Rinehart Wealth Management
Greater Trust

Introducing Our New Quarterly Economic Overview

This month we are introducing a new quarterly overview. In addition to this newsletter, a detailed presentation is posted on the website that recaps the most recent quarter and highlights relevant issues influencing the economy and markets.

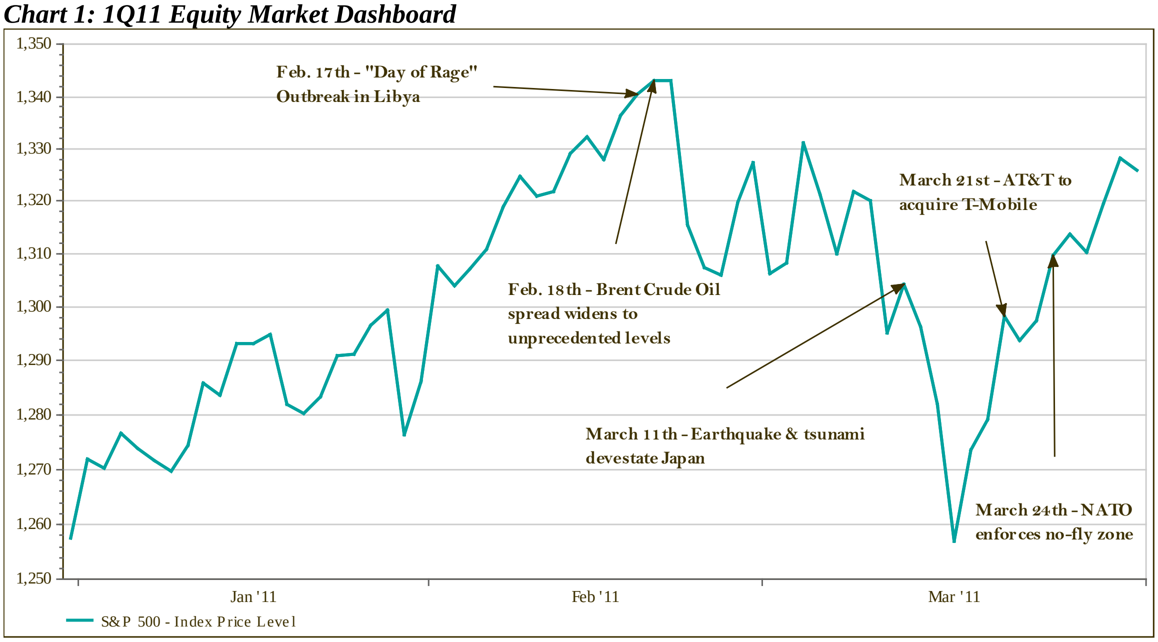
We are emerging from one of the best first quarters in the last decade. Despite the solid performance, there are still several looming questions: is this performance sustainable with the imminent unwinding of QE2? How will escalating commodity prices affect the consumer? What is the status of the housing market? Is gold the next bubble?

Best First Quarter Performance in Over a Decade

The S&P 500 and the domestic equity market put up impressive results in the first quarter, following a very solid 4Q10. Below is an overview of the S&P 500 and some of the main events that had an impact on the equity market in 1Q11.

Equity Index Performance						
S&P 500	DJIA	NASDAQ	Russell 1000	Russell 2000	MSCI - EM	MSCI - World
+5.95%	+6.90%	+5.15%	+6.32%	+8.06%	+1.24%	3.79%

