

ParsecFinancial

Fourth Quarter 2006 Newsletter

Financial Advice and Planning

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Special Points of Interest

- ◆ Third & fourth quarter Parsec Prize awarded to Mountain Microenterprise Fund and Handmade In America
- ◆ Parsec welcomes Michael Bruder
- ◆ Medical Economics selects Bart Boyer as one of the top 150 advisors to doctors

Traditional IRAs and Roth IRAs are important wealth building tools that carry rules which are often complex and confusing. Not only is it important to understand their tax deferral benefits for you during accumulation, but also the “stretch” of tax deferrals for your beneficiaries at distribution. Review of your current beneficiaries will enable you to determine what “stretch” capabilities they allow.

The maximum IRA contribution for 2006 is \$4,000 plus an additional \$1,000 if age 50 or over.

You can contribute to a Roth IRA if you have taxable compensation and your AGI is within certain limits. The general AGI rules are income less than:

- \$110,000 for single or head of household
- \$160,000 for married filing jointly

Whether or not your traditional IRA contribution is deductible is determined by your adjusted gross income (AGI), tax filing status, and if you are covered by a retirement plan at work.

If you are not covered by a retirement plan at work your contribution may be fully deductible if your AGI is:

- any amount, if your tax filing status is single
- any amount, if your tax filing status is married filing jointly and your spouse is also not covered by a retirement plan at work
- \$150,000 or less if your tax filing

status is married filing jointly and your spouse is covered by a plan at work.

If you are covered by a retirement plan at work, your contribution may be fully deductible if your AGI is:

- \$50,000 or less and your tax filing status is single
- \$70,000 or less and your tax filing status is married filing jointly
- \$150,000 or less if your tax filing status is married filing jointly and your spouse is not covered by a plan at work (in this case the spouse would make the deductible contribution)

One planning idea for consideration is to contribute to a non-deductible IRA and then convert this money to a Roth IRA in 2010, when the modified AGI limitation on conversions is repealed by the Tax Increase Prevention and Reconciliation Act of 2006 (TIPRA). The income tax from the conversion will be based on the growth in your account, not the contributions, as they were already taxed. For conversions in 2010, the tax will not be reported that year, but instead will be reported in two equal installments in 2011 and 2012.

As with any strategy there are other factors both personal and related to the TIPRA law that must be considered in each client situation. Should this planning idea have interest or merit for you, or if you have questions about whether you should contribute to a traditional IRA or Roth, please contact your advisor.



Michael Bruder, CFP®
Senior Financial Advisor

Welcome Michael Bruder

The newest member of the Parsec advisor team, Michael E. Bruder, comes to us with over 20 years of experience in the financial industry. His background includes investment and lending experience. Holding both graduate and undergraduate degrees from Western Carolina University, Michael is

also a Certified Financial Planner (CFP®) practitioner.

Stock Market Outlook for 2007

Record Retail
Sales Are a Good
Sign for the U.S.
and Global
Economies

Historically the stock market has been positive about 70 percent of the time, so odds are it will be positive in 2007. As always there are negative aspects to the market that could upset that expectation. Although just modestly, the yield curve is inverted, with short term interest rates about a half of one percent higher than long term rates. It is better for business for short term rates to be lower than long term rates. The housing market is weakening. From 1890 through 1995 housing prices rose about 10 percent more than inflation. Ten percent total, over 105 years! From 1997 through 2005 they rose 90 percent more than inflation. Clearly that is out of line and prices are now declining. If that decline is severe it could negatively affect the stock market. Derivatives are always a risk. Also, the balance of the trade deficit is far too high and global interest rates are rising. The Middle East is troubled, worldwide terrorism, North Korea – we could go on and on.

However, there are always negatives and if you dwelled on them you would miss all the wealth creation that the stock market provides over the long term. As we've discussed a variety of times in recent quarterly reviews, the third year presidential phenomenon is powerful, averaging +22.4 percent for the last 68 years. Commodity prices are declining, with energy being of particular importance. Interest rates and inflation are low. Corporate finances and earnings growth are very strong. With a new Defense Secretary and fresh ideas, the worst is probably behind us in Iraq, and troop levels could come down. China, India, Eastern Europe and Russia are booming and learning capitalism.

On balance we are quite positive and expect an above average year, but, of course, there can be no certainty of that. It is better to focus on the long term, which is very positive.

Dr. Jim Smith's Economic Commentary

Shoppers headed for the malls and their favorite stores before dawn on the Friday after Thanksgiving, which is generally accepted as the traditional start of the Christmas shopping season. With over 145 million people employed earning nearly \$10 trillion in disposable income and the lowest unemployment rate (4.4 percent) since early 2000 driving consumer confidence, the 2006 total for November-December retail sales should shatter all previous records.

