Money & Your Values Edition

ParsecFinancial
WEALTH MANAGEMENT

Our passion is to help their passion become a reality.

CONGRATULATIONS TO OUR 2016 PARSEC PRIZE WINNERS!

Parsec Financial continues its dedication to giving back to nonprofit organizations serving the local community. This year, ten organizations will share a total of $100,000. The recipients chosen have shown a passion for improving the quality of life, and create meaningful opportunities for the people these programs and organizations serve.

The 2016 Parsec Prize recipients are:

Eliada Homes
Manna Food Bank
Buncombe County Schools Foundation
Sustain Charlotte
Colburn Earth Science Museum
Sleep Tight Kids
Tryon Historical Museum
Big Brothers Big Sisters of Polk County
Tryon Downtown Development Association
The Lanier Library

Parsec Financial founded the Parsec Prize in 2005. Since that time, Parsec has given over $850,000 in prizes to 61 local nonprofits serving Western North Carolina and Charlotte. When you succeed, we succeed.

Individuals
Businesses
Trust Services
parsecfinancial.com

Note from the CEO

Richard Manske, CFP®
Chief Executive Officer

As we enter the holiday season, our thoughts may turn toward charitable giving. In this issue, we hope to provide useful information about aligning your money with your values and protecting yourself from scams.

We also want to inform you that we will produce our first-ever holiday edition. Keep an eye out for it in the coming weeks. We intend to offer a newsletter that is not quite as serious as our usual quarterly version. We hope you enjoy it.

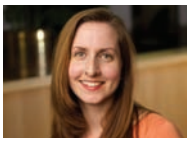
Until then, we thank you for your continued support. We wish you health and happiness during the upcoming holiday season and into the new year.

Money & Your Values Edition

Columns

Features

Contributors



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Jim Smith is the Chief Economist. He has been an Adjunct Professor at Kenan-Flagler Business School at UNC Chapel Hill since 1988.

Carrie Tallman is the Director of Research. She is a CFA charterholder.

Jim's Crystal Ball

Consumers Have Saved Us From a Recession

The last three quarters of growth in real GDP have been disappointingly minuscule, paltry, pathetic, puny, putrid, woeful, or whatever adjective you prefer to use to describe a situation in which growth is positive, but very, very slow. According to the August 28 U.S. Bureau of Economic Analysis (BEA) National Income and Product Accounts (NIPA) release, real GDP growth was 0.9 percent in the fourth quarter of 2015, 0.8 percent in the first quarter of 2016 and 1.1 percent in the second quarter of 2016, all measured at seasonally adjusted annual rates.

When real GDP growth is this slow for such a long period of time, it would have taken only a small shock to throw us into a recession. The incredibly slow growth of the last three quarters and indeed that of this entire expansion since the recession ended in June 2009 (the second quarter of 2009) is shown in **Chart 1**.

