

# **Parsec Financial Management, Inc.**

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**<http://www.parsecfinancial.com>**

**March 31, 2012**

This Brochure provides information about the qualifications and business practices of Parsec Financial Management. If you have any questions about the contents of this Brochure, please contact us at 828-255-0271. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Parsec Financial Management is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information with which you determine to hire or retain an Adviser.

Additional information about Parsec is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

The only material change from our 2011 ADV Brochure is that we adjusted our fee schedule for all new clients. Legacy clients have a fee schedule commensurate with their most recently signed agreement, so the new fee schedule only affects new clients.

We added a disclosure to clarify how we are handling brokerage arrangements: For fixed income trading, clients are asked to sign a Prime Broker Amendment to their account. On the buy side, this allows Parsec to expand our search for bonds beyond the custodian's inventory to third-party broker/dealers. On the sell side, Parsec is able to put the bonds out for the bid to a list of broker/dealers to ensure best execution. By using a Prime Broker agreement, it isn't necessary to open an account for each client at each broker/dealer. Instead, the broker/dealer utilizes our master trading accounts at our custodians, then the custodian allocates the trade to the proper client. The client receives a trade confirmation from the custodian (instead of the broker/dealer who they may not be familiar with). The confirmation will indicate the specific broker/dealer that executed the trade.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of Parsec's fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

Our Brochure may be requested by contacting our office. The Brochure is also available free of charge on our web site, <http://www.parsecfinancial.com>.

Additional information about Parsec Financial is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Parsec who are registered, or are required to be registered, as investment adviser representatives of Parsec.

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## **Item 4 – Advisory Business**

Parsec Financial Management, (nc. (“Parsec”) was founded in 1980 by William Barton Boyer who is a principal owner. All employees are allowed the opportunity to participate in ownership by buying privately held stock in the firm. Ownership in the firm is a foundation for our succession plan and an opportunity for all employees to be part of the team.

Total Assets Under Management as of December 31, 2011:           \$1,164,036,101

Discretionary:           \$1,049,038,674

Non-Discretionary:       \$ 114,997,427

### ***Types of Advisory Services***

Parsec offers three main services to clients: investment management and financial planning for individuals, ERISA consulting and employee education for employer-sponsored retirement plans, and Trust services through Parsec Trust, a division of National Advisors Trust.

For individual clients and their families Parsec provides investment management of client assets. Parsec obtains background information about each client’s current financial circumstances, investment objectives and risk tolerance through an interview and information gathering process. This information helps to create the investment policy statement, which establishes the client’s portfolio asset allocation.

Before investing client assets, a proposed portfolio is presented to the client. Upon client approval of investment recommendations, Parsec will create a portfolio consisting of a variety of securities, such as individual stocks, bonds, exchange-traded funds, and no-load and load-waived mutual funds. Clients have the opportunity to place reasonable restrictions on the types of investments that will be made on their behalf. Advisors are available on an ongoing basis to answer any questions regarding their portfolio or other financial matters. Review of accounts is done at least quarterly, and rebalancing is accomplished (if necessary).

In addition to investment management, many clients receive a financial plan. The plan may include recommendations for budgeting, goal setting, insurance, taxes, investments, and estate planning, depending on each client’s unique situation. Parsec uses financial planning software that details assets, liabilities, expenses, cash flow, asset projections, and other details. Financial plans and investment policy statements are reviewed annually and updated as necessary.

Parsec also provides ERISA consultation via asset management to commingled retirement plans, as well as participant-directed retirement plans with daily valuation options. We offer model portfolios for the participant-directed plans that are updated and rebalanced periodically, typically on a quarterly basis. Employee education is provided yearly, or as requested by the plan sponsor, and is tailored to the needs of the clients.

