ParsecFinancial

First Quarter 2010 Newsletter

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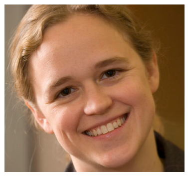
Special Points of Interest

- **The panic is over and the US economy keeps growing.**
- **There will always be problems in the world, but it is important to focus on the big picture.**

You Spoke, We Listened!



Harli Palme, CFP®

Financial Advisor

We thank all of our clients who took the time to fill out the client satisfaction survey we sent you. We recently received these results from 40% of our clients. The goal of the survey was to gain a better understanding of your needs and to ensure that the service we provide meets or exceeds your expectations.

On a scale of 1 to 5 (5 being highest) our client level of satisfaction is 4.4. When asked if you felt like you had a clear plan in place to meet your financial goals, 88% of you felt that you did. Also, 85% of you felt that your advisor takes a proactive approach to managing your relationship and 89% of you felt that your advisor adds value above and beyond investment performance. We're pleased with the high ratings we received, but also realize that these numbers show room for improvement.

When it comes to communication, it is clear to us that you want more of it. The survey showed that 82% of you are satisfied with the frequency with which your advisor contacts you. The survey results showed us that the type of communication you are most interested in is face-to-face, personal e-mails and telephone calls. We learned that 86% of you would like to meet with your advisor between 1 and 4 times per year. However, 85% of you would be happy with many of those meeting being via telephone, requesting on average, 1.5 face-to-face meetings a year.

We have heard your responses and thank you for your feedback. Though it will take us some time to review individual responses, we will take all of your input into consideration as we continually try to improve our service. We take your comments on how we can improve very seriously.

We were very pleased to learn that 96% of you would refer us to friends, family, and colleagues. This is something that we truly appreciate and we are more than happy to meet with anyone who you think could benefit from our service. Consultations with prospective clients are always free.

We had a drawing from the completed surveys to donate $2,000 to the winner's non-profit of choice. Our winner chose the Boys & Girls Club of Granville County to be the recipient of this donation. Congratulations!

Dr. Jim Smith's Economic Commentary

Dr. James F. Smith

CHIEF ECONOMIST

— The Panic Is Over At Last —

The U.S. and global economies entered a panic on August 9, 2007. That was the day the huge French bank, BNP Paribas, announced that it was suspending trades in three of its mutual funds because they had invested heavily in securities that were based on U.S. subprime mortgages that could not be priced. These mortgage-backed securities (MBS's) are still hard to value.

Global financial market participants nearly simultaneously and instantaneously realized they had badly mispriced risk. Immediately, the prices of risky assets fell dramatically while the prices of safe assets such as U.S. Treasury bills, notes and bonds soared.

This resulted in amazing spreads. A simple way to view this panic is to look at the difference between the daily quotes for 3-month U.S. Treasury bills on a bond-equivalent basis and the 3-month LIBOR for U.S. dollars. (LIBOR is the London Interbank Offer Rate.) From the 1970s until August 9, 2007, the difference between these two, known as the TED spread (for Treasury-Euro Dollars), was usually only 5-9 basis points. (It takes 100 basis points to make one percentage point.)

On August 9, 2007 that spread blew out to over 400 basis points and it stayed above 100 basis points well into last year. Recently, it seems to have shrunk enough for us safely to judge that the panic is over.

For example, on March 19, 2010, the yield on 3-month Treasury bills was 0.15%. The 3-month LIBOR quote in U.S. dollars was 0.28%, so the spread was down to 13 basis points. That's not quite all the way back down to the old "normal," but it's close enough to allow us to conclude that the panic has ended.

— The U.S. Economy Keeps Growing —

Quarterly data on the gross domestic product (GDP is the total value of all the goods and services produced for final demand within the borders of the U.S.) begin in 1947. Until last year, the worst performance we had ever seen for real (adjusted for price changes) GDP was three consecutive quarters of decline.

We experienced that dismal outcome only twice before. The last two quarters of 1953 and the first quarter of 1954 all declined (by 2.4, 6.2 and 1.9 percent respectively at seasonally adjusted annual rates). The other time was during the first oil shock (oil went from $4 to $13 a barrel). The last two quarters of 1973 and the first quarter of 1974 were all negative (by 3.9, 1.6 and 4.8 percent respectively at seasonally adjusted annual rates).