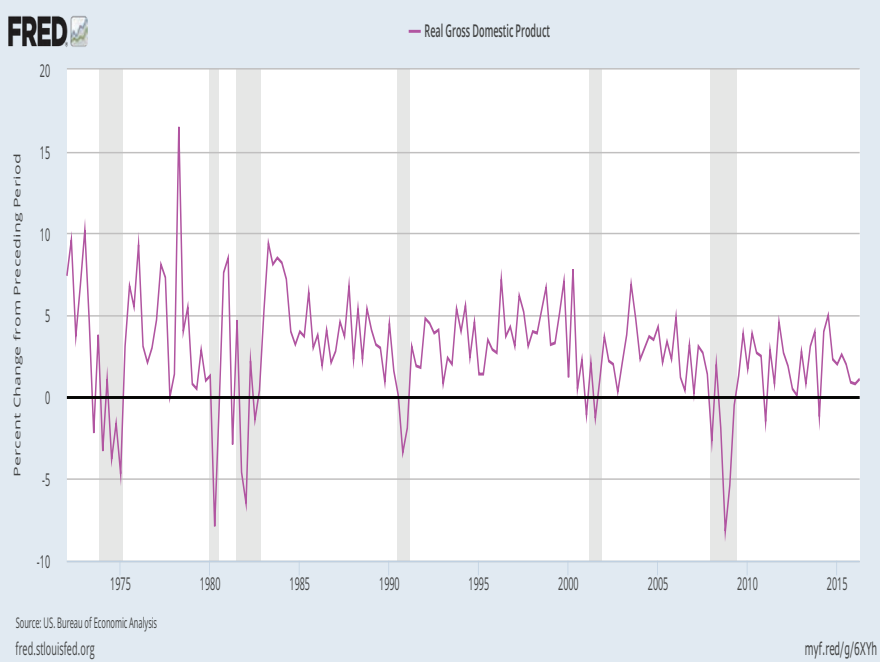

Chart 1

The only reason we did not have a recession beginning in the fourth quarter of 2015 and continuing at least until July 2016 was the fact that consumers have been spending quite freely.

Chart 2 (page 7) shows that the share of real GDP accounted for by real personal consumption expenditures (PCE) has set a new postwar record in each of the last three quarters. It was 68.6 percent in the fourth quarter of 2015, 68.8 percent in the first quarter of 2016 and a phenomenal 69.3 percent in the second quarter of 2016.

The only times since the advent of consistent NIPA data in 1929 that we have ever seen a PCE share higher than in the second quarter of 2016 were in the years 1929 through 1939. The all-time record was 81.8 percent at the depths of the "Great Depression" in 1932.

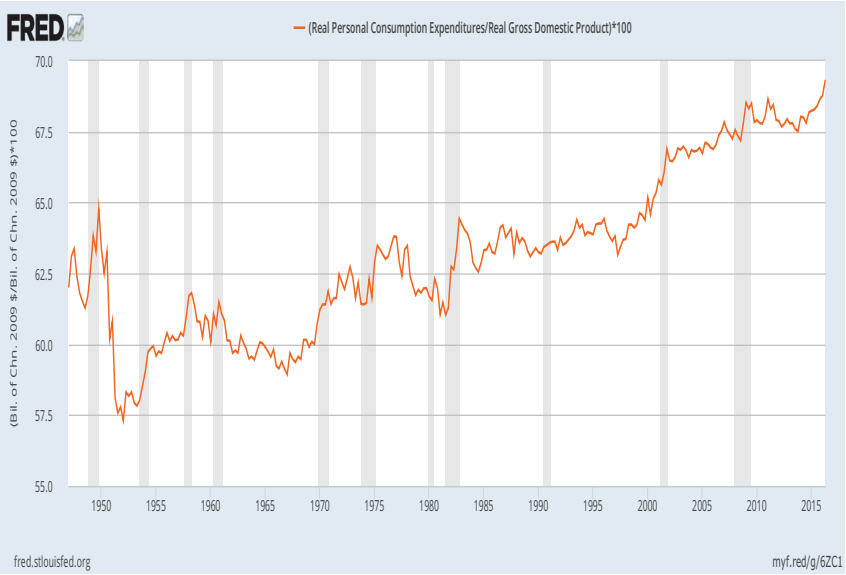

Chart 2

Those comparisons should make it clear that having the economy be so dominated by consumer spending is not a good thing. However, it is far better than having a recession.

To prove that we would have had a recession from late last year until at least July, you only need to look at Chart 2 of the BEA release. That table is entitled, "Contributions to Percent Change in Real Gross Domestic Product."

In the fourth quarter of 2015, real PCE contributed 1.53 percentage points to the total growth rate of 0.9 percent at a seasonally-adjusted annual rate. In the first quarter of 2016, real PCE accounted for 1.11 percentage points of the 0.8 percent rise in real GDP at a seasonally adjusted annual rate. In the second quarter of 2016, real PCE made a huge 2.94 percentage point contribution to the total real GDP growth rate of 1.1 percent at a seasonally-adjusted annual rate.

