Tarheel Advisors Newsletter

Volume 5, Issue 4

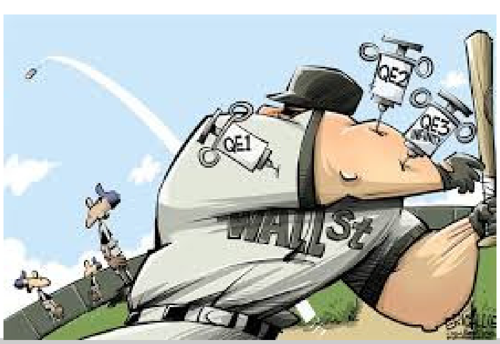
Oct. 2013

The Juice is Loose

As we come to the end of the third quarter in what has been a year of phenomenal returns for equities, I can't help but think we may need an asterisk by the numbers before all is said and done. Much like the sport of baseball, Wall Street continues to set record stock market highs on the back of its own form of performance enhancing drugs (PEDs). However, this time it's the "Commissioner" of Wall Street, Mr. Bernanke, who continues to give the Quantitative Easing (QE) injections, instead of policing the players and suspending those who are caught cheating.

Just a few weeks ago, "Commissioner" Bernanke and the Federal Reserve announced during their September meeting that they would continue purchasing treasury bonds and mortgage-backed securities at the same rate of $85 billion per month. This announcement comes a mere month after insinuating that an improving economy and receding jobless rate were cause to begin "tapering" the monthly purchases with the goal of reducing them to zero within the next few years. This expected move appeared to be so telegraphed to Wall Street that stocks dipped 5%, and bond yields nearly doubled intra-quarter. However, instead of taking away the juice, "Commissioner" Bernanke decided to keep the players and fans entertained a little longer by continuing QE3 at an annualized pace of over $1 Trillion. Yes, I said a Trillion with a capital "T".

This type of steroidal monetary policy has never been attempted before in history, and much like more recent iterations of baseball's PEDs like Human Growth Hormone (HGH), we don't have scientific studies to determine the long-term health effects. From a practical standpoint, we all know that changes to the rules of the game don't happen overnight — it's a slow evolution. If Wall Street is to begin leveling the playing field for all the players then we not only need to have a sound rulebook, but also someone to ensure the rules are enforced. Baseball's Commissioner, Bud Selig, recently took a stab at enforcement when he made an example of several cheating sluggers — most notably former MVPs, Ryan Braun and Alex Rodriguez. A 100 game ban is certainly a harsher sentence than we have witnessed before, but do you really think it discourages future violations when the cheaters get to keep their ill-gotten financial gains? The SEC is attempting something similar by filing criminal insider-trading charges against Stephen Cohen's hedge fund, SAC Capital, but my guess is the settlement will not be a game changer. I guess it's just more fun to watch and participate in a game, be it baseball or investing, when the homerun becomes more common place than the shutout. As the old saying goes, records were made to be broken, but to do so on the back of continued stimulus is likely to produce unintended consequences.



Perhaps the biggest lineup change will come upon Mr. Bernanke's forced retirement in January at the end of his 2nd term. However, when the fans have become more accustomed to high scoring games, often times it doesn't matter who the new "Commissioner" will be. So, whether President Obama calls for a lefty or righty out of the bullpen, let's just hope that he, or she, can save the game.

-Walter Hinson, CFP®

2013 Market Update

S&P 500	**+20.5%**
DOW	**+18.6%**
NASDAQ	**+25.2%**
MSCI World	**+15.7%**
BONDS	**-1.9%**
GOLD	**-16.4%**

Mortgage Rates

15-Year	**3.38%**
30-Year	**4.33%**
5/1 ARM	**3.54%**

Did You Know?

*A new session of our class, *Preparing for Retirement,* will be offered at Wake Tech's West Campus in Cary on Thursdays, October 17th & 24th and Wednesdays, November 6th & 13th.

*SEP IRA contributions for the 2012 tax year can still be made up until October 15th if an extension was filed in April. The current limit for contributions is capped at $51,000 for 2013.

