Tarheel Advisors Newsletter

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This Old House

If you're like me, occasionally you find yourself watching Bob Villa and *This Old House* on Sundays as you're enjoying your morning coffee. I'm always amazed by the amount of time and effort that goes into maintaining an old house and keeping it historically accurate. Sometimes it even seems like they make the project three times harder than it needs to be just for the sake of authenticity.

Lately, when I follow economics both globally and domestically, I start seeing a lot of parallels between Bob Villa and our Federal Reserve Chairman, Ben Bernanke. In 2008, a lot of new systems were put into place in order to prevent further financial destruction. Initially, it was assumed that these systems were meant to be a temporary fix. However, five years later we find ourselves jumping through hoops trying to maintain an architecture that was never meant to last more than a year or two. If you don't know what I'm talking about, I'm referring to things like 0% interest rates, 2 years of unemployment insurance, and trillion dollar budget deficits.

The recent market volatility has shown how difficult the task will be for the federal reserve to "renovate" the current system and get it back into proper working order. Just the hint of the end of Quantitative Easing this past month forced bond and mortgage rates to adjust almost a full percent higher.

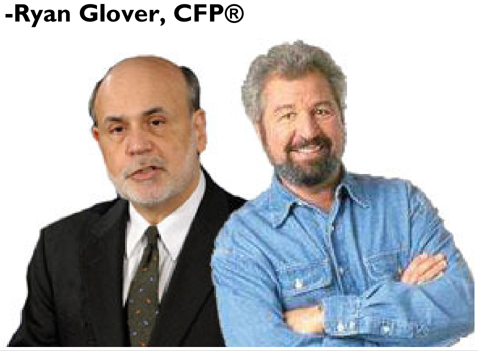
U.S. stocks continue to look good this year compared to all other asset classes. Those who have been undiversified have enjoyed some stellar market returns. From here, the question now is what will returns be like moving forward. Domestically, stocks still look like a house with an attractive exterior: good corporate earnings, growth, etc. However, upon a closer inspection, much of the curb appeal we've seen in the stock market has been built on a faulty foundation.

As anyone who has refinanced a mortgage in the past 5 years knows, artificially low interest rates are a boon to a debtor's cash flow. The same has been true for U.S. corporations as well. Companies in the S&P 500 have issued approximately $7 trillion in debt to fund their business operations. When you consider that the monetary actions of the Federal Reserve has reduced borrowing costs by about 3%, this equates to around a $200 billion gift to the bottom line of the S&P 500. Given that aggregate earnings for this group is around a trillion dollars annually, this means artificial interest rates account for around 20% of profits for the largest U.S. stocks.

Does this mean the house of equities is going to crumble? Not necessarily—but future interest rate adjustments will have a negative impact on corporate profitability. Most international companies have not been able to benefit from the same interest rate environment seen in the U.S., so their earnings and stock markets may be a truer barometer for corporate profits and global economic health. Consequently, many of these countries and markets are dipping into recession and bear markets.

So, if you've been admiring Ben's work on the house of equities, it might be time to shift some attention to overseas markets. They may not look pretty at the moment, but it's a neighborhood that may require less maintenance in the years to come.

-Ryan Glover, CFP®



2013 Market Update

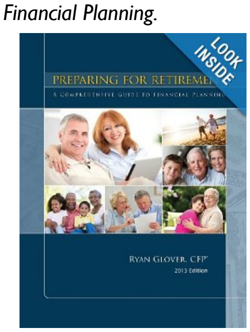
S&P 500	**+13.82%**
DOW	**+15.20%**
NASDAQ	**+12.71%**
MSCI World	**+3.01%**
BONDS	**-2.33%**
GOLD	**-24%**

Mortgage Rates

15-Year	**3.41%**
30-Year	**4.34%**
5/1 ARM	**3.50%**

Did You Know?

*We have published a book, *Preparing for Retirement: A Comprehensive Guide to Financial Planning.*



*GE, established by Thomas Edison, is the only stock still in the original Dow Jones from 1896.

*Start with $10,000 and double it every day and you'll own every financial asset in the world (about $200 trillion) in 35 days.

Turn Your Vacation Into a Tax Deduction

Tim, who owns his own business, decided he wanted to take a two-week trip around the US. So he did--and was able to legally deduct every dime that he spent on his "vacation". Here's how he did it.