Given the penchant of so many members of the media to trumpet bad news about the economy, it is amazing to me that they have not jumped all over this story. You can readily imagine the types of gloom-and-doom stories we'd be seeing if consumers had not done such a fabulous job of saving the US economy from the abyss.

The sectors that have been dragging down our real GDP growth rates are non-residential business fixed investment and the change in private inventories. Non-residential business fixed investment has subtracted from real GDP growth in each of the last three quarters.

The change in private inventories has subtracted from real GDP growth for five consecutive quarters beginning in the second quarter of 2015. This has never happened before outside of a recession.

At the same time that consumers have been saving us from a recession by continuing to increase their spending at a healthy pace, they have also kept on building up their savings. **Chart 3** shows the personal saving rate. Even with the record share of real PCE in real GDP in the second quarter of 2016, the personal saving rate dipped only slightly, to 5.7 percent from 6.1 percent in the first quarter.

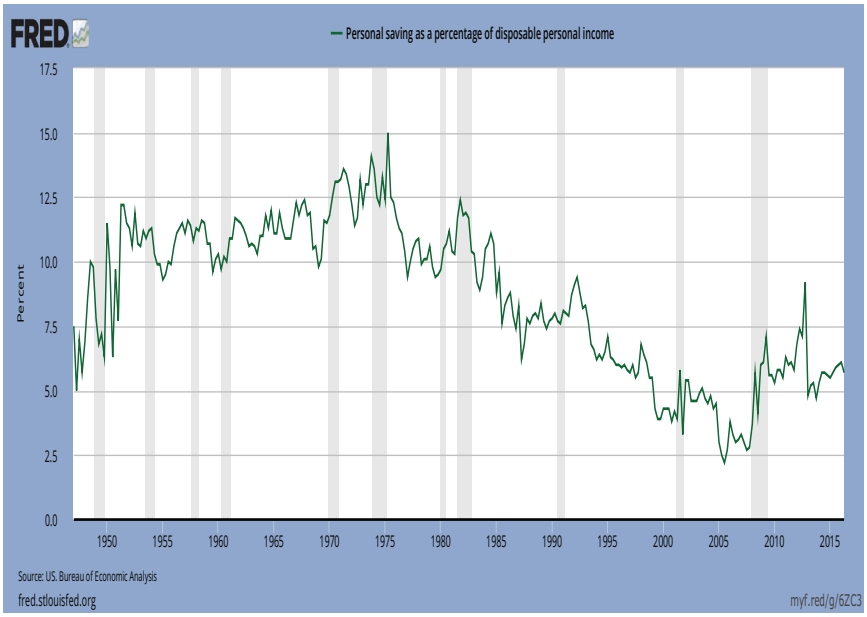

Chart 3

There's no great mystery as to why US consumers are spending so freely. The main driver, as it always is, is the fact

that disposable personal income (DPI) continues to set new records nearly every month. **Chart 4** shows the levels of real DPI have been higher than the tax-code-changes-driven old peak of $12,194.8 billion at a seasonally adjusted annual rate reached in December 2012. Furthermore, employment, whether measured by the number of people employed or the total number of non-farm payroll jobs hits new record highs every month.

