

Rinehart Wealth Management

First Quarter 2011 Economic Overview

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Market Overview

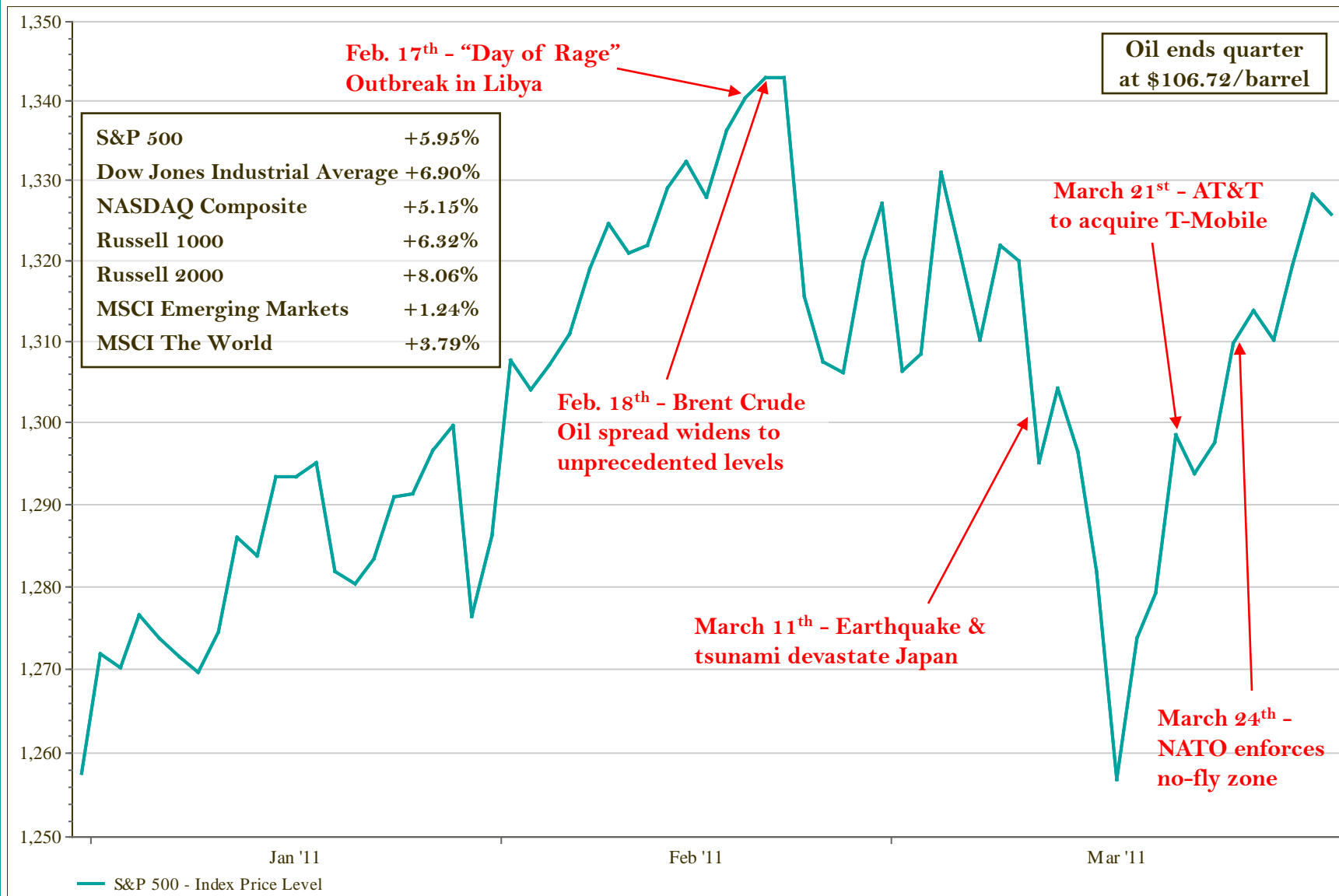
Positives:

- **Corporate balance sheets** – Nonfinancial companies in the S&P 500 have a record \$830 billion of cash on hand. We see increased capital expenditures, hiring, and capital returns to shareholders.
- **The Federal Reserve** – Extremely accommodative policy is pushing money into equities and emerging markets. We see positive implications for the equity markets relative to the bond market.
- **Conservative job growth underway** – There are 1.7 million more people with private sector jobs today than there were a year ago. Unemployment has ticked down from 10.1% in October 2009 to 8.8% today. Jobs outpaced population growth in February by 45,000 for the first time since March 2006 (*Source: Boenning & Scattergood*).
- **Emerging market** – The pace of policy tightening should slow and improve performance.
- **Corporate earnings** – Continue to beat modest expectations.
- **Equity multiples** – Remain relatively attractive. S&P 500 Index is 15.2x trailing earnings compared to the average of 17.9x over the last 10 years.

