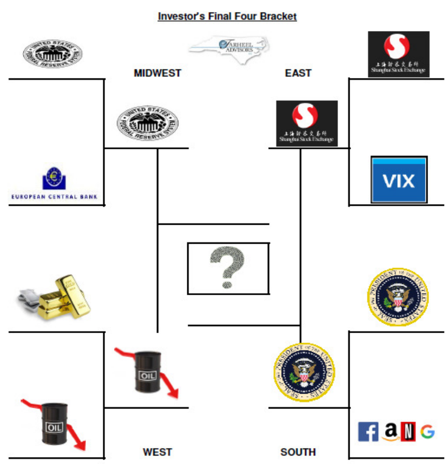
Tarheel Advisors Newsletter

Volume 8, Issue 2

April 2016

Bracket Buster?

Much like this year's NCAA basketball tournament, global markets have experienced a chaotic roller coaster in the 1Q of 2016. We've seen some unpredictable economic and political outcomes that have shifted the investment landscape and made for a very interesting start of the year. So, for the 4th year in a row, let's take a look at the top investment themes thus far and see if any bracket busters lie in wait.



Coming out of the East region, we have a showdown between two newcomers: the Shanghai Stock Exchange (SSE) and the CBOE's Volatility Index (VIX). Right from the beginning of the year, the SSE has put up some major bricks. With China's economy continuing to slow down, the SSE's near 30% dip in January sent ripple effects throughout the globe, resulting in a massive devaluation of equities. One of those areas most affected were U.S. stocks, which saw a huge spike in volatility. The VIX, which quantitatively measures these fluctuations, jumped 61% in the first 41 days of 2016. Thankfully the teams have recovered from a poor shooting spell, and the VIX is now down 23% from where it was January 1st, leaving the SSE to move on to the next round after recovering only half of its losses.

In the West region, we've seen two commodities square off and take completely different paths. For the first time in years, precious metals have shown signs of life. Talk of negative interest rates by world central banks has both gold and silver taking long range jumpers for a heat check as they are off to their best start in nearly 30 years, up 16.4% and 11.5%, respectively. Meanwhile, global demand worries continued to plague oil prices early in the year. After a precipitous fall down below $30 per barrel, the price has stabilized a bit closer to $40 and could continue back to top form. With oil, gas, iron ore, steel, etc. once again proving to be a leading indicator for global stocks, look for the fossil fuel to avoid a Michigan State-style upset in the first round and stick around for the Final Four.

Out of the South bracket we see a mid-major team that only makes the tournament once every four years making a lot of noise. Unlike in past Presidential election cycles, it seems that the coaching style of the presumptive party nominees is a bit unorthodox. This makes for entertaining matchups, but often ends with a lot of key players fouling out. The opponent in the South, "FANG" is one of last season's darlings. For those unfamiliar with the new investing acronym, it stands for "Facebook, Amazon, NetFlix, and Google." These Tech heavyweights had their Air Jordans on last year (up on average 82.7%) when all the other teams seemed to have cement in their shoes. But, those who bet on last season's high flyers have been disappointed in a more challenging 2016 (down 3.9% YTD, but was down 15% in mid-February), as expectations and valuations have normalized. We expect the trend for value to outperform growth to continue as investors starving for yield seek out dividend payers first. Look for the presidential news cycle to prevail as November approaches and the outcomes become more certain.

Finally, in the Midwest we have a perennial powerhouse, the Federal Reserve, once again getting a top seed. Coach Yellen may have made a poor offensive substitution in December by raising interest rates for the first time in 7 years, but she has returned to form thus far in 2016 living by the mantra that defense wins championships. Meanwhile, her opponents from the other side of the pond are a bit of a Cinderella story this year. Many pundits didn't really expect them to even make the tourney, but ECB Chair Draghi and

2016 Market Update

S&P 500	**+1.35%**
DOW	**+2.20%**
RUSS 2000	**-1.52%**
MSCI World	**-6.48%**
BONDS	**+3.03%**
GOLD	**+16.4%**

Mortgage Rates

15-Year	**2.75%**
30-Year	**3.50%**
5/1 ARM	**3.25%**

Did You Know?

* Good news for procrastinators! You have three extra days to file your taxes in 2016 since Emancipation day falls on Friday, the 15th. Taxes and any IRA or Roth IRA deposits must be postmarked by Monday, April 18th.

* The contribution limits for IRAs and Roth IRAs for tax year 2015 is $5,500 or $6,500 for those that are over the age of 50 and eligible to make a full contribution.