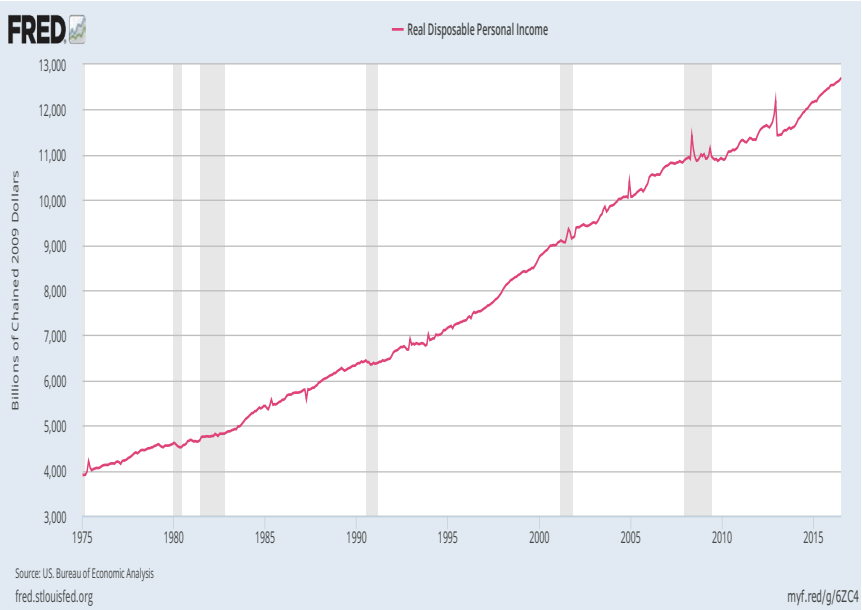

Chart 4

The Conference Board's monthly consumer confidence index has a question about whether or not people think jobs are "plentiful" or "hard to get." The measure counts the difference in the proportion of consumers answering "plentiful" rather than "hard to get." That index averaged -24.4 in 2013 ("hard to get" was answered more frequently than "plentiful"), -15.6 in 2014 and -3.8 in the second quarter. It was +0.9 in July and +2.6 in August (more people answered "plentiful").

There is no reason to expect consumer spending to fall in the foreseeable future. Employment and income growth should continue and that should keep confidence high and spending rising.

Let's hope we see business fixed investment pick up soon. That would really put some oomph into this anemic expansion we have had over the last seven years.

True Success is Shared

Ashley Gragtmans, CFP®

In 1980, Bart Boyer packed up his family from snowy Minnesota and moved to Asheville, NC to start Parsec Financial. For several years, Bart worked out of the lower level of his home before moving into the firm's current headquarters on Wall Street in downtown Asheville. Despite humble beginnings, Bart understood that any great company has a specific vision from the start. He believed that Parsec's success would be holistic: sustainable employee-owned business, the best possible service and financial planning for clients, and a strong philanthropic commitment to the surrounding community.

This philanthropic focus has not retired with Bart, but rather remains as a core focus of Parsec. Not all decisions are easy in an employee-owned firm, but we all agree that our success is driven by the success of the communities that we serve. This commitment extends well beyond the fiscal health of the local economy, and must include programs and organizations that improve the lives of the most vulnerable individuals. To that end, Parsec offers employees the opportunity to give back to the community by providing 2-for-1 matching donations. The firm also established the

Parsec Prize in 2005. The goal of the Prize is to support local non-profits by dedicating a portion of our revenues annually-the 1% solution. That first year we donated $33,000 total to three organizations. Since then we have donated nearly 1.6 million through the Parsec Prize, matching donations, and other discretionary giving. We look forward to hitting the $2,000,000 mark!

Thirty-six years after Parsec was founded, we have four offices and 43 employees. All employees have the opportunity to participate in the employee ownership program, and our entire team is committed to helping clients set long-term financial goals and make sound investment decisions to meet them. We are more committed than ever to being a corporate philanthropic leader in the Carolinas.

Some people say that our success up to this point has been due to good business savvy, but we think it runs a bit deeper than that!

Media Review

Daniel Johnson III, CFP®

Do you commute to work? Have a morning or afternoon workout? You could utilize this time to prepare yourself for the day, or unwind from the day. Listen to the radio, an audiobook, or even a Podcast.

Podcasting has been rapidly growing in popularity over the past few years. The great thing about podcasts is that whatever your interest, there is likely a podcast on that topic. Here are some of my favorites.