Negatives:

- **Unemployment** – Persistently high at 8.8% with GDP growth slowing to a level that gets unemployment back to pre-recession levels in 15 years. Morgan Stanley's tracking estimate of annualized real GDP growth has dropped from 4.5% to 2.9% over the past six weeks.
Offsetting the improvement in private sector payroll jobs are the job cuts coming out of local government.
- **Unwinding of Quantitative Easing (QE2)** – Has the potential to cause a modest market correction after one of the best first quarters on record.
- **Consumer confidence** – Consumer Confidence Index® (CCI) declined 8.6 points in March 2011.
- **Commodity inflation** – Rising oil prices due to geopolitical turmoil and escalating food & healthcare costs could pressure the consumer, whose wages are stagnant.
- **Housing market double-dip** – Current data suggests the housing market has slipped back into a recession and should have a negative impact on consumer sentiment.

Best 1st Quarter Performance in Over a Decade – S&P Up 5.95%



Source: FactSet Research Systems, Inc. – Rinehart Wealth Management

Implications of Federal Monetary Policy

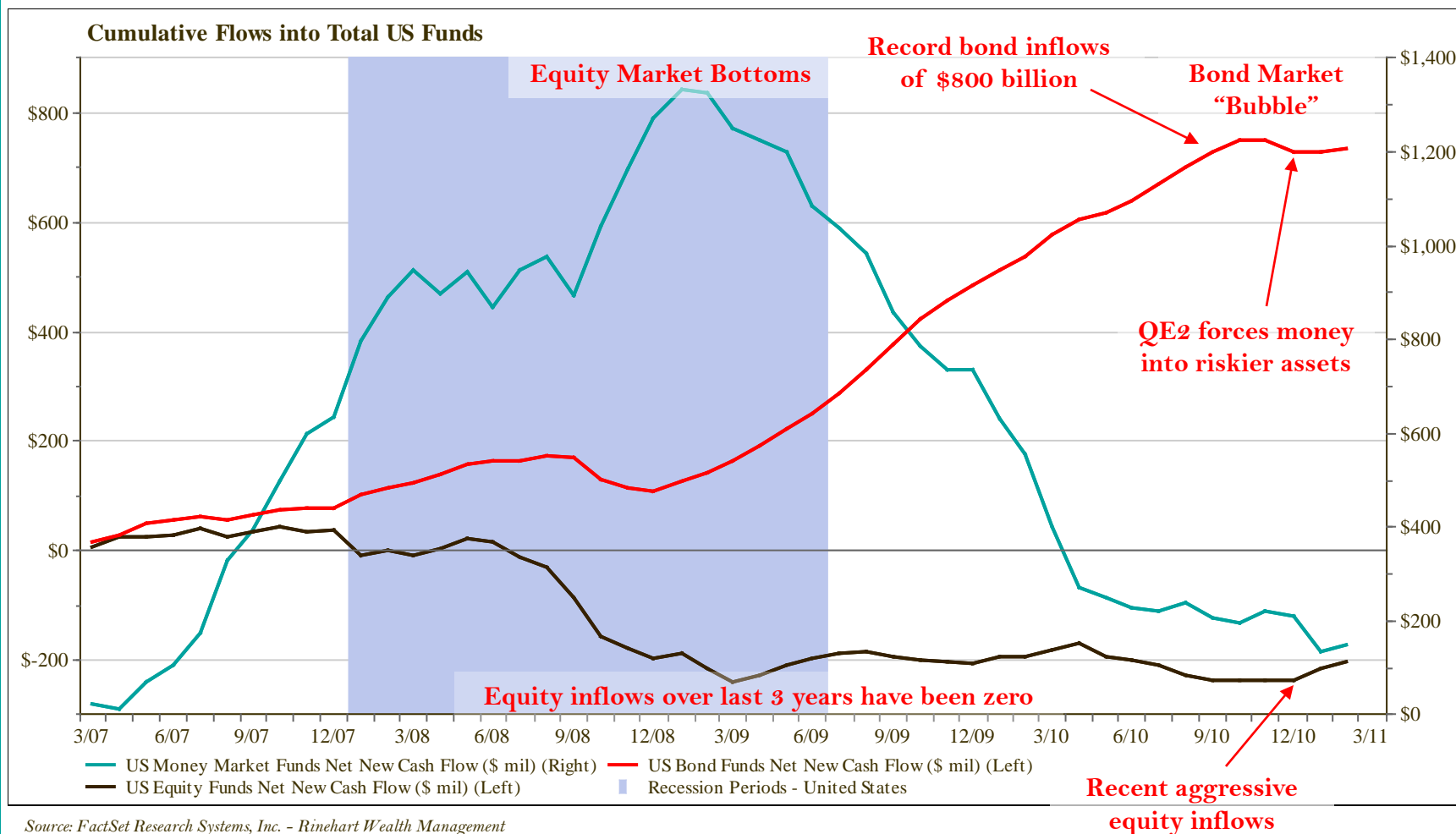
Bond Price/Yield = Inverse Relationship



Source: FactSet Research Systems, Inc. - Rinehart Wealth Management

- QE2 will end in June and, to control inflation, the Fed will eventually raise rates, some estimate this year
- Equities appear attractive relative to bonds because they have **marginally less** interest rate risk

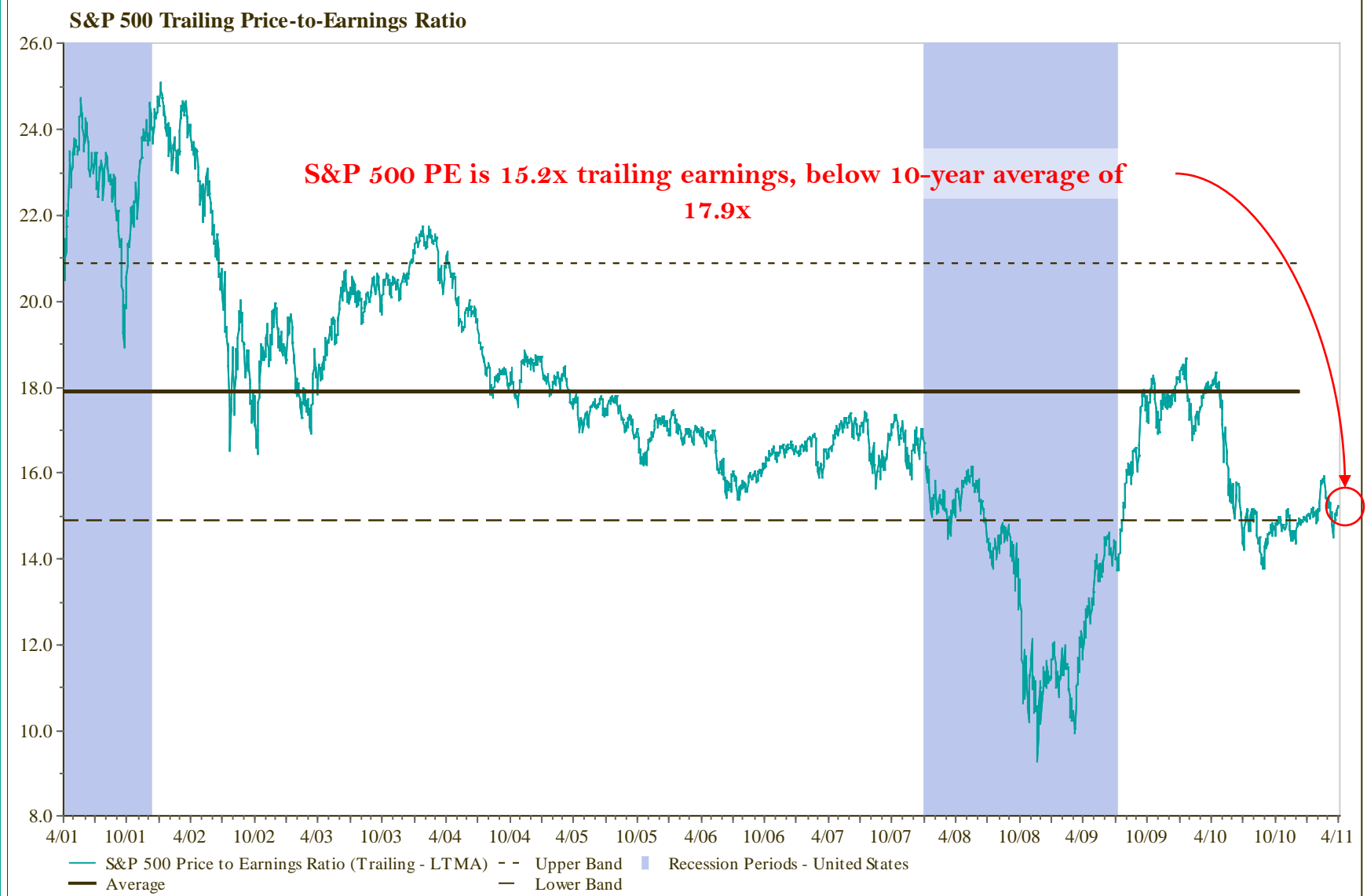
The Rotation out of Bonds into Equities Continues