Since retail sales are about 1/3 of the gross domestic product (GDP), this means we should see a strong improvement in the fourth quarter over the anemic 2.2 percent real GDP growth rate posted in the third quarter, the weakest pace since the first quarter of 2005. Total personal consumption expenditures accounted for 70.7 percent of GDP in the third quarter.

U.S. consumers are the primary growth locomotive for the entire world. We buy so many goods and services from the rest of the world (\$2.3 trillion at a seasonally adjusted annual rate in the third quarter) that hundreds of millions of families around the globe depend on U.S. consumers for a good part of their livelihoods.

Unfortunately for all those people counting on U.S. consumers to keep global prosperity growing, the party is likely to come to at least a temporary halt in 2007. The dreaded inverted Treasury yield curve, that situation in which the return to investors in three-month Treasury bills (4.92 percent on November 24) is higher than the yield on ten-year Treasury notes (4.55 percent that day), has now lasted for more than three months.

Every time that has occurred since the creation of the Federal Reserve System on December 23, 1913, a recession has followed within 9-19 months. It most commonly has happened within 11-13 months.

Conversely, the last time we had a recession without this signal from an inverted Treasury yield curve was the May 1923-July 1924 experience. That was a "classic" recession caused by excessive inventory building followed by the order cancellations and mass layoffs that resulted. No one expects inventories throughout the whole country to get so far out of line again.

This means we'll all be on recession-watch in the first half of 2007. My expectation is that it will be a short, mild recession similar to the 2001 experience but without the huge job losses. That would still result in positive real GDP growth of 1.4 percent in 2007. Then we should see strong growth of 4.2 percent real GDP growth in 2008.

The consensus for real GDP growth is a little below 3.0 percent in both 2007 and 2008 with no recession on the horizon. That's a very different forecast from mine.

One of the biggest differences is in the political implications. If the consensus forecast turns out to be reasonably accurate through 2008, this lengthy period of real GDP growth consistently below the potential of 3.6 percent or so means that the Democrats can nominate any person who was born in the USA, has lived here for 14 years or longer, is at least 35 years old and has never been convicted of a felony, and he or she will win handily.

If my forecast of a recession in 2007 followed by strong growth in 2008 turns out to be a close approximation of what happens, then the Republicans can nominate any person who was born in the USA, has lived here for a minimum of 14 years, is at least 35 years old and has never been convicted of a felony, and he or she will win by a goodly margin. Much research by many distinguished economists and political scientists has shown conclusively that the state of the economy determines the outcome of Presidential elections.

Keep watching the economy in 2007. It should be very interesting.

1. The total value of goods and services produced for final demand in a country. "Real GDP" is the total value of goods and services produced for final demand in a country after adjusting for price changes.

Parsec Prize

We have finalized the 2006 giving of the Parsec Prize. This year we gave four \$13,000 prizes. The first two were to Habitat for Humanity and Eliada Homes, outlined in our previous newsletters. For the third quarter we gave the prize to Mountain Microenterprise Fund, and for the fourth quarter, to Handmade in America.

Both recent recipients strive to improve the economic development and quality of living in our region. Mountain Microenterprise Fund serves aspiring entre-

preneurs across western North Carolina by providing small business training, technical assistance, and loans. Handmade in America focuses on creating sustainable economic development and providing business and financial support for craftspeople in order to nurture the strong craft culture of our area.

For more information on how to apply, please visit our Website at www.parsecfinancial.com.

Account Security

Your Account Security is Important to Us

It is important to be mindful of potential threats to your account security. The North American Securities Administrators Association (NASAA) has issued a warning to investors to carefully monitor their online trading accounts in the wake of "hack attacks" in which predators have broken into customer accounts at online brokerages and made unauthorized trades worth millions of dollars. The NASAA urges investors to carefully monitor online trading accounts.

If you do have online access to your accounts, you will find it assuring that Parsec monitors all trades in the accounts that we manage. Our process entails verifying all trades that we have placed in clients' accounts the next day and looking for any non-Parsec executed trades. Any discrepancies are investigated further, which includes notifying the account holder. To date, we have never detected any illegal activity. Schwab, Fidelity and T.D. Ameritrade all guarantee reimbursement on losses due to unauthorized activity.

Bart Named in the Top 150

We are very pleased that out of hundreds of thousands of financial advisors nationwide, our Chairman and CEO, Bart Boyer, was again selected by Medical Eco-

nomics as one of the 150 best financial advisors for doctors in the country.

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