1) *NPR's Planet Money* – You may be familiar with this show from public radio. This is a great economic show that is well produced and very informative!

2) *Freakonomics Radio* – From Stephen Dubner, the journalist prominently known for co-authoring a book that shares its name with the podcast. The tagline is "the podcast that looks at the hidden side of everything." Be prepared to emerge from the 30-minute session thinking about the world in a slightly different way.

3) *Masters in Business* – A favorite of mine that is produced by Bloomberg Radio. You may have caught this show on satellite radio, but the podcast typically includes an extra hour of interview footage. Barry Ritholtz interviews some of the brightest minds in business, pushing them to share their path to where they are now.

4) *Dan Carlin's Hardcore History* – Whereas most podcasts range from 20 minutes to an hour and a half, Dan Carlin provides 3 – 5 hour narratives. His podcast explores historical events from unorthodox perspectives.

To find these podcasts, I recommend using an app named Overcast on Apple devices, otherwise you can also use the built-in Podcast App. For Android devices, you can find all of these podcasts in the Google Play store. Also, you should be able to download the podcast from the provider's website. For example, npr.org features many interesting podcasts.

I hope you enjoy some of these podcasts!

Mental Wealth Corner

Carrie Tallman, CFA

People relate to money in different ways. Some see it as a means of security. Others want money for power and prestige. Still others use money as a way to give back to family, friends, and community. How we make meaning out of money can vary widely from one person to the next. Our families, upbringing, education, experience, and unique personalities all shape our relationship with money. While the meaning we attribute to money can vary considerably among our family members and even our closest friends, how we spend our money is generally a mirror image of what we value – for all of us.

How so? Money itself is neutral, regardless of how we may feel about it. At a basic level, money is a flow of our energy. When we work at a job, exerting ourselves mentally and/or physically towards a task, we typically receive money in return. This is an exchange of our time and effort for an inflow of money. On the flipside, when we buy something – a home, car, product, or service - we're paying for someone else's labor, creativity, or skill set. This is an outflow of our money energy.

Take away all of our bad or good feelings about money, and we're simply left with a basic energetic exchange. Money is really just a middleman, a brief resting point in the flow of our own human energy. And for this reason, it can be an extremely useful tool. It's useful because how we acquire and spend our money reflects our values. It tells us how closely aligned our lives are, or are not, with those values. Money might even reveal some values we didn't know we had.

At this point in the conversation, you might protest. Perhaps you don't believe money has anything to do with your values and you can provide many examples to the contrary. This is great! In my view, the more resistance you have, the bigger the opportunity to realign your money with your values. Resistance often comes up when we're unconscious about how we spend. Feelings of obligation or misplaced responsibility can cause anyone to spend without thinking. Everyone does this to some extent. And it's not necessarily a problem when approached with curiosity and compassion.

How do you get started? The first step is to start tracking how you spend your money. I recommend following your money flow for at least three months. A simple Excel spreadsheet will do but if you want to get more sophisticated try Quickbooks or online budgeting tools. I actually don't recommend making a budget right away. The point is to first bring awareness to how you're spending your money, without restrictions and without judgment.

As you track your spending, you'll naturally create new categories. Consider getting creative! For example, you might label your mortgage payment as "home sweet home" or some other inviting description. In this way, your label reflects how you feel about the expenditure. I love my home and I certainly don't mind paying the mortgage for such a wonderful place to live. If you don't feel good about your home, try something like "temporary landing pad", or some other description that reflects how you value that category.

Over time you'll add more and more categories. In some cases you might start to feel uncomfortable about the amount you're spending in certain areas. For example, if you really want to take a trip to Europe but your "vacation savings" category has $5 in it while your "bars & restaurants" category has $500 in it, you may realize you have a disconnect. Ask yourself what's going on here - why are you spending so much in "bars & restaurants" category when a European vacation would be a dream come true?