## **Item 5 – Fees and Compensation**

The following annual fee rate schedule applies to individual clients, corporate brokerage accounts, and commingled ERISA qualified retirement plans:

- 1.00% if the managed portfolio assets are from \$400,000 to \$1,000,000.
- 0.90% if the managed portfolio assets are from \$1,000,001 to \$2,000,000.
- 0.80% if the managed portfolio assets are from \$2,000,001 to \$3,000,000.
- 0.70% if the managed portfolio assets are from \$3,000,001 to \$4,000,000.
- 0.60% for the managed portfolio assets from \$4,000,001 to \$5,000,000.
- 0.50% for the managed portfolio assets from \$5,000,001 to \$10,000,000.
- 0.40% for the managed portfolio assets from \$10,000,001 to \$20,000,000.
- 0.30% for \$20,000,001 and above

Whatever the values are, the applicable rate applies to all of the money. For example, \$4,000,000 is all at 0.70%, and no higher rates apply.

The minimum annual fee is \$4,000. Financial planning is included with asset management at no additional fee. A fee of \$2,000 for the financial plan is payable if the client chooses not to progress with the service for a minimum of one year. Upon plan implementation, the applicable percentage fee would begin on a pro-rata basis for the quarter. Fees are billed quarterly, in advance. Payment is due within 30 days after presentation of an invoice. Payment can either be by check or a deduction from the account (with the client's permission). The portfolio review is sent with the invoice.

For account values that do not meet our minimum fee, we offer a Basic Service of investment management only, with no financial planning. Fees are billed quarterly in advance at an annual rate of 1%, with a \$500 quarterly minimum. Financial planning is available at an additional fee of \$2,000.

Fees are occasionally negotiated in unusual situations. Legacy clients may be grandfathered in at a lower rate commensurate with the contract in place when they became clients.

Client relationships can be canceled at any time by either party. Any prepaid and unearned fees will be promptly refunded.

Parsec's fees are exclusive of brokerage commissions, transaction fees and other related costs and expenses which shall be incurred by the client. Mutual funds, exchange traded funds and separate account managers also charge internal management fees, which are disclosed in a fund's prospectus. Therefore, Parsec clients pay two levels of fees for these types of assets, both directly to Parsec and indirectly through fees charged by the underlying investment vehicle. Parsec's fees are based solely on assets under management.

For ERISA-qualified plan consulting arrangements, the fee schedule is as follows:

- 0.50% for the managed portfolio assets from \$0 to \$2,000,000.
- 0.40% for the managed portfolio assets from \$2,000,001 to \$4,000,000.
- 0.30% for the managed portfolio assets from \$4,000,001 to \$6,000,000.
- 0.20% for the managed portfolio assets from \$6,000,001 and above.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

Parsec Financial does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **Item 7 – Types of Clients**

Parsec Financial provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, foundations, endowments, trusts, estates and charitable organizations.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

We follow a long-term investment strategy based on diversification and risk reduction. Although we create a customized portfolio for every client, our overall investment approach includes:

- Balanced investment between growth and value, including small-, mid- and large-cap companies, with some weight in international markets;
- Individual stocks for the large-cap (and some of the mid-cap) portion of a portfolio (when appropriate to account size), carefully researched and chosen by our Investment Policy Committee;
- ETF's or equity mutual funds for the remaining mid-cap as well as the small-cap, and international portions of a portfolio;
- Bond funds, ETF's or individual bonds for clients who require a fixed-income allocation.
- ADR's are used for some of the international allocation.

We follow a bottom-up stock selection process focusing on several fundamentals including:

- Current valuation relative to projected earnings growth;
- Price/earnings ratio relative to the overall market and to the company's own historical range;
- Degree of financial leverage, avoiding heavily indebted companies;
- Level and consistency of profit margins.

Based on our research and analysis, we have compiled a recommended list of securities. We continually monitor the prices of the securities on this list, as well as any news regarding these holdings. In addition, every security in our coverage universe is formally reviewed at least 3 to 4 times a year, and more often if circumstances dictate.

The firm's Investment Policy Committee meets weekly to review individual securities, mutual funds and separate account managers, in order to update their investment recommendations on these securities and managers on a regular and ongoing basis.

