Tarheel Advisors Newsletter

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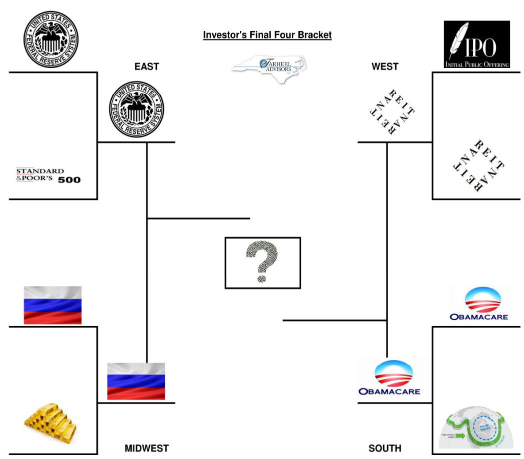
Investors' Final Four

Back by popular demand, the Tarheel Advisor's second annual tourney challenge takes a look at this year's top investment themes. Through the first quarter of 2014, we have seen a number of title contenders. These top seeds have squared off in the world arena and affected the markets in a variety of financial, geopolitical, and even meteorological ways.

Coming out of the South region for the second straight year, we have Obamacare looking to better its first round loss in 2013. Although facing a tough matchup against a tournament newcomer, the impact of rising healthcare costs and rule changes by the officials appears to have a much greater long-term impact on corporate finances than its competitor, the polar vortex. While the vortex goes ice cold from the floor, the higher seed, Obamacare advances to the next round.



The Cinderella story of the year has played out in the Midwest region with a world-stage performance by Russia like we haven't seen in a while. Following their surprising win at their conference tournament in Sochi, the Russians continue to defy the rest of the world with their brazen offensive attack. Although Gold has recovered nicely from a poor 2013 performance, the 6.5% first quarter returns have not been enough to validate the fear trade just yet. Mr. Putin and his annexation of Crimea are definitely worthy of keeping an eye on as the drama continues to play out for the remainder of the year.

In the West region we have two teams that are playing their best ball come tourney time. Through the end of a mostly flat first quarter, REITs and IPOs have definitely shined. While Tarheel Advisors gave Real Estate Investment Trusts a high preseason ranking, all of that matters not if they choke in the first round. Luckily, REITs have maintained their poise and are off to a 8.6% start in a year when the quest for portfolio yield continues in earnest. Their opponent in the West, Initial Public Offerings (IPOs) continues their hyperbolic performance from last year with the average new issue gaining nearly 20% on the first day. Unfortunately, the frothy environment may have hit a snag in the first quarter when the IPOs were "candy crushed" by a first day bomb, and they may be unable to gain further momentum for the rest of the year.

Finally, in the East region, we see the #1 overall seed led by a new coach, taking on last year's champions, the S&P 500. Unable to re-create last year's inspired 30% climb, the S&P500 appears poised to fall to the whims of the Federal Reserve and Coach Yellen's new playbook. Unlike her predecessor, Coach Bernanke, Mrs. Yellen has dialed back the full-court printing press and will attempt to win the tournament with a more transparent offensive playbook. Here's hoping that she can find the right balance of offense and defensive tapering to reach the Final Four and continue the Market's run to *One Shining Moment.*

Which investment theme will ultimately prevail this year is yet to be determined. Let's just hope we don't have to go back to an instant replay of recent crises, and that the market participants decide the outcome based on investment merit rather than more free throws.

-Walter Hinson, CFP®

2014 Market Update

S&P 500	**+1.81%**
DOW	**-0.71%**
NASDAQ	**+0.52%**
MSCI World	**+0.51%**
BONDS	**+1.84%**
GOLD	**+6.50%**

Mortgage Rates

15-Year	**3.40%**
30-Year	**4.53%**
5/1 ARM	**3.43%**

Did You Know?

* Traditional and Roth IRA contributions are due by April 15th for the 2013 tax year. The maximum contribution allowed for eligible individuals is $5,500 ($6,500 for those age 50 or older).