Chart 1: 1Q11 Equity Market Dashboard



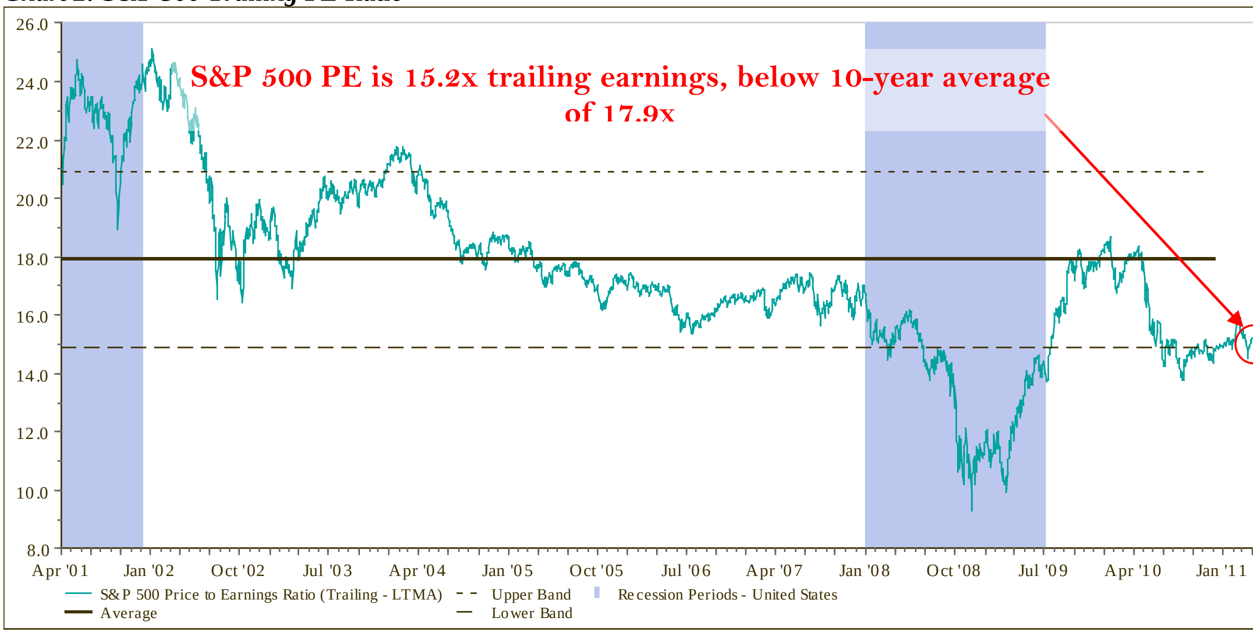
Source: FactSet Research Systems, Inc. - Rinehart Wealth Management

Equity Outperformance Could Continue

There are several factors that might serve as tailwinds for the domestic equity markets. We view valuation, cash rich corporate balance sheets and an ongoing rotation out of bonds and into equities as factors that could take the market higher.

The S&P 500 is trading at 15.2x trailing earnings representing a 15% discount to the average of 17.9x trailing earnings over the last 10 years. If economic improvement continues, GDP growth accelerates and unemployment continues to trend downward, the market could exhibit meaningful multiple expansion and move higher. See the chart below for an overview of the trailing P/E multiple of the S&P 500 over the past 10 years.

