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Second Quarter 2013

Things are Looking Up for the U.S. Economy



by
Dr. Jim Smith,
Chief Economist

Despite the fact that a huge 77 percent of U.S. consumers were hit by a tax increase on January 1, we did not let that affect either our positive attitudes about the future or our actual spending. Retail sales and the much broader personal consumption expenditures (PCE) measure, the latter of which made up 70.9 percent of GDP in 2012, are both on track to set new records in the first quarter of 2013.

There are many reasons for the rise in consumer confidence reported by all the broad surveys. It seems clear that while our federal government is as dysfunctional as ever, it's unlikely to play any especially nasty tricks on us.

There won't be any more huge tax increases, the debt ceiling will eventually get raised and the

government won't shut down. The sequester went into place on March 1 without huge complications. The White House won't be open to tourists anymore, and the aircraft carrier USS Harry S Truman will stay in Norfolk for a while longer rather than sailing off to the Persian Gulf, but Congress will work out enough of the kinks so that that national security won't be compromised, and airport security lines won't get a lot worse than normal.

Job growth should be strong all year long. Two big drivers of this are housing and the boom in domestic oil and gas production. The affordability of housing is better than it ever has been before in U.S. history.

Millions of households that "doubled up" in the recession and its aftermath are undoubling. Parents across the country are celebrating becoming "empty nesters" again. Experts estimate the demand for new housing starts will be about 1.25 million units a year from new household formation. The same

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experts point out the need for another 250,000 or so new units to replace those that are lost every year from fires, floods, hurricanes, sinkholes and other natural and unnatural disasters.

We probably won't get to that level until next year or perhaps even 2015, but we will keep moving in that direction. Housing construction is a huge driver of employment, both directly in the construction of a new home and indirectly in providing all the goods (appliances, carpeting, wall and window treatments and so on) and services (such as landscaping, painting, financing and insurance) that make it possible for the new homeowners to move into their house.

All this demand is already being reflected in a healthy rebound in house prices. For example, CoreLogic® reported on March 5 that home prices across the U.S. including "distressed" sales were up 9.7 percent in January 2013 from a year earlier. They reported that was the eleventh consecutive month of rising home prices and was the biggest increase since April 2006, at the peak of the housing boom. Every state except Delaware and Illinois posted price gains in January from a year earlier.

Rising house prices have several benefits for U.S. economic growth. For one thing, they push people who have been thinking about buying a house (the "fence sitters") into action.

Secondly, this phenomenon reduces the number of households who are "under water" by having a mortgage greater than the value of their house. This number is dropping quickly.

The third factor is that rising house prices make consumers more confident about the future. They historically have spent about \$6 of every \$100 of increased house values maintained for a year or longer. That suggests a good boost to personal consumption expenditures this year from this source.

The propensity to spend increased housing wealth is about triple that for increased stock market wealth. Still, the new record highs for the broad Wilshire 5000 index, the first of which was achieved on February 19, also bodes well for increased consumer spending this year.

The record highs set by the Dow Jones Industrial Average on March 5 through 14 garnered far more headlines than the earlier Wilshire 5000 or Russell 2000 records. All this good news coming from the stock market makes consumer confidence and spending rise. That's wonderful for economic growth.

On March 7 the Federal Reserve Board released new data on the net worth of consumers on December 30, 2012. It was \$66.1 trillion or more than four times nominal GDP of \$15.7 trillion in 2012.

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It was up \$5.5 trillion or 9.0 percent from the fourth quarter of 2011. The peak remains the \$67.3 trillion in the third quarter of 2007. The latest number is only \$1.2 trillion or 1.8 percent below that.

The U.S. economy should be able to achieve

2.9 percent real GDP growth in 2013. If Congress and President Obama can agree on a “grand bargain” to reduce government spending by \$4.0 trillion or more from what is projected now over the next decade, we could see 4.3 percent real GDP growth in 2014. That would be cause for great rejoicing. Stay tuned.

Sweat Equity



*by Cristy Freeman, AAMS
Senior Operations Associate*

Diligent saving and careful investing may give you a nice nest egg for retirement. What are you doing to protect your most valuable assets, your physical and emotional health?

Over the last couple of years, the young whippersnappers have prodded us old geezers into activity. Now, when you walk around Parsec’s office, you are likely to hear someone discussing the latest 5K she ran or the great yoga class she took.

Often, these activities support charities. Ashley Woodring, who organizes Parsec’s annual 5K race, regularly runs in races benefitting food banks, arthritis research, and other organizations.

