



March Madness

It has been quite an amazing first quarter of 2013. We've seen buzzer beaters, bracket busters, and bad calls by officials — and I'm not referring to last second baskets by Michigan, underdog triumphs by FGCU, or even the terrible call in the Miami-Illinois game. In the spirit of March Madness, let's take a look at this year's top investment themes in the first annual Tarheel Advisor's Investors' Final Four.

Coming out of the South region, we had two heavy-weights squaring off on January 1st. While the impact of the new Obamacare surtax was felt by many investors, the stock market impact appears to be minimal. The same can be said thus far about the sequester and lack of a

comprehensive "grand bargain." However, don't count out the Congressional Budget Office (CBO) and their cohorts in the House and Senate. Just because they survived a

buzzer beater in the first quarter doesn't mean that the giant budget deficit won't be a contender for the title later this year.

The Cinderella story of the year has played out in the West region with troubled front-runner Greece taking a back seat to the Nation of Cyprus. Although the story in Greece is still grim, officials in the EU have made several more bad calls when deciding the fate of the Cyprus banking system. Apparently, they have ruled that a Euro on the island of Cyprus is not worth the same as a Euro on the continent. The failure of the two largest banks in Cyprus and the ensuing

major losses to be born by depositors and creditors is definitely a "dunk city" bracket buster and worthy of keeping an eye on as the drama plays out on a national stage.

In the Midwest region, the overall #1 seed led by Coach Bernanke continues to win with a full-court printing press that suffocates its opponents. Although the European Central Bank and others around the globe have tried to break the press with some defense of their own, none have been able to out flank the Federal Reserve, which seems to find a spare \$85 billion a month on its bench to substitute for real economic drivers whenever the economy needs a breather.

Finally, in the East region, we have two teams that are playing their best ball come tourney time. Although the other teams have fought hard, it appears that the U.S. and

Japanese stock markets may be on their way to one shining moment. Through the end of the first quarter, Japanese equities are up 20%. However, a turnover on the dollar / yen exchange rate has sent U.S stocks to the Final Four with a terrific 11% performance.

Which investment story will ultimately prevail this year is yet to be determined. Let's just hope we don't suffer any more tough breaks and that the officials let the players decide the answer on the court.

-Walter Hinson, CFP®

2013 Market Update

S&P 500	+10.61%
DOW	+11.93%
NASDAQ	+8.21%
MSCI World	+4.71%
BONDS	-0.12%
GOLD	-2.78%

Mortgage Rates

15-Year	2.875%
30-Year	3.625%
5/1 ARM	2.75%

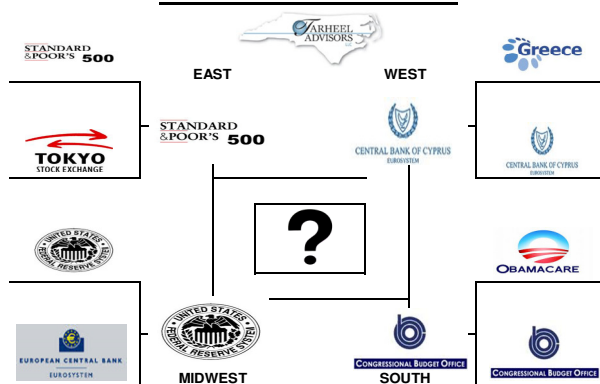
Did You Know?

*Only 47 of the 8.15 million NCAA men's basketball brackets monitored by ESPN predicted all four teams in the Final Four correctly.

*Australia and Britain recently outlawed receiving financial advice via a commission based relationship.

*The deadline for IRA and Roth IRA contributions for the 2012 tax year is Monday, April 15th. For those who meet the eligibility requirements, the maximum contribution is \$5,000 plus an additional \$1,000 catch-up if you are over age 50. The base amount is scheduled to go up to \$5,500 in 2013.