Investing in securities involves risk of loss that clients should be prepared to bear. Investment risk consists of both systematic risk and unsystematic risk. Unsystematic risk is not related to the market as a whole, but rather is associated with a specific investment. Systematic risk is the risk associated with the overall market that is not unique to any one investment vehicle.

It is possible to reduce unsystematic risk by creating a portfolio diversified across many different companies and sectors. It is not possible to eliminate systematic risk. Macroeconomic factors such as inflation, unemployment, corporate earnings, commodity prices, and interest rates all contribute to systematic risk since they influence the prices of all risky assets. However, it is possible to lower systematic risk somewhat by diversifying internationally, since economic variables in the U.S. are not necessarily correlated with those in other countries. Of course, investing internationally exposes investors to risks related to social, political, and economic factors, as well as fluctuating exchange rates.

## **Item 9 – Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Parsec or the integrity of Parsec's management. Parsec Financial has no information applicable to this item.

## **Item 10 – Other Financial Industry Activities and Affiliations**

Parsec assists clients with Trust management through Parsec Trust, a division of National Advisors Trust (NATCO). Parsec Financial acts as investment manager of Trust assets, while Parsec Trust provides trustee services through NATCO.

## **Item 11 – Code of Ethics**

Parsec has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Parsec must acknowledge the terms of the Code of Ethics annually, or as amended.

Parsec's employees are required to follow Parsec's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Parsec may trade for their own accounts in securities which are recommended to and/or purchased for Parsec's clients. The Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of the employees of Parsec will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. The Code requires pre-clearance of individual equity transactions. All employees are required to provide annual securities holdings reports and quarterly transaction reports to the CCO. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Parsec and its clients.

Parsec's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting the Chief Compliance Officer.

## **Item 12 – Brokerage Practices**

Parsec will recommend a registered broker dealer, bank or trust company to act as a separate custodian to take possession of the cash, securities, and other assets in the Account. Client directs Parsec to place all trades (other than those involving individual bonds) for client account(s) solely through the custodian selected and appointed by Client. Parsec will not seek best execution through other broker dealers on the Client's behalf except for transactions in individual bonds. Parsec primarily recommends Charles Schwab & Co., Inc., and the Fidelity Registered Investment Advisor Group as custodians for client assets. Clients may select other brokers. Parsec will not have authority to negotiate commissions or obtain volume discounts, and best execution may not be achieved because client has agreed to direct the use of a particular broker. Parsec regularly reviews its custodial brokerage recommendations and believes that its recommendations are consistent with its fiduciary duty.



By assigning a custodian for the assets, the client directs Parsec to execute all trades solely through the selected bank or registered broker-dealer. In instances where multiple banks or broker-dealers are used, trades will be placed with the custodian who holds the assets for the account in which trades are being executed, except for fixed income prime broker trades as described below.

Parsec's Brokerage Committee meets on at least an annual basis to review the firm's brokerage practices and brokerage services received from the various broker-dealers used. As part of the Brokerage Committee's review of the firm's brokerage practices, the following factors are considered in the review of broker-dealers and their services:

- Level of commission rates (typically a flat, per-transaction charge)
- Availability and quality of research
- Quality of executions
- Operations/settlement services
- Trade errors
- Reliability for firm
- Accuracy and quality of firm's reports
- Support software/hardware provided
- Use or availability of ECN's for liquidity, reduced commissions, et cetera.

Also, each financial advisor has an individual and ongoing responsibility as portfolio manager to monitor trading activity and brokerage services received for the broker-dealers utilized by the firm.

For fixed income trading, clients are asked to sign a Prime Broker Amendment to their account. On the buy side, this allows Parsec to expand our search for bonds beyond the custodian's inventory to third-party broker/dealers. On the sell side, Parsec is able to put the bonds out for the bid to a list of broker/dealers to ensure best execution. By using a Prime Broker agreement, it isn't necessary to open an account for each client at each broker/dealer. Instead, the broker/dealer utilizes our master trading accounts at our custodians, then the custodian allocates the trade to the proper client. The client receives a trade confirmation from the custodian (instead of the broker/dealer who they may not be familiar with). The confirmation will indicate the specific broker/dealer that executed the trade.

