Tarheel Advisors Newsletter

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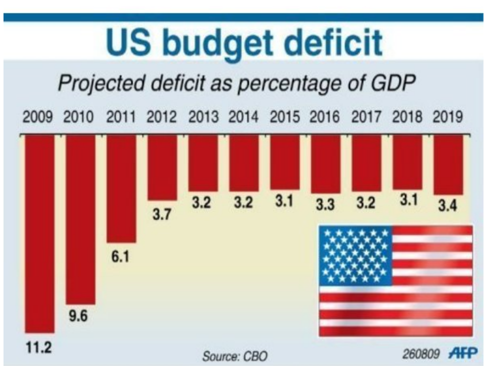
A Trillion Reasons to Buy Gold

A trillion and a half actually, but who's counting? Nobody in Washington D.C. for sure. For 2011 the projected U.S. budget deficit is currently $1.5 trillion and climbing by a couple hundred billion every time I check.

This is probably where you think I'm going to bash U.S. spending policies, but no. Kudos to you, the American Taxpayer. You've created an economic and monetary system that would make King Midas blush. Balanced budgets haven't mattered in the last 30 or so years because of America's #1 export: the U.S. Dollar. We keep printing them and everyone keeps wanting more. What sweetens this deal even more is that when we don't feel like printing money, we just borrow it. Uncle Sam's Red White and Blue American Express card has no spending limit and a near 0% interest rate to boot.

In summary, I'm starting to give up on the idea of the budget ever being balanced. According to Congressional Budget Office projections they've given up on them too (see below). Consider this, the average economic expansion in the U.S. lasts around 35 months. We're almost 2 years into the current recovery and *still* expanding the deficit. Should we enter another recession in the next 12 months are we just going to accelerate deficit spending further? I'm not even sure what's after a trillion, I asked my son and he said jabillion. Sounds plausible.



It seems obvious that the mass amounts of U.S. debt are a bomb waiting to go off. However, even the biggest bomb is harmless unless it is triggered. So what will trigger the next debt crisis? The mortgage crisis of 2007-2009 was triggered once the federal reserve raised rates into the 5% range. This increase would equate into around $500 billion of additional interest expenses for the U.S. annually which poses major issues.

Being that we are probably at least 24 months away from reaching these rates, how does one capitalize on this back drop in the meantime? In our opinion, the easy money to be made is in hard assets. When countries can so easily issue new paper currency, one's best choice is to invest in assets that aren't so easily manufactured. The hard assets that have held their value the best for centuries have been precious metals and land. However, we expect commodities across the board to do well since this is a play on weakening paper currencies more than world economic expansion. In selecting individual commodities, one's best bet is choosing assets that are trading out of line with their traditional valuations. For example, Gold traditionally trades at a valuation 50 times that of Silver. Silver has doubled in value in the last 7 months making an ounce of Gold only 37 times more valuable than an ounce of Silver today. So, if there is a reversion to the mean, one would expect Gold to begin outperforming Silver in the near future. This strategy can be used for numerous commodities that are potentially substitutes for each other (Oil/Natural Gas, Aluminum/Copper, etc.).

Remember that this strategy does have an expiration date. Should the U.S. dollar suffer a crisis of confidence similar to the banking sector circa 2008, you might as well flip a coin to decide between commodity inflation or deflation. Might I recommend the coin be gold?

-Ryan Glover, CFP®

2011 Market Update

S&P 500	**+5.4%**
DOW	**+6.4%**
NASDAQ	**+4.8%**
MSCI World	**+4.3%**

Mortgage Rates

15-Year	**4.05%**
30-Year	**4.84%**
5/1 ARM	**3.74%**

Did You Know?

Tax time is fast approaching and the April 18th deadline for IRA contributions is right around the corner

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For 2010, persons under the age of 50 can make a maximum IRA contribution of $5,000. Persons who have reached the age of 50 by 12/31/2010 may make an additional catch-up contribution of $1,000 for a total of $6,000

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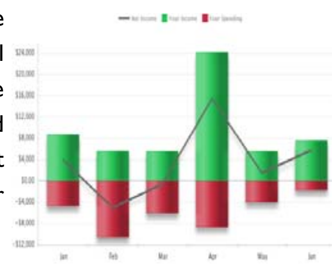
The S&P 500 has officially doubled since it bottomed almost two years ago. On March 6, 2009 the S&P500 reached a low of 667. As of writing this newsletter, the S&P 500 stands at 1,335.