Source: FactSet Research Systems, Inc. - Rinehart Wealth Management

- Portfolios are significantly underweight domestic equity relative to fixed income. Equity allocations of households & pension funds are at **15-year lows** (Source: Deutsche Bank)
- Allocations to cash and cash equivalents are approximately 1.8% above historic averages, while equity allocations are 1.2% below historic averages. Mean reversion would translate into nearly **\$1.7 trillion in new flows into the global equity markets** (Source: J.P. Morgan)

Equity Multiples Remain Relatively Attractive



Risky Assets Outperform – Low Quality Leads Market Rally

S&P Sector Annualized Returns					S&P Sector Trailing 3-Month Relative Performance									
Sectors	2007	2008	2009	2010	6/4/2010	7/4/2010	8/4/2010	9/4/2010	10/4/2010	11/4/2010	12/4/2010	1/4/2011	2/4/2011	3/4/2011
Defensives											Defensive assets have underperformed			
Utilities	15.81%	-31.55%	6.80%	0.86%	-0.20%	6.90%	6.01%	9.03%	0.57%	-4.61%	-11.98%	-11.04%	-8.07%	-4.93%
Telecom	8.45%	-33.62%	2.63%	12.30%	3.53%	7.20%	9.79%	10.52%	8.19%	3.29%	-4.14%	-4.26%	-6.80%	-6.02%
Health Care	5.39%	-24.48%	17.07%	0.71%	-5.04%	-0.06%	-0.05%	-0.59%	-3.32%	-1.58%	-4.50%	-6.21%	-5.34%	-0.86%
Staples	11.60%	-17.65%	11.20%	10.67%	-0.19%	-0.32%	3.08%	2.33%	-1.43%	-0.57%	-5.21%	-6.51%	-7.26%	-4.87%
Near Cyclical											Turmoil in Middle East			
Energy	32.38%	-35.93%	11.29%	17.86%	-3.30%	-1.95%	-0.89%	1.20%	2.02%	1.79%	9.30%	9.30%	11.99%	11.64%
Financials	-20.84%	-56.95%	14.80%	10.83%	0.01%	-2.79%	-2.66%	-1.64%	-4.78%	-6.45%	-6.38%	1.42%	1.65%	1.55%
Cyclicals														
Technology	15.54%	-43.68%	59.92%	9.13%	2.21%	0.17%	-0.21%	-4.17%	-0.42%	3.57%	4.57%	1.08%	-0.20%	-0.11%
Discretionary	-14.32%	-34.73%	38.76%	25.72%	6.03%	1.03%	-2.92%	-1.72%	3.77%	4.71%	5.22%	1.32%	-1.86%	-2.39%
Industrials	9.83%	-41.52%	17.27%	23.92%	1.74%	-1.48%	-0.36%	0.34%	3.17%	-1.66%	1.59%	1.32%	3.82%	1.53%
Materials	19.99%	-47.05%	45.23%	19.92%	-5.77%	-4.84%	3.29%	7.94%	6.95%	5.51%	4.71%	7.27%	2.56%	-1.13%
S&P 500	3.53%	-38.49%	23.45%	12.78%	-5.17%	-13.20%	-3.95%	0.15%	11.19%	8.32%	10.88%	11.71%	7.36%	7.87%