Occasionally securities are traded on an aggregated basis when consistent with Parsec's obligation to seek best execution. In such circumstances, client accounts will share commission costs equally and receive securities at a total average price. Parsec will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a random basis, as determined by our trading software. Any exceptions will be explained on the Order.

### **Item 13 – Review of Accounts**

Parsec provides ongoing advice to the client regarding their investments. Account supervision is guided by the stated objectives of the client.

Clients receive written reviews on a quarterly basis, which includes information about their portfolio holdings and values; and performance information, including a reference to relevant market indices or benchmarks. Additional account reviews may be necessary due to a change in client goals and objectives, economic or market conditions or specific client requests. All reviews are performed by a financial advisor. Advisors hold the title of either financial advisor, senior financial advisor and/or partner or managing partner.

Advisors may also schedule client meetings on a periodic basis, or on client request, to review a client's portfolio, performance, market conditions, financial circumstances, and investment objectives. The meeting would also confirm that Parsec's investment decisions and services are consistent with the client's objectives and goals.

### **Item 14 – Client Referrals and Other Compensation**

#### *Client Referrals*

(a) Parsec receives client referrals from Charles Schwab & Co., Inc. ("Schwab") through Parsec's participation in Schwab Advisor Network® ("the Service"). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with Parsec. Schwab does not supervise Advisor and has no responsibility for Parsec's management of clients' portfolios or Advisor's other advice or services. Parsec pays Schwab fees to receive client referrals through the Service. Parsec's participation in the Service may raise potential conflicts of interest described below.

Parsec pays Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by Parsec is a percentage of the fees the client owes to Parsec or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. Parsec pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to Parsec quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by Parsec and not by the client. Parsec has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs Parsec charges clients with similar portfolios who were not referred through the Service.

Parsec generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from Schwab. This Fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees Advisor generally would pay in a single year. Thus, Parsec will have an incentive to recommend that client accounts for Schwab-referred clients be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of Parsec's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, Parsec will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit Parsec's fees directly from the accounts. For accounts of Parsec's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from Parsec's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab.

(b) Parsec Financial Management, Inc. is a shareholder of National Advisors Holdings, Inc. ("NAH"), a Delaware corporation organized in August 1998. Parsec holds a minority interest, in the aggregate, of the outstanding stock of NAH. NAH has formed a federal trust company known as National Advisors Trust Company ("NATCO"). NAH and NATCO are regulated by the Office of Thrift Supervision. The trust company provides a low-cost alternative to traditional trust service providers and plans to provide trust services to clients of investment advisory firms, such as Parsec, across the United States. Parsec refers clients to NATCO for trust services. Parsec Trust is a divisional office of National Advisors Trust Company (NATCO). Through NATCO, Parsec Trust can support client needs in all 50 states. Parsec Trust, through NATCO, provides trustee services and the safekeeping of client trust assets, while Parsec Financial provides investment management to the assets in those trusts.

#### *Other Compensation*

In general, Parsec may receive software, services, and/or products from the brokers we recommend. Specific disclosures from Charles Schwab & Company, Inc. and Fidelity Registered Investment Advisor Group appear below:

**Disclosure for Charles Schwab & Company, Inc.:** Parsec is independently owned and operated and not affiliated with Schwab. Schwab provides Parsec with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets is maintained in accounts at Schwab Institutional.

Schwab's services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

Schwab also makes available to Parsec other products and services that benefit Parsec but may not benefit its clients' accounts. Some of these other products and services assist Parsec in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of Parsec's fees from its clients' accounts; and assist with back-office functions, recordkeeping, and client reporting.

