U). That's the one that has generated lots of discussion in Washington, D.C. as a candidate to replace the CPI-U in calculating the annual cost of living increase for Social Security benefits and income tax brackets. If those changes happen, many more people will become familiar with this index. The C-CPI-U uses

weights that change as consumption patterns change. That's why it rises less than the CPI-U.

To read more about Jim's views on inflation, you can find the full article on Parsec's website. Visit www.parsecfinancial.com and click on the Parsec Blog button.

Parsec Spotlight: Laura Greene



Laura joined the firm in 2012 as a Client Service Specialist. She assists clients with various account transactions, account information, and other services. She has a strong background in the hospitality and customer service fields.

Originally from South Carolina, she received a Bachelors of Science degree in business management from the University of South Carolina-Upstate.

Laura is a proud South Carolina Gamecocks fan and loves watching the football team whenever she can. She shares her home with her husband and cats.

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