Source: FactSet Research Systems, Inc. – Rinehart Wealth Management

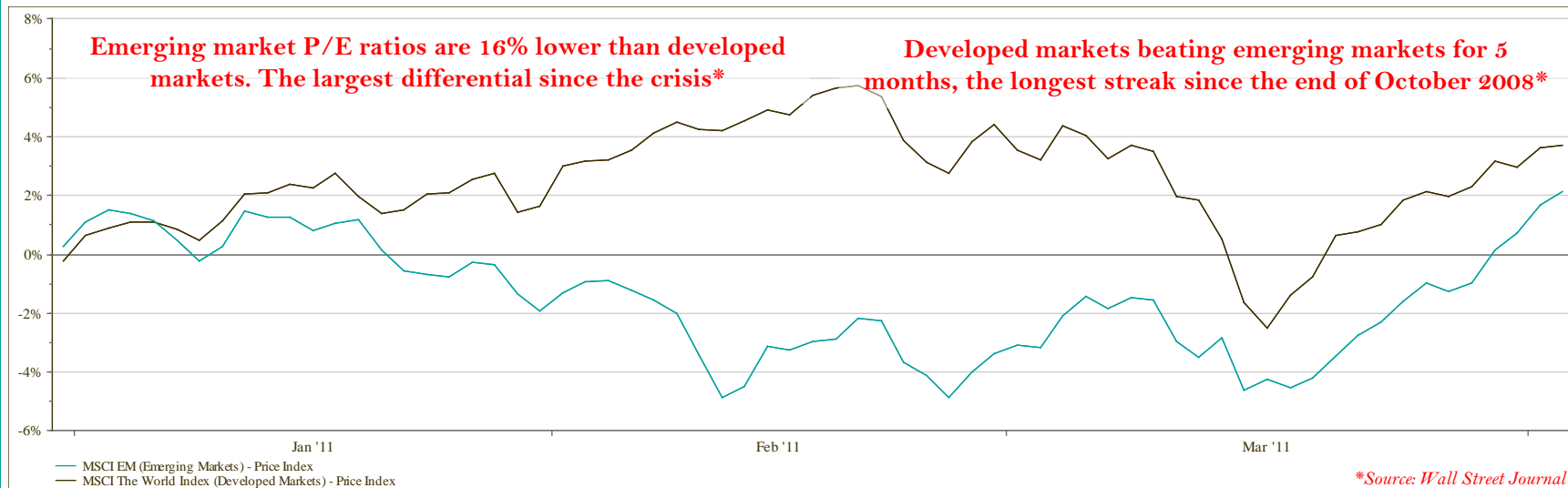
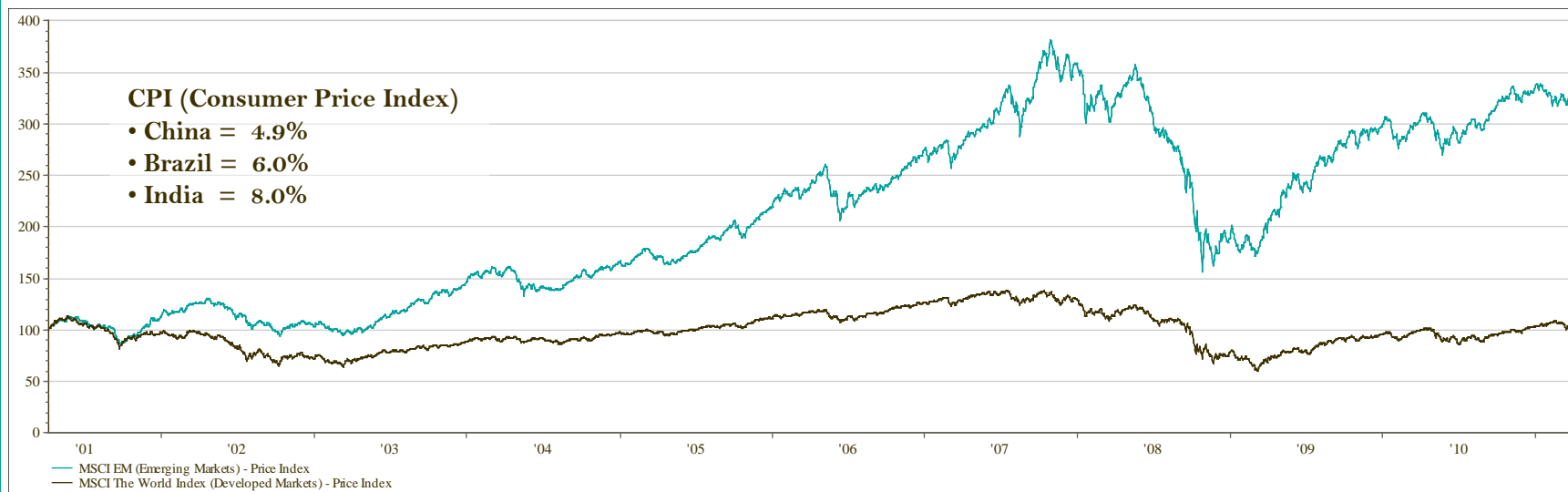
- Risky assets continue to outperform safer assets dramatically. Will this reverse when QE2 ends? We believe high dividend yielding defensives could gain some relative performance this summer
- When equity investors add risk to portfolios, cyclicals tend to outperform defensive sectors