On the other hand, you may notice that some categories are missing altogether. Suppose you consider yourself a creative person and really value the arts, yet in the past three months you've spent no money in this category. Are you working too hard and not making time for play? What else might be going on?

The point is to use all these new observations as an opportunity to realign yourself with what matters most. It's a chance to bring new awareness to where and how you spend so that each transaction, each exchange of your money energy, is an intentional decision. In time, your conscious and collective money choices will bring you closer to the life you want: a life aligned with your values.

While tracking your expenditures is the first step on this path, implementing a budget comes next. While you may cringe at the thought, setting a budget is just another tool to move you towards better alignment with your values. It's going to help you do more of what you love and less of what you don't. When approached in this way, setting a budget can become a rather satisfying exercise. Ultimately, a budget turns your intentions into action – a critical step towards better money-value alignment.

As you may have guessed, budgets are also an excellent way to align your money with your personal and financial goals. Setting and keeping a budget can be difficult, but when you're clear on what you're moving toward, it's a lot easier. For example, passing on that weekly $5 latte doesn't feel so bad when you know every dollar you save brings you closer to your dream vacation.

While moving toward better money alignment will take some time and energy, it's an endeavor worth pursuing. Money and budgets are just tools that-when used properly-can show us where we're out of alignment with our values and where our spending reflects what we care about most. Used together, they can open the door to deeper self-discovery and ultimately a more rewarding and truly wealthy life.

Avoiding Disreputable Charities

Cristy Freeman, AAMS®

This time of year, many non-profit organizations seek donations. We are in a charitable spirit. Or, we might want to capture a last-minute tax deduction. Whatever the reason, we want the money to be used by a reputable organization. What should we do?

Several of my colleagues are involved with local charities. I asked them for a few tips:

Research the charity. What percentage of the budget goes to overhead and administration? Are recent financial statements or tax returns available? Will your funds be used for a specific project or the general fund? The Internet is a powerful tool for finding more information about the charity as well as learning about past incidents of misconduct. You can visit sites such as Guidestar.org and Nasconet.org.

Avoid requests that seem extremely urgent. Charities that constantly call you should be regarded with suspicion. Do they only want cash or wire transfers? Typically, charities take checks or donations of stock or goods.

Go for a tour if it is a local charity. They should be thrilled to take you for a tour. It is important to see how your money will be used.

If you are able, consider volunteering. You will get an inside look at the organization. Most charities are in desperate need of a volunteer's time.

Ask your friends. They may support the charity. Also, they may know which organizations are scams rather than actual charities.

A lot of worthy charities are out there for every possible cause. With a little research, you can make sure the charity will put your money to good use.

Tin Can Telephones and Protecting Your Data

Harli Palme, CFP®, CFA

My co-worker recently told me he was going to unplug his computer and communicate through a tin can with a string so he could no longer worry about cyber security. At times, I have the same inclination, and I don't doubt you do too. But because it's no longer 1983, we need stay plugged in and do our best to keep our personal information secure.

At Parsec, we have a duty to protect your data. We go to great lengths to secure our facilities and computer network. We have periodic third party audits to review our cyber security policies and procedures and our network structure. These audits look for potential vulnerabilities and recommend the latest ways to protect our data.

The weakness we see most often, however, is how our clients handle their own data. Part of our cyber security program includes educating you on safe practices, advocating for stronger protections when we communicate with you electronically, and encouraging you to protect yourselves.

A classic example is the e-mail hack. It is not uncommon for us to receive an e-mail from a "client" asking for us to send money to a third party, who we later determine is a fraudster. Our policies require us to obtain your signature for every third party transfer of funds – even if it's a joint account that has your name on it, because this indicates a change in ownership. In addition, our policies require us to verbally confirm with you before we move the money. Because fraudsters can spoof a client's phone number, we may call you back at the number we have on record for you, especially if we don't recognize your voice for some reason.