A Review of the Personal Finance Website

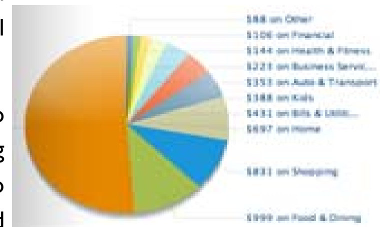
Many of you may already be familiar with the popular personal finance website, mint.com. With over 5 million users, this financial aggregator software has developed quite a following. On the advice of a friend, I recently tried it out . Now, after a month of service, here's my take.

First, you can't beat the price (it's free!). So, if you don't like it, you haven't lost much, other than the 5 minutes or so it takes to get started. Basically, you will be asked to create a username and password, and then you can begin inputting your various bank , brokerage, credit card, and mortgage accounts. The website is owned by Intuit (maker of Quicken) and uses a 128-bit encryption like a bank, so I feel pretty safe that my data will be protected.

After taking a few minutes to get the variables plugged in, the site really starts to take shape of your personal finances. It was nice to see a net worth statement and an itemized transaction list that is categorized for budget purposes.



As a financial planner, I have always been pretty good about keeping track of my monthly income versus my monthly expenses, but I have never really considered how much I spend on groceries, dining out, etc. each month and what that represents as a portion of my total budget.



I found their charts to be visually appealing and very easy to interpret. I also liked the budget functionality and the ability to set goals for each category and track it over time. All in all, the website performed as advertised with very few hiccups. I did have trouble adding one particular account to the queue but sent an email via their "get help" tab and I received a detailed response within 24 hours. So, if you don't mind a few money-saving "suggestions" from the sponsors of the website — after all, a website can only be "free" if it is paid for by someone — I'd highly recommend giving mint.com a try.

-Walter Hinson, CFP®

Options Corner: Bull Call Spread

A "call spread" is an option strategy often used in a moderately bullish market environment. The strategy consists of buying a call option on a particular stock, and then simultaneously selling a call option on the same underlying stock at a higher strike price.

The net effect of this transaction will allow an investor to participate in the modest upside between the upper limit call and the current price of the stock; while reducing the downside risk significantly to the net amount paid for the spread.

Let's look at a real example of how this strategy might work. Apple (AAPL) is a company that many are familiar with but few own because of it's high price tag (approximately $341 / share). Thus, someone looking to own 100 shares would need to pony up $34,100.

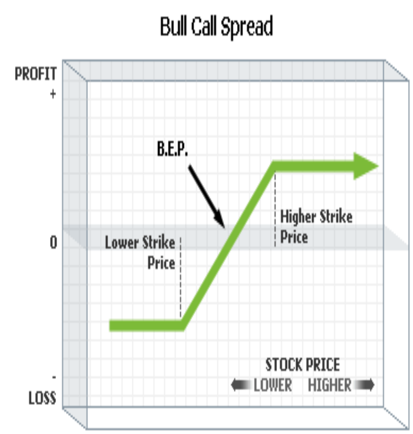
Pretty expensive — so, what about trying a call spread instead to get the same exposure? Here's how it would work:

Buy 1 May $300 Call for $44 = $4,400

Sell 1 May $350 Call for $11 = -$1,100

Net Price for the Spread: $3,300

In this scenario, you now own the right to purchase 100 shares of AAPL at or before May 20th for $3,300 or a net price per share of $333.00. Thus, your downside risk in AAPL is hedged by the $8 market value difference and limited to amount of premium paid for the spread ($3,300). On the flip side, your maximum gain is reached when AAPL is at $350 per share. In this scenario you would realize a gain of $1,700 ($50 per share difference between strike prices minus premium paid of $3,300). Or in percentage terms, over 50% in less than 2 months!



The X-axis (horizontal) represents the price level of an underlying stock. The Y-axis (vertical) represents profit and loss, above and below the X-axis intersection respectively.

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