Tarheel Advisors Newsletter

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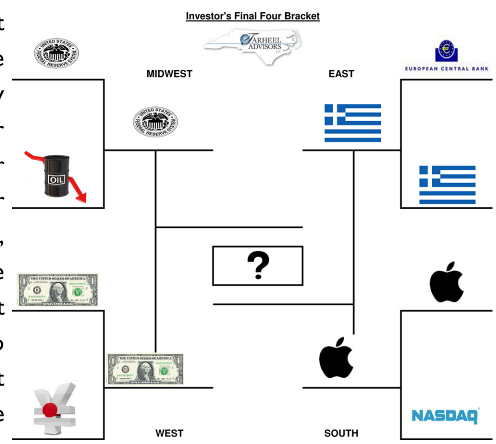
Elite Eight of 2015

After a wild opening foray, the first quarter of 2015 has come to a close with little change to the bottom line. Much like this year's NCAA tournament, the investment community continues to pour money behind the heavy odds-on favorite, and to this point, the Markets continue to survive and advance. With this year's top investment themes ready to square off in the Elite Eight, let's take a look and see how the matchups might play out.



Coming out of the West region, once again we have an historic currency war. After a spectacular 13% rise for the dollar versus a basket of other major currencies in 2014, the greenback is once again off to a hot start with the dollar index up another 8% in the first quarter. In contrast, the Japanese Yen continues it's near 40% slide versus the dollar since the 2013 introduction of the "Abenomics" playbook. This overt attempt to export inflation to the rest of the world continues to wreak havoc on exchange rates and is worth further monitoring.

In the South region we have an interesting matchup between the tech darlings of the Nasdaq and the resurgent Apple, Inc. With a remarkable climb back to it's 2000 peak, the Nasdaq has certainly stretched the limit of its talent by leading all domestic indices, up 3% YTD. Apple on the otherhand, seems to be loaded with McDonald's All-Americans and has once again achieved the moniker of the largest publicly traded company by market value. Add in a heated conference re-alignment that saw Apple replace AT&T in the Dow Jones Industrial Average on March 19th and you've got some bad blood between these two teams. Look for the frothy Nasdaq to cool off in the second half and Apple to avoid any exit fees and move on to the Final Four.

The Cinderella story of the year has played out in the East region where the Greek Spartans have parlayed their penchant for March heroics into another potential debt showdown. With a new anti-austerity coach at the helm, it will be interesting to see whether the shot clock will be reset or whether the European Central Bank (ECB) and member states will decide the progress and reforms didn't touch the rim.

Finally, in the Midwest region, we see the #1 overall seed led by Janet Yellen. Even though Mrs. Yellen has dialed back the full-court printing press as of late, her coaching strategy is parsed by everyone for an indication of which direction she will lead her team. As long as the Federal Reserve stays "patient" in regard to interest rates, we would expect an orderly advance through the tournament. However, keep an eye on the monumental slide in crude oil. Overlooking a seasoned commodity that has been weakened by both a lack of demand and an increase in supply could end a season with a buzzer beater.

Which investment theme will ultimately prevail this year is yet to be determined. While the top seeds have produced a mostly "chalk" bracket thus far, it takes only one bad game to miss out on perfection. Let's just hope our portfolios are positioned properly to sustain an upset if an undefeated season doesn't play out.

-Walter Hinson, CFP®

2015 Market Update

S&P 500	**+0.95%**
DOW	**+0.36%**
RUSS 2000	**+3.99%**
MSCI World	**+3.49%**
BONDS	**+1.61%**
GOLD	**+0.30%**

Mortgage Rates

15-Year	**3.02%**
30-Year	**3.87%**
5/1 ARM	**3.09%**

Did You Know?

* Traditional and Roth IRA contributions are due by April 15th for the 2014 tax year. The maximum contribution allowed for eligible individuals is $5,500 ($6,500 for those age 50 or older).

* Oh Baby! A Triple! The S&P 500 has tripled in value from its March 2009 lows. However, from the October 2007 highs, the index has only increased a more modest 31%.