Complex passwords are a client's best defense against this kind of fraud. It cannot be stressed enough how easy it is for a computer program to decode your password if it consists of your dog's name followed by the number 1. The longer the password, and the more numbers and symbols, the longer it takes for a person or computer program to guess your password. Consider using a password manager to help you create complex passwords. A password manager will also securely store these complex passwords so you don't need to write them down or remember them. Don't use the same password for multiple sites. Once one is figured out, the others are quickly tested. Don't keep a list of your passwords on your computer, or sitting in your desk drawer.

Ask your banks and financial institutions if they offer two-factor authentication. This is a physical token or an app on your phone that generates a random number needed to log into the web site. If you don't have the code, you can't log in. Charles Schwab has this available for account holders upon request.

Lastly, don't send sensitive information via unsecure connections. You will notice when you correspond with Parsec electronically we either avoid sending sensitive information via e-mail, or if we must, we send it encrypted, which requires a login and password to access. Using free Wi-Fi in public locations to transmit sensitive data is also unsafe. Use your cellular data on your phone, or a secure hotspot connection, when viewing and sending sensitive information on mobile phones, tablets, or laptops.

No, it's not 1983 and sadly, tin cans and string never worked more than a short distance. Thus, it is our goal to keep ourselves educated on the evolving landscape of cyber threats. We will continue to educate you as we learn of new best practices.

Inside Parsec

Extreme Makeover - Parsec Edition

Constructed in the late 1800s, the building that houses our Asheville corporate headquarters requires regular maintenance. As mentioned in a previous edition, the façade of the Wall Street entrance needed "refreshing."

Now that construction has been completed, we thought you might like to see "Before" and "After" pictures of our makeover. The pink granite is similar to stone you will find on Asheville landmarks such as City Hall, the Grove Arcade, and the Haywood Park Hotel.

Before

After

Parking Woes

Our Asheville office is surrounded by popular shops and restaurants. The Haywood Park Hotel is across the street from us, and another hotel is under construction around the corner. Special events at the nearby U.S. Cellular Center also bring lots of visitors to the area. While it is exciting to be in the middle of a vibrant downtown, it can pose a challenge to people who want to visit our office.

Here are some tips for handling the parking situation:

- Use public parking decks located at the entrance to Wall Street, on Rankin Avenue, or near the U.S. Cellular Center. This link shows a map with the locations of these decks: http://www.ashevillenc.gov/Departments/ParkingServices/ParkingMap.aspx
- Schedule meetings for early morning to avoid the crowds, particularly during tourist season.
- Arrive early because you may have difficulties finding a parking space.
- The metered parking spaces near our building are usually taken, so you should consider other options.

Advisors are happy to meet via teleconference. We can also schedule meetings at your home or place of business. Please ask your advisor about these options if you do not wish to visit us in our office.

With a little planning, it is possible to have a stress-free visit to our corporate headquarters. Please let us know if you have any questions about navigating our fair city.

Asset Transfers That Might Surprise You

Michael E. Bruder, CFP®, CTFA

I've always appreciated positive-thinking people who remark, "Now, *if* I die…." I chuckle silently and politely point out that it's not "if," but "when." It is indeed prudent to prepare for the eventuality.

Most people are under the mistaken belief that a will is the sole document that dictates the disposition of all of their assets. Since a will can only dictate the disposition of assets held solely in one's name, a closer look at how assets are distributed at death is warranted. Understanding how assets pass outside of the will enables you to design an effective estate plan.

Assets pass by operation of law, or more simply, "how you hold legal title to an asset." For example, if you are married in the State of North Carolina, you hold title to real estate as "Tenants by the Entireties," or TE. Each of the two partners has an undivided whole interest in the property. At the time of first death, the survivor is entitled to the decedent's share. Then, the surviving partner owns 100% of the property.

When an asset is held as JTWROS (Joint Tenants with Right of Survivorship), each tenant owns 50% of the asset. At first death, the 50% ownership passes automatically to the survivor who would then own 100% of the asset. Most commonly, we see folks holding title this way for bank accounts, investment accounts, automobiles, et cetera.