* Since 1950, April has been the best month for blue chip stocks. The Dow Jones Industrial Average has posted an average gain of 1.5% during the month.

* The Moscow Stock Exchange (MICEX) is down more than 10% in the first quarter.

* Our Greensboro address has changed! We are now located at 3300 Battleground Avenue, Suite 204.

Where Wall St. and Las Vegas Blvd. Intersect

If you've followed March Madness this year (and probably even if you didn't) you most likely heard about Warren Buffet's Billion Dollar Bracket Challenge. Quicken Loans in conjunction with Yahoo! offered a $1 billion prize for anyone who could successfully predict a perfect NCAA basketball bracket. This prize was insured by legendary investor Warren Buffet, and his company, Berkshire Hathaway.

What is a great "investor" like Warren Buffet doing making arbitrary bets on basketball games? The answer is that Warren liked his odds. At best, the odds of picking a perfect bracket are 1 in 100 billion (no #16 seeds upsetting #1 seeds), and at worst, they are 1 in 9.2 quintillion. To put those odds into perspective, it's about the same as winning the Powerball jackpot… 3 weeks in a row.

As it turns out, the worlds of gambling and investing aren't all that different. In both, money is risked with the intent of profit. The only real difference between the two is in the long-term expectations. In your typical Vegas style gambling, the game is rigged against you. The longer you play the more likely the house takes your money. The stock market is rigged too, but thankfully for long-term investors, the house provides average annual returns of around 8%. The shorter your investment time horizon, the closer the expected return gets to 0%. As pointed out by recent media coverage, High Frequency Traders (HFT), who dabble in the extreme short-term (nano– and micro-seconds), have an un-fair advantage against individuals and investors in the short-term. Fighting against someone that is always one-step ahead of you is like trying to beat the house in Vegas repeatedly, and is not a sustainable investment strategy. At the point when one has an expected loss, they are no longer an investor, but instead a gambler.

Because of the similarities between gambling and investing, investors should be aware of the plights of chronic gamblers. According to FA Magazine and clinical psychologist Paul Good, there are eleven warning signs that may reveal whether an investor is actually a gambler in disguise. Anyone who exhibits five or more of these signs may have a gambling problem:

• High-volume trading where the "action" has become more compelling than the objective of the trade.

• Preoccupation with one's investments in the form of excessive studying of investment newspapers or web sites, thoughts about the market that interfere with work or social life, or people who have let stock picking and gambling spiral into a disease are seeking a continuous jolt they are loath to give up.

• Needing to increase the amount of money in the market or "leveraging" one's investments to feel excited, such as by using options or future contracts or borrowing on margin.

• Repeated unsuccessful efforts to stop or control one's market activity (e.g., drawing on accounts previously declared off limits or contradicting or changing limit orders on losses or gains).

• Restlessness or irritability when attempting to cut down or stop market activity, or when cash is accruing in one's account.

• Involvement in market activity to escape problems, relieve depression or distract oneself from painful emotions.

• After taking losses in the market, continuing to take positions or increasing a position as a way to break even.

• Lying to family members and friends to conceal the extent of involvement in the market.

• Committing illegal acts-such as forgery, fraud, theft or embezzlement- to finance market activity.

• Jeopardizing significant relationships, one's job, or educational or career opportunities because of excessive involvement in the market.

• Relying on others to provide money to relieve a desperate financial situation caused by gambling in the markets.

There are many things that investors need to know about themselves before risking their money in the markets. Risk tolerance and time horizon are the most common questions asked by brokerage firms. Fondness for gambling is a factor all investors should consider as well. Should you regularly gamble as a hobby you might be wise to create separation between yourself and your investment accounts by hiring professional management.

Does this mean you shouldn't manage any of your money if you enjoy gambling? Not necessarily. As a professional investor, I can say following the markets can be highly enjoyable. However, if you know you have gambling tendencies it is best to manage 20% or less of your total assets on your own. Lastly and most importantly, if you lose the amount you are self-managing, do not deplete other accounts to refill trading accounts. If you even see an inkling of a chance of doing this then you're best leaving the management of your assets to others. -**Ryan Glover, CFP®**

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