Misty Cardone is helping the local chapter of “Girls on the Run” plan their spring 5K race, happening on May 18. If you will recall, “Girls on the Run” was a recipient of the Parsec Prize last year.

Ashley, Misty, Laura Greene, and I set up a fundraising team called *Hoofin’ for Woofin’*

for the April 7 “Run for the Paws.” The event benefits Brother Wolf Animal Rescue.

My colleagues are involved in other ways as well. Mickie Rose is the Committee Chair of Boy Scout Pack #15 in Charlotte. Bill Hansen is a parent volunteer for Asheville ICE, a project with the Asheville Hockey League. Michael Bruder is the Board Chairman of the Western Carolina Rescue Ministries. Harli Palme is a volunteer board member for OnTrack Financial Education and Counseling.

A 2007 report by the Corporation for National and Community Service suggests that volunteering provides individuals with positive physical and mental health benefits. People feel greater life satisfaction.

Volunteering may not lead to higher portfolio returns or increased net financial worth. It can help you to be more engaged in your community, and the physical activity certainly cannot hurt. We tend to spend so much time focusing on asset allocation and rates of return. Take some time to help someone else. Enjoy a few moments on a long walk. Remember, investing in yourself is the most valuable investment you will make.

Seven Lessons Learned...From CrossFit



by Sarah DerGarabedian, CFA
Director of Research

I started going to Blue Ridge CrossFit last

January, and I've been working out three to four days a week there ever since. I've made more progress in my physical fitness than I ever thought possible, which is no surprise if you're familiar with the workouts we do.

Somewhat more surprising are the lessons that are embedded within the fabric of the CrossFit culture, and that I think are applicable to the world of investing, as well.

Lesson 1: Numbers are important.

Adding weights, counting reps, counting rounds...share prices, earnings, index levels...so many numbers to track! Which brings me to...

Lesson 2: Track your progress.

You can't tell how far you've come if you don't know where you started. Most CrossFitters keep a log or journal where they record how much weight they lifted, how many reps they did, or how much time it took to complete a particular workout.

You may not be lifting as much as the person next to you, but it may be 10 pounds more than you used in your previous workout, so that's progress! And if you are doing a peer comparison, it's important to compare to the appropriate peer – one of a similar age and gender, at least.

The same can be said of investment performance. Returns are meaningless in a vacuum. It's important to choose an appropriate time interval and benchmark for comparison. It does no good to compare a portfolio that contains large-, mid-, small-cap and international companies to a large-cap domestic index, or the performance of large, blue-chip health care company to a small, quickly growing tech company. Inappropriate comparisons are meaningless.

Lesson 3: Don't cheat.

This one is pretty obvious. Still, when you're in the midst of a very painful workout, the temptation to skip a few reps can be overwhelming. You have to remind yourself that this only hurts you in the end, and give yourself a little pep talk so you can make it through.

Temptation can be very great in the investment business as well, as the Bernie Madoffs of the world can attest. Our compliance processes follow industry best practices, and we are constantly revising and testing them to make sure we are operating in the most ethical and transparent manner possible. In the end, what benefits the client benefits us.

Lesson 4: Don't give up.

Sometimes the workout is so heinous that you just want to quit and go home. I mean, you're

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an adult – no one is making you do this, so why put yourself through something so unpleasant? You do it because you want the long-term result – to be faster, stronger, and healthier.

When the market tanks, it's so tempting to give up and get out, but you need to stay invested to realize the long-term result. Remember your goals and be strong.

Lesson 5: A strong foundation lends confidence.

It's amazing how a good foundation of strength and physical fitness imbues you with confidence. Plus, you gain a certain peace of mind when you know you can open the most difficult of pickle jars or survive a zombie apocalypse, should it come to that.

In a similar vein, having a well-diversified portfolio that is designed to weather various market conditions and is constructed with your goals in mind should give you peace of mind, confident that your financial foundation is strong and resilient.

Lesson 6: Celebrate the success of others, but don't let it diminish yours.

There will always be someone who is stronger, faster, or more adept at a particular skill. That doesn't diminish your strengths or make your successes any less important.

Many people have had the cocktail party experience where they hear someone bragging

about the astronomical returns their investment or portfolio earned, and they immediately begin to wonder why their own investments appear to fall short by comparison. Remember that you don't know the whole story, and you may not be hearing an entirely correct story, either.

It is important to take a long-term view of your portfolio's performance and recognize that short-term winners do not necessarily become long-term success stories.

Lesson 7: A community of support makes a difference.