We Are Focused on Quality & Dividend Yield In 2011

- Focus on higher-yielding and quality names likely to increase dividends significantly.
- Reversion to the mean and investor rotation out of bonds to chase yield could help this category outperform the S&P 500 in 2011.
- Cash levels for S&P 500 companies stood around \$1.52 trillion at the end of the third quarter (*Source: Barron's*). We are seeing large cap multinationals accelerate/initiate dividends
- Companies that initiate a dividend have outperformed the market in the quarter after the announcement (~200 bp), and outperformance has also tended to continue in the first year (*Source: J.P. Morgan*)
- **1926 - 2009** – A dollar grew to **\$87.39** on price appreciation (**3.37%** of total returns). The combination of price and dividends reinvested grew to **\$2,591.82** (**26.62%** of total returns) (*Source: Miller/Howard Investments, Inc. and Ibbotson*)
- Dividends paid to shareholders have accounted for 35% of total return over the past 20 years (*Source: Guggenheim Partners*)
- Dividend yield increases for the S&P 500 will likely be driven by the technology and financial sectors. Currently, these sectors represent 66% of cash holdings, but only contribute 21% of dividends for S&P 500 companies (*Source: Guggenheim Partners*)

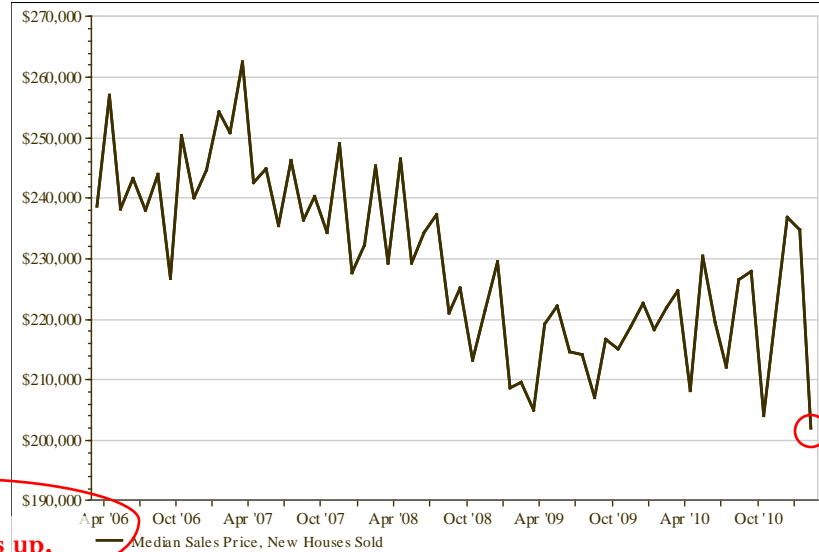
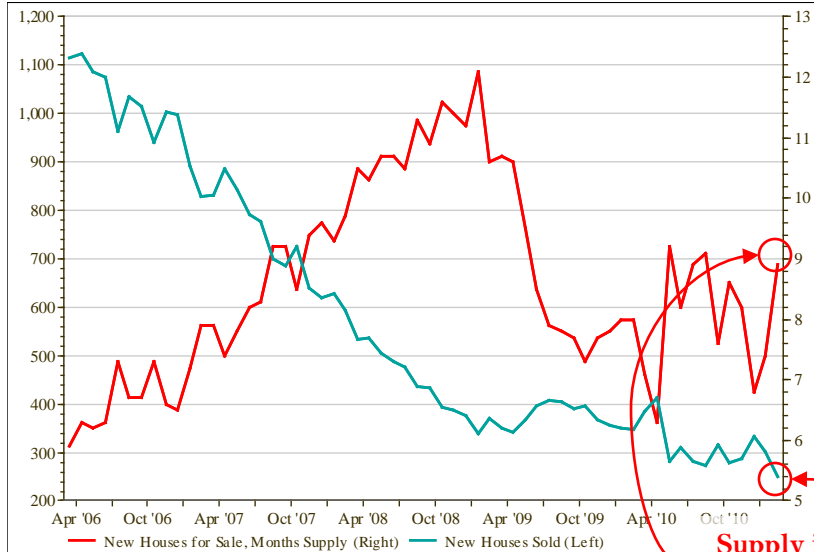
International – Recommended 30-40% Allocation to Emerging Markets

- Policy tightening in response to inflation has caused a near-term correction in emerging market equities



*Source: Wall Street Journal

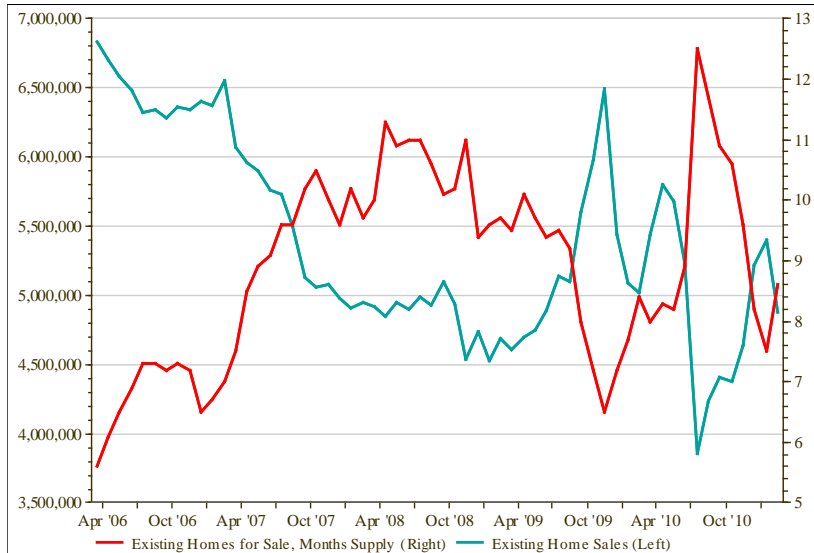
New Home Sales, Supply Levels and Prices