The 7% "Guaranteed" Annuity Myth

Annuities are one of the most difficult investment products to understand. In the past, annuities used to be pretty straightforward, but the advent of modern era "riders" have made it fairly common to see a 300+ page prospectus used to describe a variable or indexed annuity.

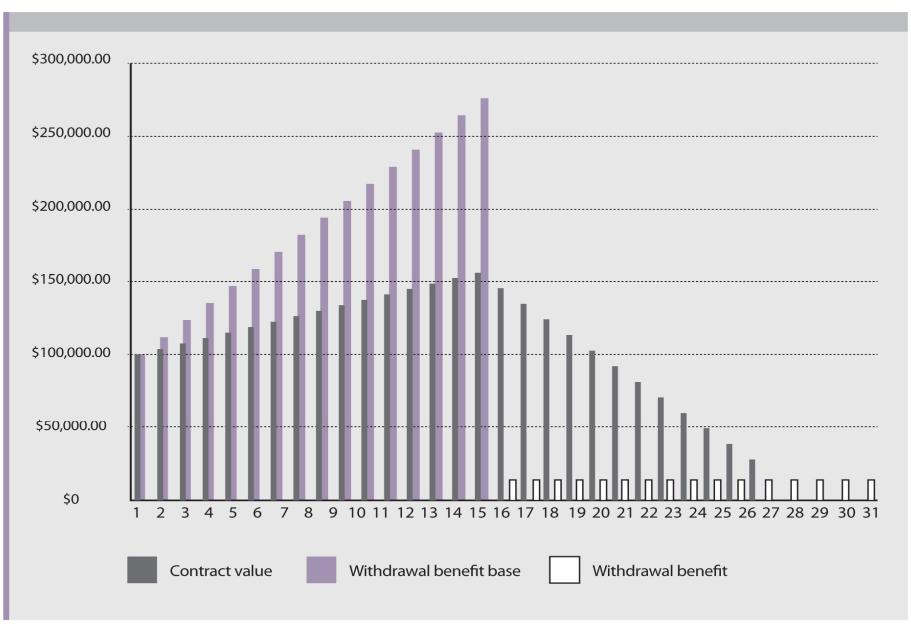
One of the most popular "riders", or policy amendments that expand or restrict the benefits, is the lifetime income guarantee rider. This policy add-on is commonly sold by most insurance carriers as an investment guaranteed to increase by at least 7% annually. This guarantee is commonly misunderstood, and investors are often surprised when their performance doesn't meet this benchmark. To help visualize this discrepancy, think of an annuity as a set of buckets. These buckets will all have different values on your statement and the amount in each bucket is independent of the other buckets. The 7% "guarantee" applies to only one of the buckets, the withdrawal benefit base.

Let's take a look at the math and how it all works out in the case study below. In this example, a 65 year old places $100,000 into an annuity contract that earns 3% annually (7% market returns minus 4% internal contract fees). The annuity also has a withdrawal benefit base which is guaranteed to increase 7% annually (the purple bars). At age 80, the withdrawal benefit is converted to an income stream (white bars), and it pays out 5% of the withdrawal benefit base annually until death at age 95. So, at age 80, this investor is guaranteed to receive $13,795.16 per year for life.

While the withdrawal benefit base in this scenario is guaranteed to grow at 7%, the real rate of return realized from this income stream was only 3.64% should the investor live to age 95. While the guaranteed income can be a useful tool in retirement planning, the rate of return realized from the withdrawal benefits is nearly half the 7% rate they may have been expecting.

Also of notable consideration is the contract value bucket (gray bars), which grows much more slowly due to a lack of guarantees and high fees. This is a more accurate representation of your asset value and may be subject to surrender penalties if you need to access these funds during the first 5-10 years of ownership. So, if you have or are considering annuity products in your portfolio, always take the time to ensure you fully understand your investment —This may even include reading that pesky 300 page prospectus.

-Ryan Glover, CFP®



Initial Contract Value	$100,000
Contract Value at Age 80	$155,796.74
Withdrawal Benefit Base at Age 80	$275,903.15
Withdrawal Benefit at Age 80	$13,795.16
Total Benefits Paid at Age 95	$220,722.52
30 Year Rate of Return on Income Rider:	**3.64%**

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