The last two quarters of 2008 and the first two in 2009 were all negative for real GDP (by 2.7, 5.4, 6.4 and 0.7 percent respectively at seasonally adjusted annual rates). That's a record four consecutive quarters of decline.

The result was that real GDP in the second quarter of 2009 was running at a seasonally adjusted annual rate of $12,973.0 billion. That was 3.8% below the record level set one year earlier.

That drop set a new record for the depth of post-World War II recessions, barely breaking the old record of a 3.7% fall set in the 1957-1958 recession. Of course, subsequent revisions of these data may return the record to the Eisenhower era. After all, such revisions have shown that real GDP never declined in the January to November 2001 recession despite small drops in the first and third quarters of that year.

The U.S. economy returned to growth in the third quarter of 2009, posting a seasonally adjusted annual rate real GDP increase of 2.2%. Driven by a big drop in the rate of decline in inventories, real GDP growth in the fourth quarter was 5.6% at a seasonally adjusted annual rate. That was enough to make up all the losses of the first half of the year, which made the fourth quarter increase 0.1% from a year earlier.

The period of time during which the economy is growing, but has not yet exceeded the old peak, is called a "recovery." That is where we are today.

When the economy surpasses the old peak, the time until the next recession is called an "expansion." We should be there in the third quarter of 2010.

Every member of *The Wall Street Journal* forecasting panel has positive growth for 2010. They expect the fourth quarter of this year to be 3.0% above the fourth quarter of 2009, which would be a new record for real GDP.

The average for the 53 of us in the February 5-9 survey was for 2.9% real GDP growth this quarter at a seasonally adjusted annual rate. The data we've seen so far for January and February are consistent with this prediction. The Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce will publish the first estimates for this quarter on April 30.

— Small Business Owners Remain Deeply Concerned About the Economy —

Literally mountains of research over many decades have proven beyond any doubt that small businesses are crucial for economic growth in the U.S. They account for over half of GDP and over 70.0% of net new job creation.

The National Federation of Independent Business is the largest organization of small business owners. It has been surveying its members since 1973 on a quarterly basis about economic conditions and since 1986 on a monthly basis one can see what they think.

During the deep recessions of 1973-1975 and 1980, the index of small business optimism fell below 90 (1986=100) in only one quarter in each case. The index was below that level in March, May, June and July 2008, before rising to 91.1 in August and 92.9 in September. From October 2008 through February 2010 it has remained below 90.

In February it was 88.0, the same as in December 2009. That's an unprecedented string of 17 straight months below 90. The biggest factor for this gloom is weak sales. Some 34% of small business owners alluded to this in February.

There is hardly any problem about credit availability. Only 3% of small business owners reported "finance" as their biggest problem. Before 1983 as many as 37% cited financing and interest rates as their biggest problem.

After "poor sales," the next biggest problem was "taxes," which was cited by 23% of respondents in February. In third place at 12% was "government regulations and red tape." No other concern made it into double digits.

Research conducted by Dr. Alicia Robb of the Kauffman Foundation has shown that only 2 to 4 percent of small business loans are backed by the Small Business Administration. It just is not a major factor in helping small businesses grow.

Her research shows the most important source of funding for entrepreneurs has been home equity loans. The decline in home equity since 2007 has really hurt this source of credit for small business owners.

— There Is Some Good News from Consumers —

On March 12 the Census Bureau released data on retail and food services sales for February. The total amount, adjusted for seasonal variations and holiday and trading-day differences but not price changes, was $355.5 billion. That was up 0.3% from January and was 3.9% higher than a year earlier.

Indeed, this result was the highest since the $365.9 billion reached in September 2008. That was the month that the Fed and the Treasury Department allowed Lehman Brothers to collapse, which spread chaos to financial markets around the world and led directly to the 5.4% collapse in real GDP at a seasonally adjusted annual rate in the fourth quarter of 2008 and the even worse plunge at a seasonally adjusted annual rate of 6.4% in the first quarter of 2009. That's the hole we're still trying to climb out of today.

The total excluding motor vehicles and parts was

$297.7 billion. That was up 4.2% from February 2009.