CrossFit is not a cult, but it is a little different than the usual solitary run or gym routine. You are exercising alongside others who support and encourage you, particularly when the going gets tough. Knowing you have people on your side is one of the main reasons you're able to keep going.

As your financial advisors, we're your investment support system. We are here for you when you have questions, need help, or just want reassurance. You are not alone.

Welcome to Parsec

The Parsec family continues to grow. In the Asheville office, three new people have joined the firm. Anne and Laura became client service specialists. Brian is an operations associate.

Anne Andrews joined us in December. She previously worked as an executive assistant and landman at a private oil and gas investment company based in Scottsdale, Arizona. She has a bachelors degree from Arizona State University and is a native of Washington State. Anne is an avid runner and enjoys experiencing the beautiful Asheville area.

Laura Greene also became part of the Parsec family in December. She graduated from the University of South Carolina with a bachelors degree in business administration. Laura loves visiting Asheville's great restaurants, cuddling with her cats, collecting craft brewery growlers,

and travelling with her husband.

Brian Smith joined us in January. A native of North Carolina, Brian graduated magna cum laude from Mars Hill College. He holds a bachelors degree in religion and psychology, with minors in music, biblical languages, and mathematics. His professional experience includes billing, bookkeeping, and defined benefit plans. Brian enjoys reading, music, and the theatre. He loves to travel. His favorite place is Turkey, where he spent two-and-a-half weeks when he was in college. He enjoyed the rich history and warm hospitality of the people. He would return in an instant.

We look forward to getting to know our new colleagues. Welcome!

Form ADV



*by Harli Palme, CFA, CFP®
Partner, Chief Compliance Officer*

Pursuant to SEC rules, we are required to provide you with a summary of any material changes to our ADV Part II brochure within 120 days of the close of Parsec's fiscal year. We must also provide other ongoing disclosure information about material changes as necessary.

This year, we did not have any material changes to the brochure. You can still receive a copy of our current brochure, if you like. Please contact our office, and we will be happy to mail a brochure to you. You can also view our brochure on our website:

www.parsecfinancial.com.

Additional information about Parsec Financial is available on the SEC's website at www.advisorinfo.sec.gov. The SEC's website provides information about any persons affiliated with Parsec who are registered, or are required to be registered, as investment advisor representatives of Parsec.

If you have any questions about the information you read in the brochure, please let us know.

Privacy Disclosure Statement

Parsec Financial Management, Inc. is committed to protecting your privacy.

To conduct regular business, we may collect non-public personal information from sources such as:

- Information reported on applications, forms, or other financial paperwork you provide to us,
- Information you may provide to us verbally, and
- Information about your transactions with us, our affiliates, or others.

Parsec Financial Management, Inc. shares non-public information solely to service our client accounts, and therefore we provide information only to other financial service providers, such as brokers, custodians, insurance providers, accountants, or attorneys. We do not otherwise disclose any non-public personal information about our customers or former customers to anyone, except as permitted by law.

If Parsec's policy changes in the future, clients will be provided with a revised notice reflecting

the new privacy policy.

Information Safeguarding

We will internally safeguard your non-public personal information by restricting access to only those employees who provide products or services to you or those who need access to your information to service your account.

Each employee is required to sign a confidentiality agreement. The employee understands that he or she will be terminated if he or she discloses confidential client information to an outside party, unless that party requires the information to complete a transaction for you.

We require that any third-party vendor who may have indirect access to your information sign Parsec's confidentiality agreement.

In addition, we will maintain physical, electronic, and procedural safeguards that meet federal and/or state standards to guard your non-public personal information.

Ways to Protect Your Privacy

- Never send confidential information via e-mail unless you are using a secure method.
- Install a firewall on your computer.
- Install and use anti-virus software on your computer. Regular virus scans work.
- Use complex passwords (letter, number, character, phrase, et cetera). Avoid using the same password on multiple sites.
- Do not reveal personal information (date of birth, Social Security number, et cetera) unless you called the financial institution or other provider.

Define your goals. Get on track to achieve them.



Parsec Spotlight: Sarah DerGarabedian

Sarah joined Parsec in 2005. She is a CFA charterholder and a member of the CFA Institute and the CFA North Carolina Society. A native of Atlanta, Sarah graduated magna cum laude from Wellesley College with a Bachelor of Arts degree in geology.

As a member of the firm's Investment Policy Committee, she conducts ongoing equity and mutual fund due diligence. She coordinates the development, maintenance, and monitoring of the firm's model portfolios.

Sarah enjoys spending time with her husband Eric and son Max. She is obsessed with CrossFit workouts and Downton Abbey.

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