Schwab Institutional also makes available to Parsec other services intended to help Parsec manage and further develop its business enterprise. These services may include consulting, publications, and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange, and/or pay for these types of services rendered to Parsec by independent third parties. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to Parsec.

To minimize paperwork, Schwab has a firm wide policy to absorb all trade error costs under \$100. They do not have that policy to gain business or to influence trades in their direction. Other brokers with whom we deal do not have this policy.

As a fiduciary, Parsec endeavors to act in its clients' best interests. Parsec's recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefit to Parsec of the availability of some of the foregoing products and services and not solely on the nature, cost, or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

**Disclosure for Fidelity Registered Investment Advisor Group:** Parsec may receive from *Fidelity*, without cost to Parsec, computer software and related systems support, which allow the firm to better monitor client accounts maintained at *Fidelity*. Parsec may receive the software and related support without cost because Parsec renders investment management services to clients that maintain assets at *Fidelity*.

Specifically, Parsec may receive the following benefits from *Fidelity* through the Fidelity Registered Investment Advisor Group: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Registered Investment Advisor Group participants; access to block trading which provides the ability to aggregate securities transactions and then allocate appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

## **Item 15 – Custody**

Parsec does not have custody of client assets other than to deduct management fees from client accounts, if approved by the client. Assets stay in the client's name, in the client's account. The client will appoint a bank or registered broker-dealer to act as a separate custodian to take possession of the cash, securities, and other assets in the account.

Clients should receive monthly statements (or at least quarterly) from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets.

## **Item 16 – Investment Discretion**

Parsec's Service Agreement grants Parsec discretionary trading authority in client accounts. For new clients, the policy is to review the proposed portfolio with the client prior to making any trades. Once the initial portfolio has been implemented, we do not contact the client for approval of any trades, including buys and sells.

Parsec's discretionary authority also includes the authority to hire and fire third-party investment managers on a client's behalf.

If a client's managed portfolio is over \$1,000,000 in assets, the client may request to be considered non-discretionary and must sign a separate authorization. If the client denies discretionary authority, then he or she will be contacted for approval in advance of every trade. This contact may be in the form of a letter, e-mail, or phone call.

Parsec cannot place any trades without a response from a non-discretionary client. This includes: trades needed to meet periodic distributions, non-sufficient fund checks presented for payment against the client's brokerage account, or emergency situations resulting from adverse market conditions or factors impacting individual securities. Non-discretionary accounts will not be automatically included in block trades, which may result in a delay in trading that may inhibit best execution.

When selecting securities, Parsec observes the investment policies, limitations and restrictions of the clients for which it advises.

## **Item 17 – Voting Client Securities**

Parsec does not typically accept discretionary authority to vote proxies for clients. However, Parsec does vote proxies for Trust accounts at National Advisors Trust and the Personal Trust Services division of Charles Schwab Bank. These accounts have a single, corporate trustee who

typically lacks the authority to vote proxies. As an added service, Parsec votes proxies for commingled and daily-valuation ERISA accounts, institutions, and foundations.

For those clients for whom Parsec has undertaken to vote proxies, Parsec retains the final authority and responsibility for such voting subject to any specific restrictions or voting instructions by clients.

Parsec has adopted standard voting parameters addressing the vast majority of proxy matters with which it is familiar. Parsec further reviews its proxy voting practice to determine whether any material conflicts of interest are present. In the event of a vote involving a conflict of interest that does not meet the specific voting parameters of Parsec's proxy voting guidelines or requires additional company-specific decision making, Parsec may seek an independent recommendation or request client consent on the issue.

Clients may request a copy of Parsec's complete proxy voting policy from the Chief Compliance Officer. Clients may also request voting records of how securities have been voted in their particular account. Please provide Parsec with a reasonable time to compile records following a client request

## **Item 18 – Financial Information**

Registered investment advisors are required in this Item to provide you with certain financial information or disclosures about our financial condition. Parsec has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has never been the subject of a bankruptcy proceeding.