Total retail sales were $317.3 billion. They rose by 4.4% from a year earlier. Thus, by any of these three primary measures of aggregate retail sales, February 2010 was a very good month.

Furthermore, this set of good results came despite all the unusually heavy snows that kept shoppers from Georgia to Massachusetts in their homes and out of the malls and stores in the middle of the month. The strong sales also suggest retailers will have to order new merchandise to replenish inventories, which should give a significant boost to industrial production.

The weather may have helped non-store retailers (think catalogs and internet shopping). Their sales in February were up 11.8% from a year earlier. That was the best performance of any category except gasoline stations. They had a 24.0% increase. That mostly reflects the increase in oil prices form a year earlier.

The biggest decrease over the year was a fall of 3.9% for "Building materials and garden equipment and supplies dealers." This was partly weather-related and partly a reflection of the continuing weakness in residential construction.

Furniture and home furnishings stores posted a decline of 2.1% from February 2009. That was mostly due to the fact that fewer people are changing their residences.

Electronics and appliance stores posted a fall of 1.6% from a year ago in February. That explains why there are so many extraordinary sales going on in this category. Of course, that means that prices are down, which lowers total sales even while unit volume rises.

According to the Bureau of Labor Statistics March 18 report on the February consumer price index (CPI), the prices of audio and video equipment were 2.1% less than a year earlier in February 2010. The prices of personal computers and peripheral equipment fell 11.1% over the year.

On March 11 the Board of Governors of the Federal Reserve System released the quarterly "Flow of Funds" report covering the fourth quarter and full year 2009. The "Households and Nonprofit Organizations" sector had a net worth of $54.2 trillion on December 31, 2009.

That was an increase of $2.8 trillion or 5.4% over the year before. It was the highest level since the $56.8 trillion in the third quarter of 2008. It was $10.3 trillion or 16.0% below the record mark of $64.5 trillion set in the fourth quarter of 2007.

That massive and unprecedented destruction of wealth is the main reason that the personal savings rate has increased so much. It was 1.4% in 2005, 2.4% in 2006 and 1.7% in 2007. It rose to 2.7% of disposable personal income in 2008 and 4.3% in 2009. That was the highest since the 5.3% of 1998.

Total assets were $68.2 trillion on December 31, 2009. This was also the highest since the third quarter of 2008.

The biggest asset of the household sector was our $16.6 trillion worth of houses. Against that was our largest liability of $10.3 trillion in mortgages including home equity lines.

That meant we had unborrowed home equity of $6.3 trillion at the end of 2009. That was 38.1% of the value of household real estate, the highest level since the 38.8% at the end of 2008. That proportion was 50.0% in 2007 and 59.9% in 2005.

The second-largest asset of the household sector on December 31, 2009 was the $11.8 trillion of pension fund reserves. Third were corporate equities at $7.7 trillion and fourth was equity in non-corporate businesses at $6.5 trillion. That was down from $7.3 trillion a year earlier and well below the peak of $8.8 trillion at the end of 2006.

Time and savings deposits ranked fifth at $6.1 trillion. In sixth place were mutual fund shares at $4.4 trillion. That was followed by $2.2 trillion in corporate and foreign bonds.

Households and nonprofit organizations held $795.2 billion of Treasury securities on December 31. That was way above the $263.9 billion level a year earlier.

Household net worth was 490.3% of disposable personal income at the end of 2009. That suggests a lot of buying power is available to consumers now.

It still seems quite likely that real GDP will grow 3.3% this year, both on a year-over-year average and on a fourth quarter-over-fourth quarter basis. We should see growth above 4.0% in 2011 unless Congress does really bad things with our tax laws. Keep watching that area carefully.

Stock Market Perspective

Bart Boyer, CFP®

CHAIRMAN AND CEO

As of this writing we are looking back on the worst decline for the stock market since the Great Depression, with the S&P 500 reaching a low of 667 one year ago on March 6. The decline from top to bottom was a staggering -57%! As has happened historically, and as we predicted, the subsequent rally was dramatic as well, with the S&P 500 currently at 1,168, +75% from the low. Of course, we are still well below the all time high of 1,565, needing another +34% to get above that level.