Chart 2: S&P 500 Trailing PE Ratio

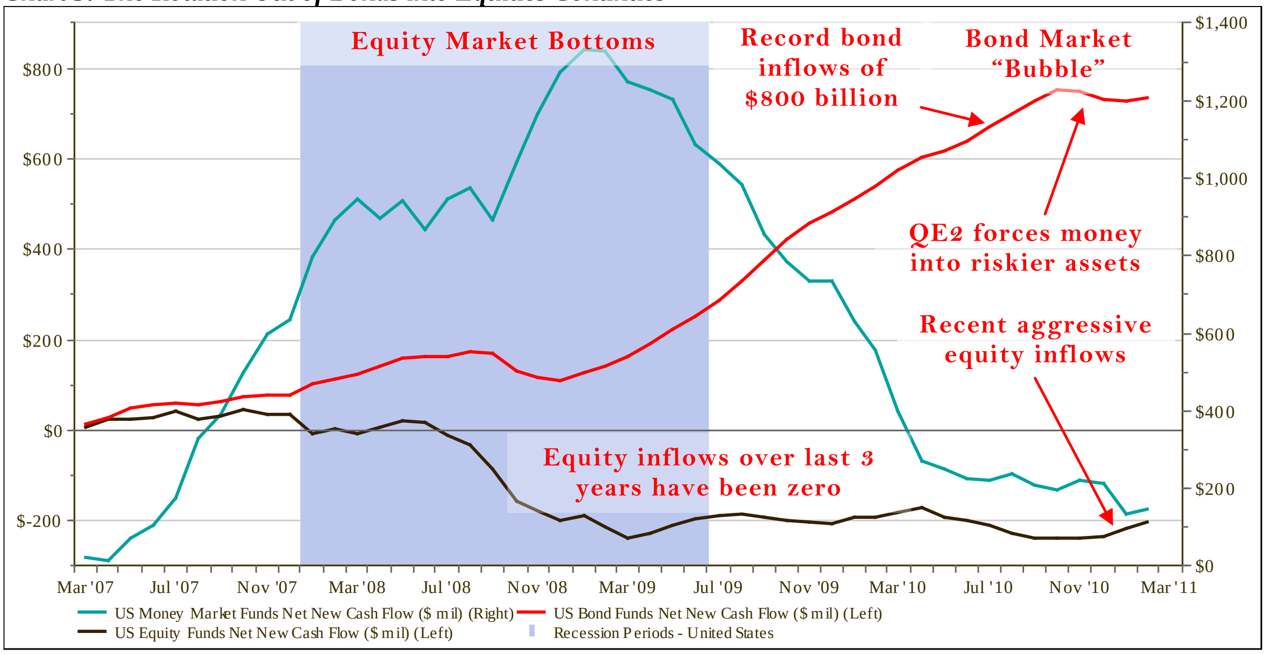


Source: FactSet Research Systems, Inc. - Rinehart Wealth Management

Equity markets are benefiting not only from favorable valuations but also from inflows driven by investors' rotating out of cash and fixed income into equities. The chart below depicts how cash levels (green line) peaked when the equity market bottomed in March 2009. After that point, money started to migrate into bonds (red line) which appear to have peaked in 4Q10. As QE2 and improving economic data points drove investors into riskier assets, equities (black line) started to see inflows.

Yet despite these recent inflows, Deutsche Bank estimates equity allocations of households and pension funds are at 15-year lows: these low allocations suggest that the rotation back to equities should continue and might even accelerate. Even though we have seen a stellar 1Q11, the power of fund flows could take the market even higher as investors rebalance their portfolios back toward equity.

Chart 3: The Rotation Out of Bonds into Equities Continues



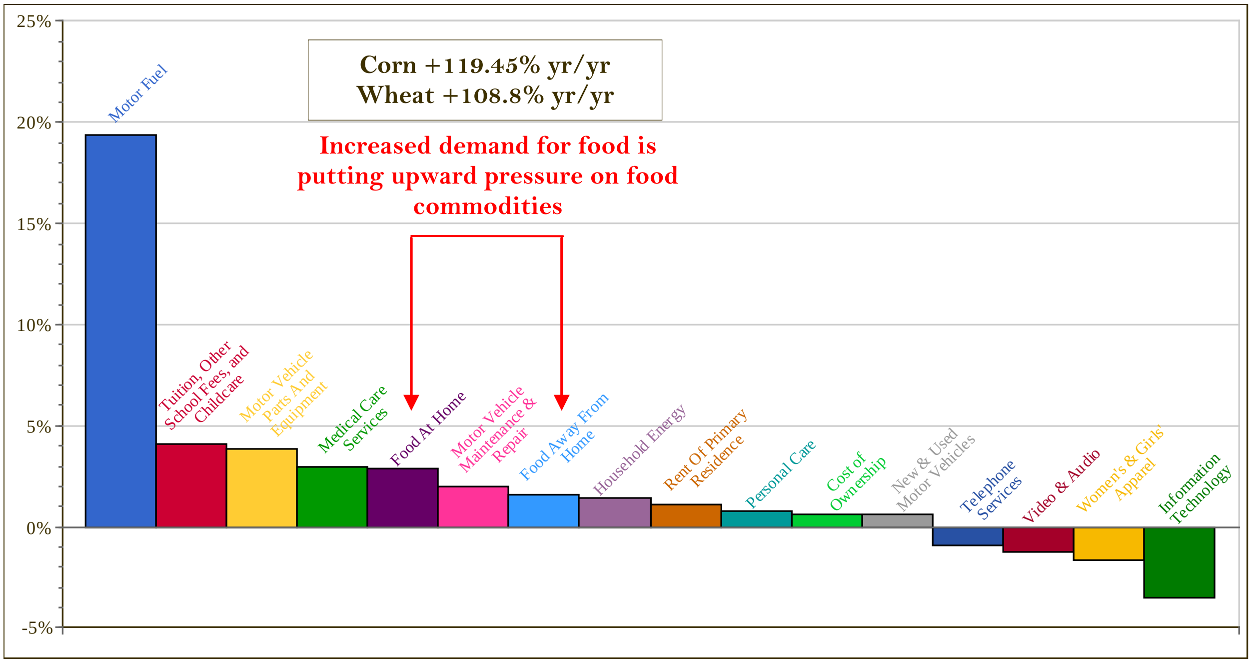
Source: FactSet Research Systems, Inc. - Rinehart Wealth Management

Consumer Headwinds Hit Confidence

Rising commodity costs, stagnant wages and dropping home values are serious headwinds hitting the consumer. These factors can have a negative impact on consumer sentiment, which can alter consumer spending habits. Consumer spending is important to the economy because each percentage point increase in the US savings rate (or reduction in spending) results in a $100 billion decrease in global spending (*Source: McKinsey Global Institute*). The point being that when the consumer stops spending, the ripple effect can seriously undermine global GDP growth.