*According to Treasury Secretary, Jack Lew, the U.S. debt limit will be reached no later than October 17th.

The "Viagra Benefit"

To the disappointment of many, this article is not about pharmacology but instead a little-known benefit of the Social Security system. I had not heard of this advantage until a few months ago when I read a brief *Wall Street Journal* article on the topic. Upon further research via the Social Security Administrations website, www.ssa.gov, I was able to confirm that the myth is in fact true.

Basically, the "Viagra Benefit" is a situation that could affect your family if you are eligible for full retirement benefits (typically age 66 or older) and you have young children (still under the age of 18, or sometimes higher in certain situations). If you qualify for Social Security retirement benefits and you have unmarried children (biological, adopted, or step-children), they are eligible to receive a monthly benefit of up to half of your full retirement amount.

Accordingly, each child that is under 18, or under 19 if still enrolled as a full-time student, may receive an equal amount up to a family total of 150% of your benefit. For example, if your full retirement monthly benefit is $2000, and you have two kids ages 12 and 16, each would receive $500 per month until they reach the age of 18. The math works like this: 150% of your benefit is $3000 minus your $2000 benefit leaves $1000. Dividing this amount by two leaves $500 to each of your children. If you had three children that qualified, each would receive $333.33.

I guess you're waiting to hear about the downside to employing this strategy. Thanks to the good folks in Congress, there does not appear to be one. According to the SSA website, "benefits paid to your child will not decrease your retirement benefit." If you're still working and have reached your full retirement age, you could also file and suspend your social security benefits. This election would allow your children to start drawing their share of the benefit while allowing your benefit to continue to accrue 8% a year up until the current maximum start time of age 70.

-Walter Hinson, CFP®

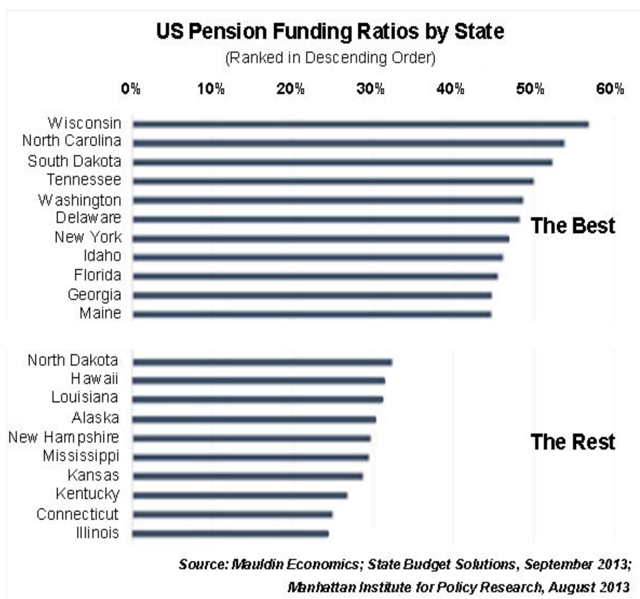
Is Your Pension Check Made of Rubber?

If you're one of the millions in the United States who receive a state pension check each month, you probably never stop to consider the health of the entity issuing your check—but should you?

A corporation with an 80% pension funding rate in the United States is considered average health, and anywhere below 60% is considered weak by S&P. Currently, Wisconsin and North Carolina are the best of a bad bunch with neither meeting the 60% funding threshold. Illinois takes the crown in this ugly pageant with a paltry 27% funded rate according to Moodys.

But pensions are protected by the Pension Benefit Guaranty Corporation (PBGC), right? If you work for a private entity this is true, as they are required to enroll in PBGC insurance, but not so for government entities. Should your state pension plan go bust, state and federal bankruptcy law will dictate your future payouts. In short, if your pension is drawn off one of the states in the danger zone, you should enter retirement with a healthy level of skepticism. If you're counting on 30 years of retirement income, you may be seeing a lot of rubber checks in your future.

-Ryan Glover, CFP®



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