TARHEEL ADVISORS, LLC
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Sell in May and Go Away?

Late one night as I was brainstorming and watching one of my favorite television shows, *MythBusters*, I came to the conclusion that it might be both fun and interesting to study and deliver a verdict on one of the most famous stock market myths.

On Wall Street there are certainly enough rumors, theories, and colloquialisms to go around. Given the time of year, I think a logical place to start would be with the old adage "Sell in May and go away." This statement refers to the supposed tendency of the stock market to languish during the summer months, typically referring to the six month span of May through October. Stock Market pundits have offered up many plausible explanations for this phenomenon such as that Wall Street brokers take the summer off to vacation and relax, or that individual investors choose to use their dollars for travel and leisure rather than for investing. Historians have pointed to a traditionally lower trade volume during the period between Memorial and Labor Day as evidence confirming this trend. Still other analysts point to numerous other reasons for this "bad" period for stocks beginning in May including: tax-refunds are over, mutual funds sell their losers prior to the end of their fiscal year in October, and even that human psychology improves in the Fall with the back-to-school and back-to-work mentality. Regardless of the reason, what does the data actually suggest?

Well, if we were to look only at last year's results, we would have no choice but to confirm the myth. From May '08 through October '08 the S&P 500 had a return of -30.1%, as compared to the broad Market's return of -5.1% from November '08 through April '09. Granted, both numbers are negative, but the latter time period's results are certainly more favorable. But, not so fast – simply by going back two years, the data points to a different conclusion. From May '07 through October '07 the S&P 500 gained 4.52%; while from November '07 through April '08 the broad Market lost 9.62%. Two years of data certainly is not enough empirical evidence to make a call on this myth. Using a much larger sampling size, the *Stock Trader's Almanac* performed a study to see how timing can affect your portfolio. $10,000 invested in the Dow during the "best" six-month period (November through April), and switched to bonds during the "worst" six months (May through October) in every year since 1950 would have brought a return of $464,305. Doing the reverse would have left you, surprisingly, with a compounded loss of $1,988. Wow, that is quite an astounding difference! Of course, this study has its own inherent bias. The Dow Jones index is not necessarily representative of the broad market. Also, the "bad" six month period is heavily skewed by some of the worst days in market history: Black Monday, September 11th, and 2008's credit crunch.

So, what's the verdict? Based on historical statistics, I think we can say that this seasonal phenomenon is at the very least plausible. I'm not ready to say that "sell in May and go away" is an investing axiom to live by, but it is certainly worth keeping in the back of one's mind.

-Walter Hinson, CFP®

2009 Market Update

S&P 500	**+3.16%**
DOW	**-2.01%**
NASDAQ	**+16.36%**
MSCI World	**+7.6%**

Mortgage Rates

15-Year	**4.96%**
30-Year	**5.39%**
5/1 ARM	**4.75%**

Did You Know?

Thanks to a new federal law, investors age 70 1/2 and older will not have to take a required minimum distribution (RMD) from their tax-deferred retirement accounts in 2009.

The American Recovery and Reinvestment Act provides a deduction for state and local sales and excise taxes paid on the purchase of new cars, light trucks, motor homes and motorcycles through 2009. Please visit www.irs.gov for further details.

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What's the worst mistake you can make with beneficiary designations?

Naming your estate? Naming nobody? Actually, the worst mistake you can make is naming minors as beneficiaries. People assume that a Will, with all its fancy legal words and formality, will control all of their assets. Wrong. The Will only controls property that is subject to probate, basically property that is in your individual name and does not have a beneficiary designation. Life insurance, retirement assets, and pay-on-death accounts all have beneficiary designations and those designations control in the distribution of those assets.

If you have named a minor as beneficiary directly, then the options for long term management of the assets are very limited. North Carolina law typically requires that a guardianship be created to handle management of the funds until the child reaches age eighteen. At age eighteen the child will receive complete access to the funds! Also, the guardianship requires someone to qualify as guardian and regularly account to the court. The guardian will have to be bonded which can be surprisingly expensive depending on the circumstances. All of this creates extra trouble and expense which will only reduce the assets ultimately available for the child. Although North Carolina law does also provide for a custodianship for minors, which is a less formal type of guardianship; I have found that the custodianship is only available in very limited cases.

One of the main benefits of having a Will when you have minor children is that you can avoid all of this trouble by allowing for a hold back trust. In this case the crucial step in any estate plan is to ensure that you have beneficiary designations which are consistent with your Will. Generally your initial beneficiary would be your spouse and, for minor children, your contingent beneficiary would be the holdback trust that is created under your Will or under a separate trust document. Obviously, there are other matters that play into beneficiary choices such as income tax planning or creditor protection, but I encourage you to check your current life insurance, retirement assets, and other pay-on-death accounts to confirm exactly what beneficiary designations you have. This simple step can save your family much trouble and expense.

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$8,000 Home Buyer Tax Credit

First time home buyers have access to an $8,000 tax credit for any home purchased before December 1, 2009. This credit is also available to anyone who has not owned a property within the last 3 years. The total tax credit is the lesser of $8,000 or 10% of the purchase if the home is less than $80,000. In addition, the tax credit can be used towards the down payment portion of a property. Certain income restrictions do apply.

For more details please contact your tax advisor, or visit the website below for answers to frequently asked questions about the credit.

www.federalhousingtaxcredit.com

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