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Tarheel Advisors Newsletter

We Don't Need No Education?

Being a new father can present a lot of challenges. Speaking from recent experience, I have a newfound respect for my own parents who no doubt encountered the same sleeplessness, late-night diaper runs, and life-altering schedule changes that come with the territory. Now that I've gotten used to the daily routine, and Walter Jr. is progressing in a healthy and happy manner, the gravity of the responsibility has begun to set in. Not only am I responsible for his well-being, but I need to save enough money to put him through college!

So, how do I do that in the most effective way? First, it's important to know how much college tuition is likely to cost and consequently how much I will need to save on a monthly basis to meet that goal. This is, of course, an inexact science because we don't know how the Markets will perform or how much tuition prices will inflate over that time. Having done quite a few of these analyses, I would recommend using a conservative estimate for performance and an aggressive target for inflation: 6% and 5% respectively. There is a very helpful savings calculator on www.cfnc.org if you are interested.

Once you know how much is needed, where do you start? There are two main ways that most parents go about this: the Coverdell Education Savings Account and the 529 plan. There are pros and cons to each method, but the main difference lies in the contribution limits and the taxation of each investment vehicle.

Let's start with the Coverdell Account, sometimes referred to as an ESA. Basically, the account is very similar to a Roth IRA. Your contributions (max $2000 per year per child) are non-deductible but grow tax-free, and, if withdrawn for various educational reasons, are never taxed. Also, like a Roth IRA, the money in an ESA can be invested in any stock, bond, or mutual fund available through your broker. From a federal financial aid standpoint, the ESA is on equal footing with the 529 plan. The account is considered an asset of the custodian, usually the parent, and withdrawals used for educational purposes are not reported as income to the student or parent.

The second option is a 529 plan. These state-sponsored plans offer the same tax-free growth and withdrawal benefits as the ESA but differ in the contribution amount (up to $13,000 per donor per child per year in accordance with the federal gift tax regulation) and the potential tax deduction that is offered through many home state 529 plans. North Carolina, for instance, provides contributors a state income tax deduction (usually 7 or 8%) for the first $5,000 of contributions per year. This is a nice added benefit for using a home state plan, but it does not come without strings attached. Unlike the ESA, 529 plans generally have a small set menu of funds to choose from that offer little flexibility. For example, North Carolina only offers 15 choices that consist of Vanguard index funds. Although your choice of funds is limited, these funds have very low expense ratios, and combined with the added home state tax deduction, are still the best deal in town.

In summary, both the ESA and 529 plans offer parents and other family members a great way to start saving for their child's education. For more information please visit our website and view our monthly video: this month features nationally syndicated talk show host Dave Ramsey. **-Walter Hinson, CFP ®**

2010 Market Update

S&P 500	**-6.7%**
DOW	**-6.3%**
NASDAQ	**-7.1%**
MSCI World	**-10.9%**

Mortgage Rates

15-Year	**4.10%**
30-Year	**4.70%**
5/1 ARM	**3.70%**

Did You Know?

Second Quarter earnings season kicks off with Alcoa (AA) on July 12th.

"Byrd" is the Word...

That is Senator Robert Byrd, the Senate's longest serving member, whose recent passing has put a crimp on the Democrats' plan to get the financial regulatory reform bill passed in the Senate. Senator Byrd's untimely death has left them one vote shy of the 60 votes needed for passage. Keep an eye on who Joe Manchin, the Democratic Governor of West Virginia, may appoint as Senator Byrd's successor, and how the timing may affect the outcome of the bill's passing.

Higher Taxes Ahead—Prepare Now

Now that it's Summer, tax preparation is probably the last thing on anyone's mind. However, with the Bush tax cuts ready to sunset at year end, there are some significant tax changes on the horizon everyone should be aware of.

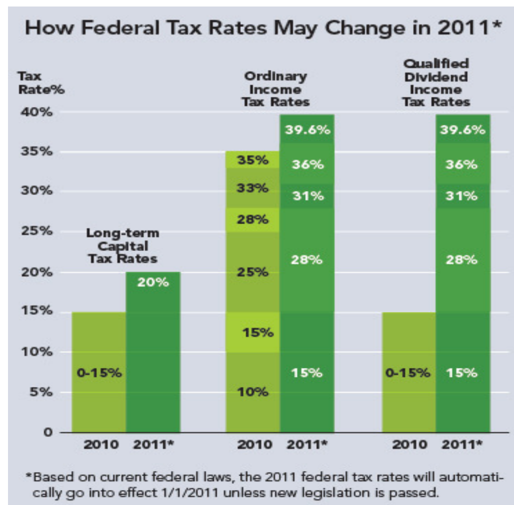
A significant change for 2011 will be an increase in the long-term capital gains rate on gains from investments held more than one year. This rate will be jumping a third from its current 15% rate up to 20%. There are several planning opportunities to be aware of: One, if you're holding a substantially appreciated asset you plan on selling beyond this year, it may be advisable to accelerate that sale and take advantage of the lower current tax rate. Two, the increase in rate could potentially cause significant tax selling at year-end, which could put downward pressure on the US stock markets. Thus, consider selling assets before then to avoid any rush to the exits. Three, if you usually give cash for your charitable contributions, you might get more tax bang for your buck by gifting appreciated assets instead, and thereby avoiding paying capital gains tax on those assets. A taxpayer who gifts an appreciated asset receives the fair market value of that asset as an itemized deduction. This strategy will save you a 20% tax hit going forward and allow you to give that much more to the charity of your choice. Most charities have brokerage accounts setup for accepting gifts of corporate stock.

Another substantial change for 2011 that investors and business owners should be aware of is the loss of qualified dividends treatment. Currently the maximum tax rate for a qualified dividend is 15%, but starting next year there will be no favorable tax treatment, and all dividends will be taxed at ordinary tax rates. Investors owning big dividend paying stocks should be aware of this, but more importantly business owners should consider accelerating any planned dividends from 2011 to 2010.

Some other notable changes on the way include:

- The top federal tax bracket will be raised to 39.6% and the bottom 10% tax bracket will be eliminated.
- The Child Tax Credit will be lowered to $500
- The Estate/Death Tax will be restored to an exemption level of $1million and a top tax rate of 55% (2009 exemption level was $3.5million)

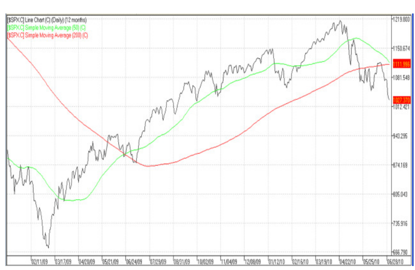
-Ryan Glover, CFP®



**Please consult a tax advisor before acting on any of the above information. The article is intended to provide general information and is not specific to your situation.*

Quick Myth: The "Death" Cross

As I am writing this column, there is much chatter in the technical analysis world about the ominous "death" cross. This dark omen points toward a chart-based indicator followed by many professional investors. Put simply, the signal is generated when the 50 day moving average crosses below the 200 day moving average. Why is this important? Well the last time it happened was in December of 2007 and many months of Market agony soon followed. As you will see in the chart above, we are on the precipice of repeating history. But is the "death" cross a surefire sell signal? According to a recent *WSJ* article, of the nearly two dozen times this event has occurred, the S&P 500 has gained on average 5% over the next six months.



Contact Our Advisors

Cary, NC
Walter Hinson, CFP®
walter_hinson@tarheeladvisors.com
(919) 439-0383

Greensboro, NC
Ryan Glover, CFP®
ryan_glover@tarheeladvisors.com
(336) 510-7255