If you have a retirement plan at work (ex. 401 (k)), an IRA, or life insurance, the disposition of those proceeds is dictated by a beneficiary designation. You have the right to choose whom you want as primary and contingent beneficiaries and the percentages each will receive, totaling 100% should you choose more than one. One caveat for married folks: with an employer's retirement plan, you are required by law to name your spouse as primary beneficiary unless they voluntarily sign a document relinquishing that right.

Another account utilizing beneficiary designations is the Transfer on Death (TOD) or Pay on Death (POD) account. This is usually a bank account or investment account held solely in one's name with the TOD or POD designation. Once again, those assets will pass to the named beneficiaries.

If a divorce occurs, it is imperative to review current beneficiary designations in all types of accounts to make certain they will pass according to your wishes. If not, an unintended consequence could be an ex-spouse receiving funds because the beneficiary designation was never changed.

We've always believed it is important to seek legal counsel regarding estate planning and disposition of assets. To make that time more efficient, come prepared to the first meeting with a list of all of your assets inclusive of their estimated value, how you hold title to those assets, and a rough idea about how you wish those assets to be distributed at your death. This will greatly simplify the process and will help to clarify the foundation of an estate plan.

Remember it's a "when," not an "if." It is prudent to give appropriate consideration to your own estate plan.

Sarah DerGarabedian, CFA

What is "smart beta?"

You've undoubtedly heard this term, used to describe a certain type of investment that is becoming increasingly popular. What does it mean? And if these investments are "smart," does that mean that the others are "dumb?"

So-called "smart beta" investing is a bit of an active/passive hybrid methodology. Traditional passive investments are typically replicas of well-known market capitalization-weighted indices, like the S&P 500. A market cap-weighted ETF holds each company in the index according to its size in the index, which can be calculated by multiplying a company's outstanding shares by the current market price of one share. While this provides broad market diversification at a very low cost, one drawback of this approach is that the companies whose stock prices are rising become relatively larger while companies whose stock prices are falling become relatively smaller. If markets are less than perfectly efficient and stock prices are anything other than fairly valued, cap-weighted indices will tend to favor overvalued companies.

"Smart beta" strategies use different weighting schemes to construct a portfolio, involving metrics such as dividends or low volatility, or even equal-weighting, all of which sever the link between price and weight and tend to provide a value tilt to the portfolio. The reason for this is that, when rebalancing the portfolio, these strategies result in buying low and selling high. Portfolios based on market cap-weighted indices will often do the opposite when rebalancing, buying more shares of the companies whose stock prices are going up, and vice-versa. According to Research Affiliates, LLC, "smart beta" strategies must also encompass the best attributes of passive investing, such as transparency, rules-based methodology, low costs, liquidity, and diversification.

Does this mean that "smart beta" is a panacea that will bridge the gap between active and passive investing? Many of these strategies have back-tested well and have become increasingly popular, resulting in large inflows of capital. Rob Arnott, one of the pioneers of smart beta at Research Affiliates, has written about rising valuations in smart beta investments as a result of their soaring popularity ("How Can "Smart Beta" Go Horribly Wrong?"). He cautions against "being duped by historical returns" and advises investors to adjust their expectations for future returns to account for mean reversion. He and his co-authors think there is a possibility of a smart beta bubble in the works, due to the rising popularity of such strategies.

And what about traditional passive investments? Is there still room for these vehicles in an investor's portfolio? Absolutely, particularly in the more efficient sectors of the broad market. Even Arnott believes "there is nothing "dumb" about cap-weighted indexing." At Parsec, we stay abreast of current investment trends, but use a measured approach to portfolio construction that is research-based and backed by sound financial theory. We don't believe any single investment is particularly "smart" or "dumb," but rather that there is room for different types of investments within the context of a well-diversified, well-constructed portfolio.

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