1. Make all your business appointments before you leave for your trip.
Most people believe that they can go on vacation and simply hand out their business cards in order to make the trip deductible. Wrong.

You must have at least one business appointment before you leave in order to establish the "prior set business purpose" required by the IRS. Keeping this in mind, before he left for his trip, Tim set up appointments with business colleagues in the various cities that he planned to visit.

Let's say Tim is a manufacturer of green office products looking to expand his business and distribute more product. One possible way to establish business contacts--if he doesn't already have them--is to place advertisements looking for distributors in newspapers in each location he plans to visit. He could then interview those who respond when he gets to the business destination.

Example: Tim wants to vacation in Hawaii. If he places several advertisements for distributors, or contacts some of his downline distributors to perform a presentation, then the IRS would accept his trip for business.

Tip: It would be vital for Tim to document this business purpose by keeping a copy of the advertisement and all correspondence along with noting what appointments he will have in his diary.

2. Make Sure your Trip is All "Business Travel."
In order to deduct all of your on-the-road business expenses, you must be traveling on business. The IRS states that travel expenses are 100% deductible as long as your trip is business related and you are traveling away from your regular place of business longer than an ordinary day's work and you need to sleep or rest to meet the demands of your work while away from home.

Example: Tim wanted to go to a regional meeting in Boston, which is only a one-hour drive from his home. If he were to sleep in the hotel where the meeting will be held (in order to avoid possible automobile and traffic problems), his overnight stay qualifies as business travel in the eyes of the IRS.

Tip: Remember: You don't need to live far away to be on business travel. If you have a good reason for sleeping at your destination, you could live a couple of miles away and still be on travel status.

3. Make sure that you deduct all of your on-the-road - expenses for each day you're away.
For every day you are on business travel, you can deduct 100% of lodging, tips, car rentals, and 50% of your food. Tim spends three days meeting with potential distributors. If he spends $50 a day for food, he can deduct 50% of this amount, or $25.

Tip: The IRS doesn't require receipts for travel expense under $75 per expense--except for lodging.

Example: If Tim pays $6 for drinks on the plane, $6.95 for breakfast, $12.00 for lunch, $50 for dinner, he does not need receipts for anything since each item was under $75.

Tip: He would, however, need to document these items in your diary. A good tax diary is essential in order to audit-proof your records. Adequate documentation includes amount, date, place of meeting, and business reason for the expense.

Example: If, however, Tim stays in the Bates Motel and spends $22 on lodging, will he need a receipt? The answer is yes. You need receipts for all paid lodging.

Tip: Not only are your on-the-road expenses deductible from your trip, but also all laundry, shoe shines, manicures, and dry-cleaning costs for clothes worn on the trip. Thus, your first dry cleaning bill that you incur when you get home will be fully deductible. Make sure that you keep the dry cleaning receipt and have your clothing dry cleaned within a day or two of getting home.

4. Sandwich weekends between business days.
If you have a business day on Friday and another one on Monday, you can deduct all on-the-road expenses during the weekend. Example: Tim makes business appointments in Florida on Friday and one on the following Monday. Even though he has no business on Saturday and Sunday, he may deduct on-the-road business expenses incurred during the weekend.

5**. Make the majority of your trip days count as business days.**
The IRS says that you can deduct transportation expenses if business is the primary purpose of the trip. A majority of days in the trip must be for business activities; otherwise, you cannot make any transportation deductions.

Example: Tim spends six days in San Diego. He leaves early on Thursday morning. He had a seminar on Friday and meets with distributors on Monday and flies home on Tuesday, taking the last flight of the day home after playing a complete round of golf. How many days are considered business days?

All of them. Thursday is a business day, since it includes traveling - even if the rest of the day is spent at the beach. Friday is a business day because he had a seminar. Monday is a business day because he met with prospects and distributors in pre-arranged appointments. Saturday and Sunday are sandwiched between business days, so they count, and Tuesday is a travel day.

Since Tim accrued six business days, he could spend another five days having fun and still deduct all his transportation to San Diego. The reason is that the majority of the days were business days (six out of eleven). However, he can only deduct six days worth of lodging, dry cleaning, shoe shines, and tips. The important point is that Tim would be spending money on lodging, airfare, and food, but now most of his expenses will become deductible.

-Optimum Tax and Accounting Services, LLC—Greensboro

Disclaimer—This newsletter does not constitute tax, legal, or other advice. Please consult a qualified tax advisor if you would like to know how tax laws will affect your individual situation.

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