Recently, commodity costs have spiked due to turmoil in the Middle East and inflationary pressure from emerging markets and QE2. Below is a chart outlining the year over year increase in many of the costs that comprise the consumer budget. Note that with motor fuel, which exhibited the largest increase, every $0.10 increase in gas prices siphons about $15 billion from household disposable income (*Source: BCA Research*).

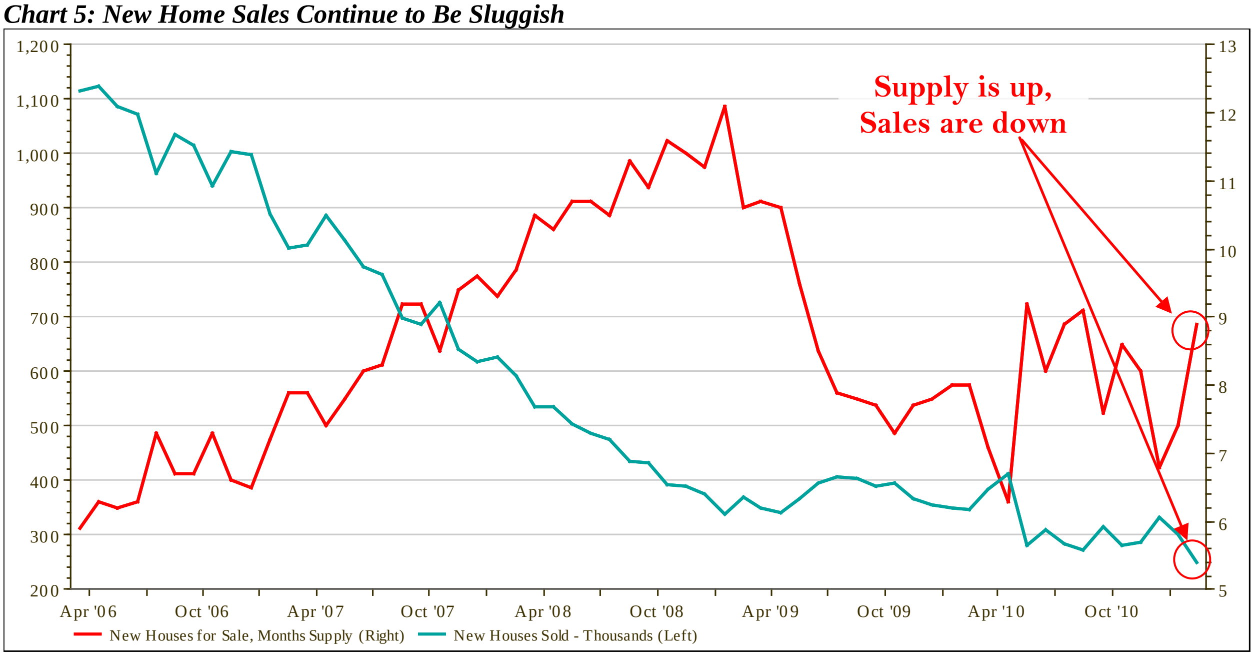
Chart 4: Rising Costs with Stagnant Wages Could Pressure the Consumer



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

In addition to rising everyday expenses, the consumer continues to fight a sluggish housing market. Below you can see the trend in new home sales. Supply continues to rise (red line) while the number of new homes sold continues to decline (green line). Despite the extensive Federal Government stimulus, the housing market appears to have double dipped which could have a negative impact on consumer net worth and, consequently, consumer sentiment.

Chart 5: New Home Sales Continue to Be Sluggish



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

Currently the economic outlook is mixed, but there are some underlying currents in the market that could continue to provide the equity market with longer-term upward momentum. Near-term, the summer could bring a pause as the market digests the June 2011 removal of QE2, increasing consumer costs and supply disruptions from Japan. After a brief pause, we anticipate the market will continue its upward trajectory, albeit at a more modest pace, as we continue to slowly recover from the recession.

With this quarterly overview, our goal is to provide clients with an objective framework in which to discuss the questions we have about what the future holds. To learn more, please visit our website to view the full presentation document. We hope you have found the information in this newsletter informative and we look forward to hearing your feedback.

Regards,

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