Supply is up,
sales are down

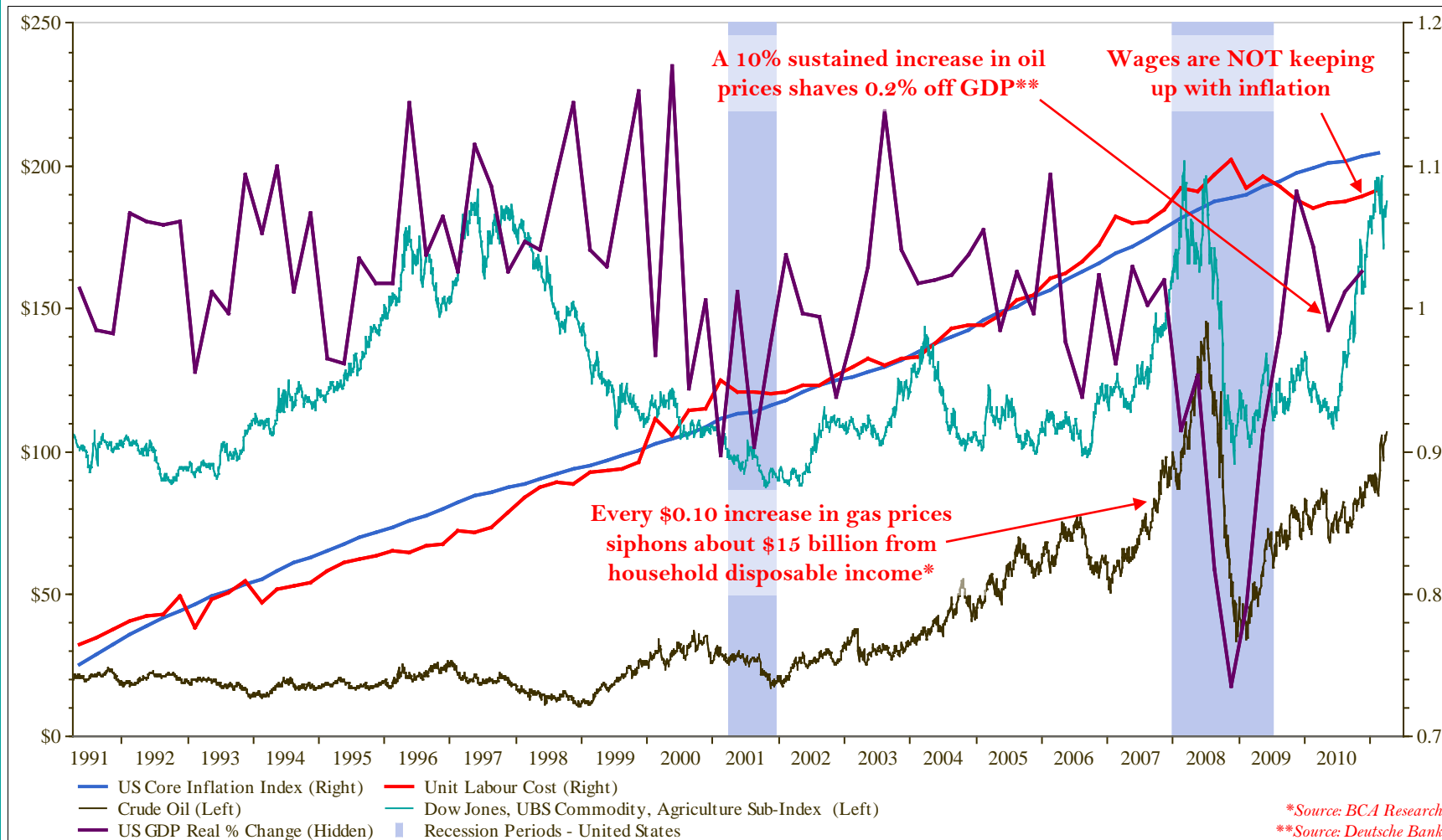
New and existing home prices continue to fall!

