Tarheel Advisors LLC

Tarheel Advisors Newsletter

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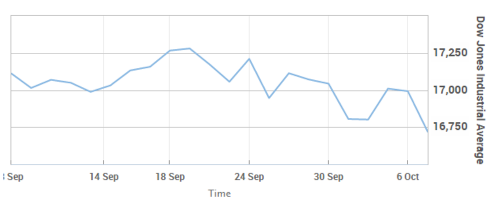
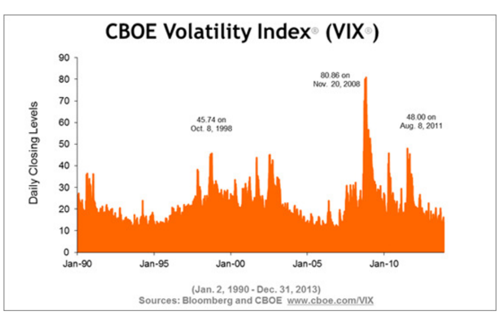
Volatility is Back

After briefly reaching a new all-time stock market high on September 18th, the momentum changed — and not in a good way. The slow single digit melt up in pretty much every asset class we've experienced through the first 8 1/2 months of the year has started moving in much greater leaps and bounds. If past history is any indicator, that might not bode well for stocks in the short-term as both September and October have a history of poor performance. Some on Wall Street have long attributed this affect to seasonal dynamics, or their favorite myth (such as the effect of the Jewish holiday calendar). One thing is for sure, we do have a documented history of big crashes in the Fall, i.e Black Thursday (10/24) in 1929, Black Monday (10/19) in 1987, and most recently the Financial Crisis of 2008 (Lehman Bankruptcy, TARP Fund, etc. in September and October).

This is not to point out that a mere 3% pullback (Russell 2000 Small-Cap Index has fallen 10%) from a market peak is a reason to jump ship or even batten down the hatches, but rather to emphasize that continued volatility is likely in the short-term and could be a good opportunity to rebalance your portfolio.



From a numerical standpoint, in spite of a week straight with daily triple digit Dow Industrial Average moves in both directions, the Volatility Index (VIX) has only jumped from 12.0% to 16.3%. While this is a pretty big change percentage-wise, the VIX remains well below its long-term average.



As I mentioned earlier, some of the recent higher volatility may be somewhat seasonal, and that does tend to reverse course in December and January, which are historically two of the best performing calendar months for the Market. However, there are a litany of variables to pay closer attention to as the 4th quarter begins. There are geo-political developments, such as the military operations against ISIS(L) and the ebola scare. In our mind, the chief concern for the markets should be the un-winding of Fed stimulus. With the Fed's QE3 winding to a close perhaps as soon as even mid-October, the impact on interest rates, market equilibrium, and currency exchange rates could be significant. Even though the Fed has continued to stress that rates will remain low for a "considerable time", this axiom may prove difficult to underwrite if bond purchases are stopped, domestic GDP continues to grow, and unemployment continues to fall (now down to 5.9%, un-officially). This dynamic is also at odds with the rest of the world, which seems to still be in favor of looser monetary policy. China has recently attempted to jump-start its growth with a stimulus package; Japan continues to devalue its currency at a historical rate; and Europe recently announced that the ECB will move rates below 0%, in effect charging financial institutions interest to keep money on deposit. If the Fed does not loosen the purse strings further, we will be tightening relative to the rest of the world. This atmosphere could drive the U.S. dollar even higher, and make it difficult for our multi-national corporations to compete and sell products internationally.

As an investor, we think the prudent thing to do is to continue a diversified asset allocation and stress that neither 100% cash nor 100% stocks is a good long-term strategy. Within a normal mixed bag of stocks, bonds, alternatives, and cash, the prudent thing to do may be to overweight domestic entities that derive most of their revenue in the U.S. Also, we think that it is about time the active managers start earning their keep. Mutual fund managers have done rather poorly as a group relative to their benchmarks for the last 5 years, and a volatile environment favors stock pickers over index funds.

-Walter Hinson, CFP®

2014 Market Update

S&P 500	**+8.3%**
DOW	**+4.5%**
RUSS 2000	**-4.3%**
MSCI World	**+0.0%**
BONDS	**+4.1%**
GOLD	**+0.9%**

Mortgage Rates

15-Year	**3.18%**
30-Year	**4.04%**
5/1 ARM	**3.29%**

Did You Know?