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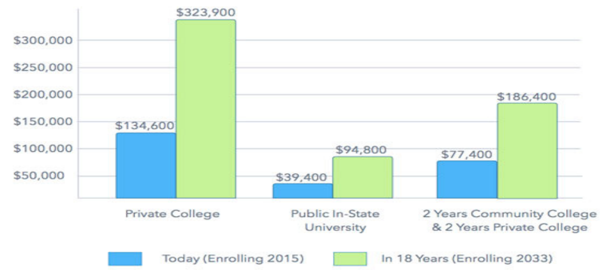
others have dialed up a very unique full court printing press and a negative interest rate zone coverage that has given opponents a tough time. While it may set an interesting historical precedent for such a low seed to make it this far, we expect their run in the headlines to be short-lived as the Fed and coach Yellen attack the zone with a strong dollar.

Which investment theme will ultimately prevail this year is yet to be determined. Let's just hope the officials stay out of it for once and let the outcome be determined by the players instead of more free throws.

-Walter Hinson, CFP®



*Based on average tuition and fees for 2014-2015 as reported by The College Board® and assumed to increase 5% annually. The figures above do **not** include other costs your child will incur as a college student, such as room and board, books, supplies, equipment, and transportation. These additional expenses can increase your child's cost of attending college by a substantial amount.*

We Don't Need No Education

I recently had an opportunity to speak with a number of parents at a local daycare about planning for the cost of their children's education. This after school event was put on by their parent council as part of an educational series. I must say it is very forward thinking and refreshing. I'd bet most young parents have not given much thought as to how much they will need to save up to cover college tuition, room & board, etc. If you actually sit down with a calculator and some raw numbers, you might turn prematurely grey. However, if you start early enough, it just may make the journey a little more palatable.

If you reference the table above, you'll note that the average tuition in 2014-15 can vary quite a bit depending on what type of institution you attend. For the purposes of this example, I'll choose a figure somewhere in the middle and round up, because that does not include other associated costs such as room & board, books, etc. Let's say in today's dollars a student can expect to need $25,000 per year (or $100,000 total over 4 years) to fully cover the cost of college. In the example above, they have used a figure of 5% to inflate the cost each year, and that's really pretty accurate to what the rate of change has been as of late.

However, I'm not sure that costs can continue to increase so precipitously when the expected wages of a graduate aren't moving commensurately, so let's use a 3% inflation rate instead (which is higher than the CPI figure, which tracks baseline inflation, has historically averaged). For a child born today, in 18 years, a parent, grandparent, or other donor would need to save approximately $178,000 to cover education expenses. If you then assume that you set aside money for this expense monthly from birth, then the next variable to consider is the investment rate of return. Using a conservative 6% average annual return, the monthly cost comes to $385 — every month, for 18 years! Undoubtedly, that is a lot of money and a difficult pill to swallow for those aspiring to have their children debt free through college. The sooner you start, the sooner you have the compounding effect of money working for you and them.

Once you've decided on a monetary glide path, the next step is picking the appropriate avenue to save the funds. You could save the money is your own bank account commingled with your own funds, or open a custodial account, Coverdell Education IRA, or a 529 Plan. All these vehicles have their pros and cons, and are somewhat out of the scope of this newsletter, but let's focus on the 529 Plan and why that might be the most appropriate for the majority of education savers.

The first reason to consider a 529 Plan is that the asset does not belong to the child. Unlike a custodial account, the 529 plan assets will not become the child's when they reach the age of majority, and thus subject to be spent on whatever whim (s)he chooses. Further, since the 529 plan is owned by the adult and the child is merely the beneficiary, the assets count more favorably in the complex formula of applying for financial aid. Briefly, parental assets are usually counted at 5.6% rate in the Expected Family Contribution (EFC) versus a 20% rate for assets titled to the student. Lastly, a 529 plan typically has some sort of favorable tax treatment. This part varies state-by-state, but it is common for states to allow an income tax deduction for contributions up to certain limit, and all state 529 plans have a favorable treatment on investment gains, which are not taxed within the account as long as the funds are used towards qualified higher education expenses. Certain contribution limits are tied to the gift tax annual exclusions (currently $14,00 per year per done), but there are favorable elections to consider if you are getting started a little late.

There are a lot of nuances to consider when planning for upcoming education expenses. There are different grants, loans, formulas, and other tax considerations to look into. If you are thinking about these issues, please feel free to reach out to us and we will be glad to assist.

-Walter Hinson, CFP®

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