Existing Home Sales, Supply Levels and Prices



Inflation & Commodity Prices

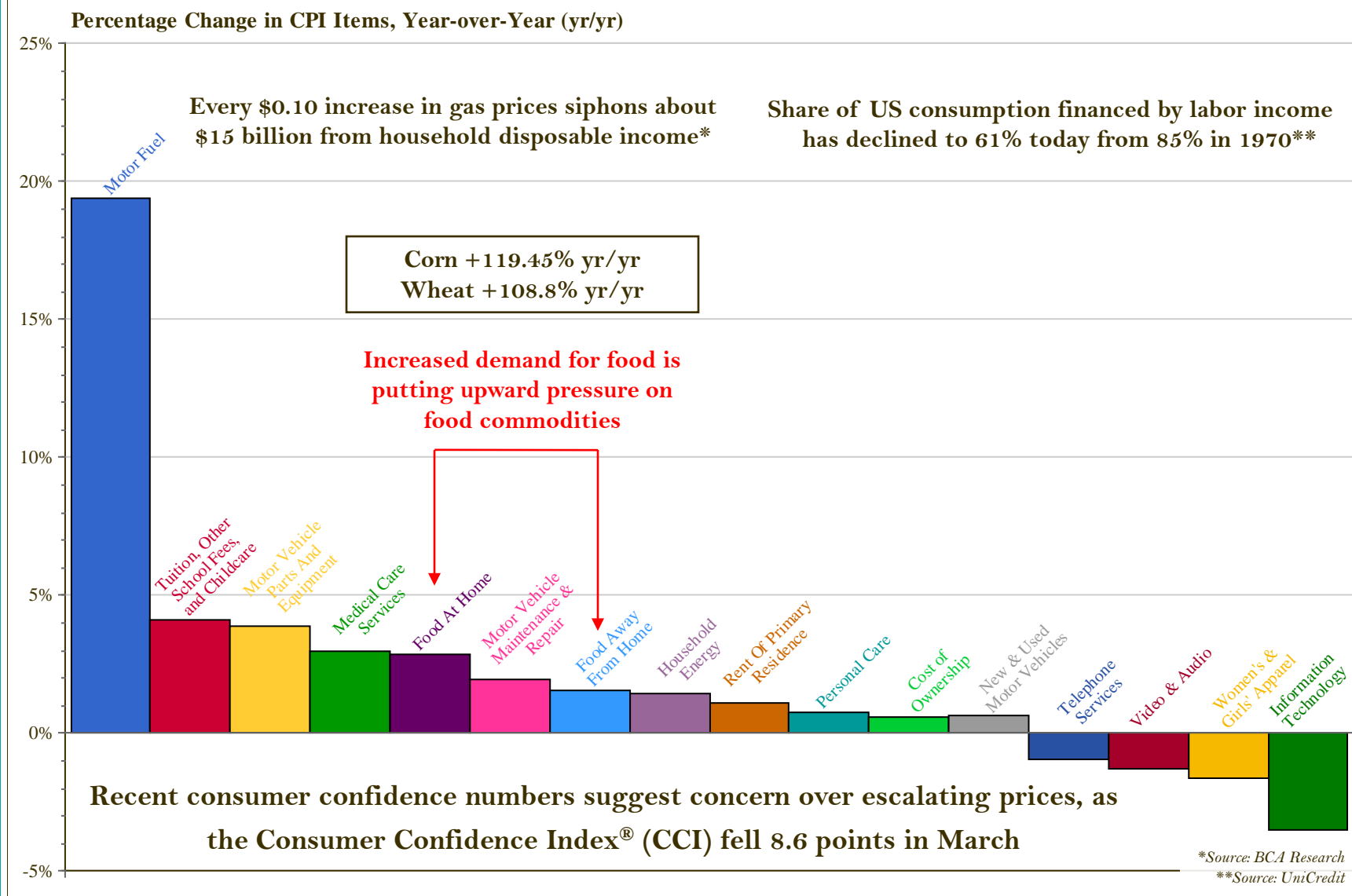
- The Consumer Price Index (CPI) is a measure of the average price of goods & services purchased by a typical urban household. Accordingly, the inflation rate is the annual percentage change in the CPI. Core CPI excludes oil and food prices and is assumed to be a more accurate gauge of long-term inflation.



*Source: BCA Research

**Source: Deutsche Bank

Rising Costs with Stagnant Wages Could Pressure the Consumer



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We would like to thank you all for joining and participating in our initial Quarterly Economic Overview Webinar today. We really appreciate your time and hope that you found it both interesting and informative.

If you have any further questions or would like any additional information regarding what we covered in today's presentation, please contact your Financial Advisor.

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