* Over the last century, September is the only month with negative average market returns.

* Long-time bond fund manager, Bill Gross, sometimes referred to as the "Bond King," announced on September 26th that he will leave PIMCO, a firm which he co-founded over 40 years ago, to join Janus Capital. Mr. Gross had managed the Total Return and Real Return funds for PIMCO, and had amassed over $225 Billion under management. Consequently, any exodus from those funds could cause ripples in the bond market due to the size of the transactions.

6 Weird Tricks for Protecting Your Identity

If you're like me you absolutely LOVE wildly clicking online when you read that someone is offering you "that one weird trick". Whether it's getting rid of belly fat, lowering your electricity bill, or making 1000% returns in penny stocks, I just can't get enough of them!

Right now you are thinking one of two things: hopefully, most are questioning my sanity, but the remaining three are saying, "tell me the weird tricks already!" So, without further adieu...

Trick #1: Stop Clicking: A major source of identity theft is online hacking, and a prime way to become a victim is by haphazardly clicking online. Before clicking on an unfamiliar link always hover over the link first to see what website you will be forwarded to. Also, when installing new software, always check the validity of your download source.

Trick #2: Annual Credit Report: One of the biggest parts of protecting your credit and identity is taking advantage of www.annualcreditreport.com. Once a year you are allowed to pull your entire credit report free of charge from all 3 credit bureaus. By checking this annually, you'll be able to spot irregularities that you're unlikely to find any other way.

Trick #3: Dispute: If you're going to take the time to pull your credit report, you need to make sure you're ready to dispute any incorrect information you may find. First, look for accounts that are unfamiliar as this could indicate that someone else has used your identity to open a credit line. Second, make sure your report reflects your credit history accurately. Should you have harmful inaccuracies in your reports, you'll need to dispute the information. While it is possible to correct the info by calling the company that wrongly submitted it, you'll most likely end up lost in a corporate phone tree maze. In my experience, you're far better off sending a dispute letter directly to the credit bureaus via certified mail. The onus is then on them to prove the validity of the disputed information, and if they do not cooperate, they are then subject to steep civil penalties.

Trick #4: Online Accounts: Protecting online banking accounts should always be a high priority. While many think your online banking password is the most critical piece to protecting your money, that is wrong. The most successful identity thieves typically target email accounts. These accounts are the gateway for retrieving user IDs and changing account passwords. A compromised email account can open the door to all your online accounts being compromised, so if you use the same password for the bulk of your accounts, it may be wise to choose a special unique password for your primary email.

Trick #5: Do Not Call: While it has been around for over a decade, most people do not realize you need to sign up for the do not call registry (www.donotcall.gov) every five years. By keeping your phone number up to date in the registry you can lower the number of solicitations received and know that if you receive a call asking for suspicious information that it is probably not legitimate.

While it isn't as well known as the do not call registry, everyone should also sign up for www.optoutprescreen.com. This will prevent the credit bureaus from selling your credit information for 5 years. This lowers the amount of pre-qualified credit offers you receive in the mail. By lowering the amount of these applications in your mailbox it helps decrease the chance that one of the mailers is stolen and used to open a fraudulent account in your name.

Trick #6: Credit Lock Down: If you want to be super secure with your credit and identity, it is actually possible to put your credit on total lock down with the credit bureaus. What this will do is that when anyone confirms your identity and pulls your report it will show that there is a freeze on your credit file, and they are then required to confirm your identity the old-fashioned way by meeting you in person and checking an ID.

Unfortunately, all these "tricks" may only provide limited protection as all your account info is still digitally stored somewhere and subject to hacking and theft by corporate insiders or unaffiliated third-parties. If following these "tricks" seems like too much to handle, then it might be prudent to utilize a service such as LifeLock that essentially does many of these steps for consumers as well as provides insurance against the costs of repairing your stolen identity. For those that may have been recently shopping at affected retailers like Target, Home Depot, Jimmy John's, etc., it's possible you can obtain a year free of a proactive credit monitoring service by visiting their websites and signing up. **-Ryan Glover, CFP®**

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