Tarheel Advisors Newsletter

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2013 Investment Outlook

Will the number 13 be unlucky for your portfolio in the new year? We'll consider ourselves lucky if we never hear the term "Fiscal Cliff" again. Before we look at our predictions for the new year, let's first take a look at just how fortuitous our 2012 picks turned out.

Year in Review—The broad markets had a surprisingly good showing in 2012 on the back of improved corporate profitability and continued central bank intervention. In fact, it was difficult to find any asset classes that had a negative showing for the year, as stocks, bonds, and commodities all provided solid returns.

The S&P 500 and tech-heavy NASDAQ led the way in 2012. However, if you invested in the first quarter and sat out the remainder of the year, you ended up with nearly identical results. The S&P 500 was up 12.6% in the first quarter of the year before taking a Summer dip back to par. It then rallied back to similar levels to first quarter at the end the year for a 13.4% total return. While our prediction of 5% returns for stocks was a bit off, our 5% goal for bonds was near perfect,

2012 Score Card

5% Market Return, Markets Peak in March	B+
Improved Corporate Profits Despite Lackluster Economy	A
Gold at $2,000/Ounce	C
$4/Gallon Summer Gas Prices	A
High Volatility	C

and the timing prediction for a market peak in March was also spot on.

Much of the reason for the markets sputtering out mid-year was the uncertainty surrounding the election cycle, and, ultimately, the "Fiscal Cliff". Surprisingly, with all this uncertainty, the markets were relatively mundane from a volatility standpoint. While many investors felt the double digit percentage move from peak to trough and back was a bit of a roller coaster ride, traditional measures of volatility such as the VIX and numerical count of triple digit moves in the Dow made our prediction come up a little short (63 days of 100 points or greater movements versus the 104 we encountered in 2011) .

Our commodities related predictions were a bit hit or miss as well. While gold finished its 12th straight year of gains and had a solid return of 7.6%, it finished about $300/ounce short of our $2,000 prediction. Unfortunately for all drivers, our gas prediction came true, as the national average for gas hit $4 per gallon by the end of Spring.

Onward to Unlucky '13— By January 1st, Congress finally acted to address part of the "Fiscal Cliff". Many of the tax and revenue related issues were settled. Unfortunately, we have not heard the last out of Congress for the year, as none of the spending cuts, entitlement reforms, or debt ceiling issues have been resolved. Sometime in late-February / early-March we can all look forward to the return of the dreaded debt ceiling debate. Similar to last year, we are looking for the markets to top out with a 5-10% return early in 2013 before sobering up to reality.

In the summer of 2011, the debt ceiling talks caused a 20% sell-off in equities.

2012 Market Wrap

S&P 500	**+13.4%**
DOW	**+7.3%**
NASDAQ	**+15.9%**
MSCI World	**+12.5%**
BONDS	**+4.2%**
GOLD	**+7.6%**

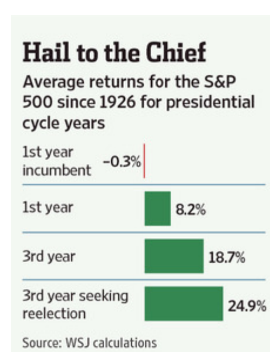
Mortgage Rates

15-Year	**2.83%**
30-Year	**3.41%**
5/1 ARM	**2.83%**

Did You Know?

*The IRA and Roth maximum contributions have been raised by $500 for 2013 to $5,500 and $6,500 including a catch-up provisions for those over age 50.

*We are launching a new website in January thanks to the help of the local DECA chapter of Apex High School.



2013 Predictions (Cont.)

We're expecting the partisan game of chicken to be even more heated than two years ago. Don't be surprised to see talks carry on several weeks past the debt ceiling limit, causing a 10-20% market correction in the process.

Investors would be wise to underweight U.S. equities for the first quarter of the year until the debt ceiling is breached or extended. However, if markets have a precipitous sell-off, that should be a good opportunity to move back into U.S. equities and enjoy relatively good performance for the remainder of the year. While the first part of 2013 may be unlucky for domestic equities we don't feel the year will be negative for all asset classes or styles.

Domestic equities, specifically large cap growth names, have enjoyed stellar out-performance over the past 3 years (thanks to the likes of Apple). We are looking for this trend to reverse in 2013 and anticipate out-performance in value and dividend paying stocks. Now that dividend taxation law is locked in and rates are not as bad as feared, we're looking for investors to return to collect the income and drive prices higher both domestically and abroad.

Has the bond market pushed its luck? On an aggregate level, we're not looking for stellar returns from bonds in 2013. Overall, it's pretty slim pickings when searching for yield in the investment-grade bond space. However, when looking at high-yield and international bonds, we think there is still a reasonable rate of return to be had of 6% or more. With cash still yielding 0% for the foreseeable future, this makes high-yield and international bonds two of our favorite assets.

For yet another year, much of our investment fate is being thrown upon our beloved members of Congress. Hopefully, they will find investors a four leaf clover in the form of the ever elusive comprehensive grand bargain.

-Ryan Glover, CFP®

The American Taxpayer Relief Act of 2012

Courtesy of a last minute Congressional scramble, Americans now have a new set of tax laws to absorb. Some might find it a bit laughable that the title of the law includes the word "relief", when in fact they face a higher tax bill in 2013. Nevertheless, some form of compromise was reached, and a higher degree of certainty and stability in the tax law will benefit everyone. In summary, many of the George Bush-era tax cuts were preserved and other expiring exemptions were extended.

The Highlights: The bill does not extend the current social security payroll tax holiday. Employers will once again be required to withhold 6.2% rather than the previous 4.2% of eligible wages.

The bill permanently extends the 10%,15%, 25%, 28%, 33%, and 35% rates on income at or below $400,000 (individual filers) and $450,000 (married filing jointly). For filers exceeding the income threshold, a new top marginal rate was set at 39.6%.

The bill makes permanent the $5 million estate tax exclusion amount and indexes that amount for inflation going forward. However, the top tax rate increases from 35% to 40% for estates of decedents dying after December 31, 2012. The bill also maintains the portability of an unused exemption, meaning that a deceased spouse's estate can transfer any unused exemption to the surviving spouse.

The bill maintains the 0% capital gains and dividend rates for taxpayers below the 25% bracket. For those in the 25% bracket and above, the capital gains and dividend rates stay at 15%. However, for income in excess of $400,000 (individual filers), and $450,000 (married filing jointly), the rate for both capital gains and dividends will be move up to 20%.

The bill creates a permanent Alternative Minimum Tax (AMT) patch. Currently, a taxpayer receives an exemption of $33,750 (individuals) and $45,000 (married filing jointly) under the AMT. The bill increases the exemption amounts for 2012 to $50,600 (individuals) and $78,750 (married filing jointly) and indexes the exemption and phase-out amounts thereafter.

The bill extends for two years the provision that permits tax-free distributions to charity from an Individual Retirement Arrangement (IRA) held by someone age 70½ or older of up to $100,000 per taxpayer, per taxable year.

For those interested in a more extensive list of the various tax law changes, we would recommend visiting the website below for a quick overview:

http://www.journalofaccountancy.com/News/20137097.htm

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