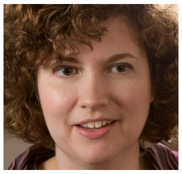
Even with that dramatic partial recovery, investors are still very nervous, and trillions of dollars remain in short-term fixed income, earning little or nothing. A person who retired 30 years ago with $1 million of investments in a six month CD could spend $3,000 this year if not spending principal. That is not much of a retirement. Alternatively, someone else who retired 30 years ago with $1 million, who chose equities and spent the dividends each year, would have about $13 million now and annual spending of about $240,000. Yes, that $13 million had been more than $17.3 million two years ago, so they lost $4.3 million since that time. Or, did they make $12 million on their initial investment? How much did the retiree with the 6-month CD strategy lose? They started with $1 million and still have $1 million, so they didn't lose a dime. In reality the opportunity loss was $12 million, as well as significantly less spending over the 30 years. Life is full of choices!

My hope and expectation is that job creation will restart in March, April or May. With that there could be a partial exodus of money stashed in fixed income by investors waiting for things to look better. Logically that would mean a higher stock market. Even though anything can happen over the short term, I am optimistic over the year ahead.

Over the longer term some investors see trouble ahead, such as higher taxes, inflation, and government deficits. How would you have felt 30 years ago with unemployment of 10.8%, the prime rate rising to 21%, and 16% home mortgage interest rates? Not too good would be my guess. Keep in mind that democracy and capitalism are a very powerful combination. Al Qaeda and the Taliban are troubling but they have no Navy and no Air Force. They are simply a collection of mafia type thugs wrapping themselves in a religious banner for recruitment. Throughout all of human history there has always been a super power confrontation, usually ending in a huge war. These powers (Great Britain versus Spain; Great Britain versus France; Germany/Japan versus France/Great Britain/USA) traded much less with each other and eventually fought. Then it was USA versus USSR/China. We traded with each other, we negotiated, and we were patient. There was no big war. Now there is little chance of a major war among the super powers of USA, China, Japan, Germany, Great Britain, France and Russia. Globalization makes us each very dependent on the other and there are good prospects for dramatic increases in world trade, globalization, and economic growth.

There will always be problems in the world, but it is important to focus on the big picture. I believe that it will pay large dividends to be an optimist over the years ahead.

Thirty Years of Progress



Cristy Freeman, AAMS®

Senior Operations Associate

I doubt many people would pick 1980 as the year to start a business. Interest rates were around 16 percent. Unemployment was high. The country was in the midst of a recession.

It was in this environment that Bart Boyer decided to move from Minnesota to Asheville and start an investment management firm. The winter of 1979 probably had a lot to do with it. He said they experienced 56 consecutive days during which the temperature did not rise above freezing in Minneapolis.

His eldest daughter, Alyssa, was only nine days old when Bart and Elaine loaded up the rented truck. Elaine and Alyssa flew down and Bart drove the truck. It broke down three times before he arrived in Asheville.

Parsec's first office would be in the "lower level" of the Boyer home. Our vice chairman, Jack Smith, disputes this particular description. He jokingly calls it the basement.

In the years that followed, Bart and Elaine welcomed three more kids into the Boyer family. With the addition of another advisor, Jack Smith, Parsec's business grew to the point where a larger space was needed. (Plus, it is hard to have a conversation with a client when the children are running amuck upstairs.) In 1986, Parsec moved to our current location on Wall Street.

It is important to emphasize the year – 1986. One year later, the stock market would crash. Of course, more market crashes, corrections, and recessions would follow.

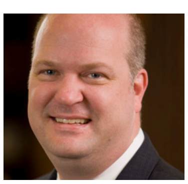
The changes that I have personally seen in my tenure here have been remarkable. When I joined the firm in 1992, there were only four of us – Bart, Jack, Regina, and me. Bart had an IBM Selectric typewriter on his desk. We only had one computer in the office.

We all wore many hats. Regina and I cleaned the bathrooms. Bart cleaned the mess left on the doorstep over the weekend by inebriated downtown visitors. And Jack created interesting science experiments in the half full mugs that littered his desk.