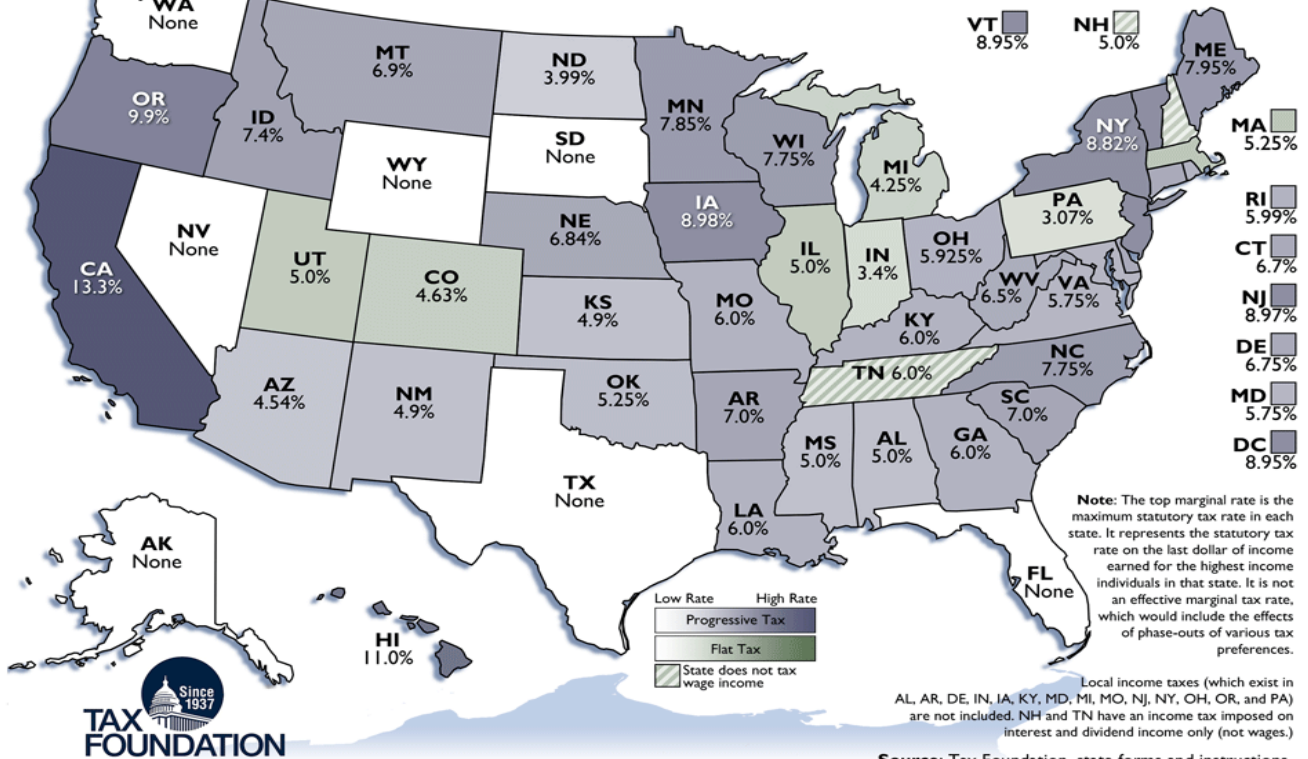
Investor's Final Four Bracket



Top State Income Tax Rates

Highest Statutory Marginal Income Tax Rate by State, Tax Year 2013

www.TaxFoundation.org



While the leaders in Congress are bickering over tax increases, many state lawmakers are pondering a move that would take tax rates in the opposite direction. Proposals have surfaced in Arkansas, Indiana, Iowa, Louisiana, North Carolina, Ohio, Oklahoma, and Wisconsin to cut or eliminate state income taxes altogether. Analysts believe in the possibility of the proposals passing with 39 states now having one-party control of their legislatures and governorships. Couple that fact with the competition from neighboring states to attract businesses and high-income residents, and you have a formula for success.

But before you start celebrating the extra money in your pocket, you must first consider how the state coffers will make up this revenue shortfall. Although many states have seen increased tax revenues fueled by increased property taxes from a recovery in housing prices, they are a long way from fiscal health due to legacy pension liabilities and a workforce that is still under-employed. Consider the case of North Carolina, where 60% of operating revenue comes from individual and corporate income taxes. If that source of revenue were curtailed, it would have to be made up via other taxes. The most likely culprit is a significant jump and expansion of the sales tax, which according to some proposals, could lead to a quadrupling of the tax on groceries and other day-to-day necessities.

The jury is still out on the economic barometer of such moves, and your political inclinations probably dictate your feelings on the topic.

However, there is no doubt that a lower state income tax could have a profound effect on your investments, specifically tax-free municipal bonds. Municipal bond income generally escapes federal income tax, but the state tax benefit for home state purchasers can be an added benefit. Bonds from states with higher tax rates typically fetch higher prices and offer lower yields because they are more attractive to in-state purchasers. If that benefit is lost, purchasers could switch their exposure to other state bonds that offer a higher yield at the same level of safety. For example, Florida (FL) and North Carolina (NC) both have AAA credit ratings, yet the average 10 year bond in FL yields 2.5%, while in NC it is 2%. If NC and other higher tax states follow through with their proposals, you can probably expect a price reduction for bonds in those states.

-Walter Hinson, CFP®

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