Oh, how times have changed. Even Bart has a computer on his desk now; the Selectric retired long ago. We have 24 employees in the Asheville office and 4 employees in our Charlotte office. We have clients in over 34 states. As of December 31, 2009, our assets under management were over $987 million.

We would like to thank you for helping us grow beyond our expectations. Our achievement is possible because of the trust and support you have given us. Thank you!

Bond Market Highlights



Mark Lewis

Research and Trading Associate

Municipal Bonds

- According to Moody's, investment grade municipal debt had an average default rate of 0.03% from 1970 through 2009.
- Current muni market is shaped by historically steep yield curves and historically wide quality spreads.
- Anticipation of higher tax rates at both federal and state levels still exists.

Corporate Bonds

- According to Moody's, investment grade corporate debt had an average default rate of 0.97% from 1970 through 2009.
- Corporate spreads have narrowed considerably from a 25 year peak of 268bp to 153bp currently (AAA yields minus 1-yr Treasury yields).
- Current corporate market is shaped by a steep yield curve and still wide quality spreads.

High-Yield Bonds

- In early 2009, the spread between 10-yr B-rated corporate vs. treasuries peaked at over 1,200bp.
- At year end, spreads were around 425bp which compares favorably with the long-term average spread of approximately 250bp.
- The amount of "distressed bonds" fell to $117 billion from $250 billion six months ago. Distressed bonds yield at least 10 percentage points above benchmark rates.
- Current default rate near 13% as of 3Q '09. Historical average is around 5%.

International Bonds – OIBYX (4th Quarter commentary)

- The Eurozone, particularly the export-driven economies of France and Germany, responded well to the turnaround in global manufacturing but strains within the euro family grew more prominent given the ongoing credit issues in Greece, Spain, and countries in Eastern Europe.
- In the wake of possible higher global interest rates, the team is continuing to under-weight developed market debt and over-weight emerging market country debt.
- Within the Developed Markets sleeve, the fund was largely able to side-step the issues surrounding Greece. The fund's Greek bond exposure was drawn down to zero by late November

US Treasuries

- The break-even rate between yields on 10-yr Treasuries and TIPS, a measure of the outlook for consumer prices, has widened from 0.12% to 2.15% at the end of February.
- A newer gauge of investor expectations for inflation rose to 3.27% in early January, approaching the high of 3.36% reached in May '04. This gauge, called the five year/five year forward break-even rate, was created by a Federal Reserve Bank insider.
- A survey of 80 financial services firms forecast CPI of 2.15% in 2010, 2.00% in 2011, and 2.30% in 2012.

Year of the Roth, the Income Tax-Free IRA Clarification

Last quarter, our newsletter misstated one of the advantages of Roth conversions made in 2010, as it relates to the taxes payable. As a point of clarification, we elaborate further on this aspect of Roth conversions.

If you convert a Traditional IRA to a Roth IRA in 2010 you may choose to either:

1. recognize all of the associated income from conversion in 2010, or

2. recognize half of the associated income from conversion in 2011, and the other half of the associated income in 2012.

We again want to encourage our clients to speak to their advisors to learn if a conversion is appropriate for them. The decision to convert to a Roth should not be taken lightly; it is considered a taxable event and could be quite costly if not advised by qualified professionals.

We apologize for any confusion our newsletter may have caused. For more information on Roth conversions, please visit our web site:

www.parsecfinancial.com/news.

Parsec Prize

We wanted our first quarter Parsec Prize to go toward supporting land conservancy and stewardship in North Carolina. Both Carolina Mountain Land Conservancy and Southern Appalachian Highland Conservancy are such great organizations that we couldn't choose between the two. This quarter's Prize will be split between the two organizations. Similar in their conservation work, their missions state their goals: CMLC helps landowners protect local land and water resources vital to our natural heritage and quality of life. SAHC conserves the unique plant and animal habitat, clean water, local farmland and scenic beauty of the mountains of North Carolina and east Tennessee for the benefit of present and future generations. Thanks in part to the work of these organizations North Carolina is a beautiful place to live.

ADV Offer

Parsec's Form ADV, a disclosure document, describes services provided to our clients and is available upon request. If you would like a copy, please contact us.

Parsec Blog

Have you been curious as to what we are thinking? Log on to Parsec's weekly blog to learn more!

www.parsecfinancial.com

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