

Rinehart Wealth Management

Second Quarter 2012 Economic Overview

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Rinehart Wealth Management
Greater Trust


Positive Indications

- Despite sluggish job growth, we saw an uptick in average hourly earnings, hopefully a sign of some much-needed wage inflation  Maintain solid US Equity exposure and in-line small cap exposure, in case recent unemployment weakness is seasonal and we see a resumption of growth toward the end of the year
- Drop in oil prices could put more money in the consumer pocket, providing a tailwind for retail sales  Maintain solid US Equity exposure as US Consumer is a significant driver of GDP growth
- Domestic housing volumes appear to have stabilized, which may translate into improved home values  Overweight Domestic Equities while looking for opportunities to further increase exposure domestically at the expense of European exposure
- Election years tend to be positive for markets  Stay fully invested, maintaining equity exposure throughout the year

Negative Indications

- After some positive momentum early in the year, unemployment exhibited the weakest quarter of job growth since 2010 

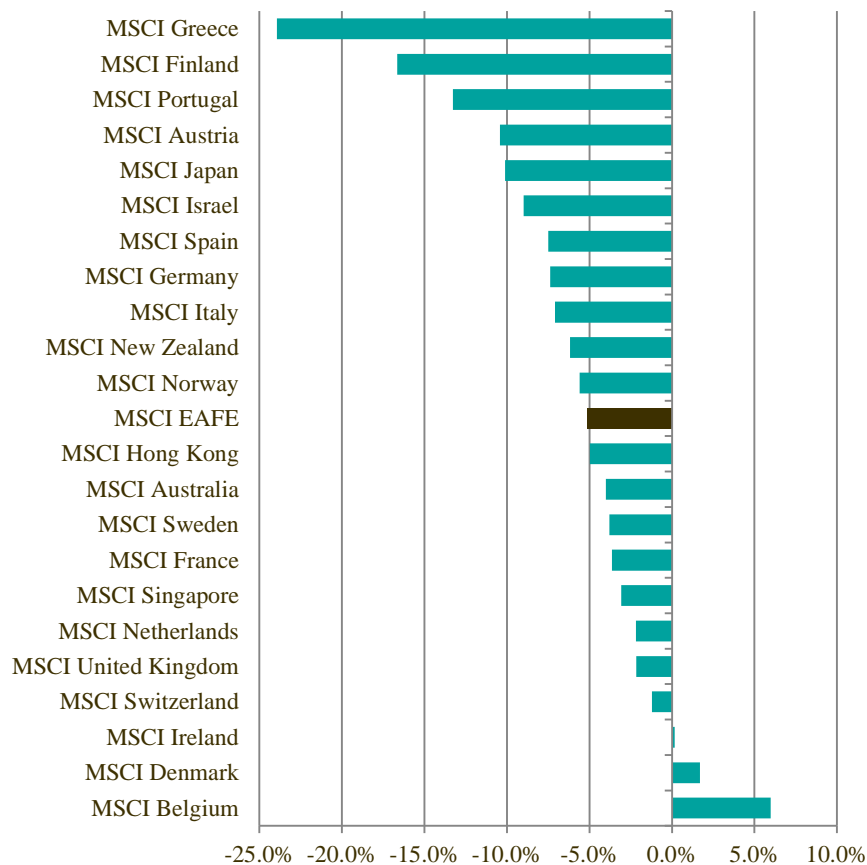
Overweight high-quality, lower-risk assets and maintain an in-line Fixed Income with modest exposure to Treasuries, despite low yields
- Making an adjustment for the underemployed and discouraged workers, unemployment is a shocking 14.9%
- ISM Index fell below the psychologically important 50-level 

Underweight Cyclical, maintain some exposure as we are relatively constructive on domestic manufacturing expansion longer-term
- Falling below 50 suggests a contraction not seen since July 2009
- “The Fiscal Cliff” 

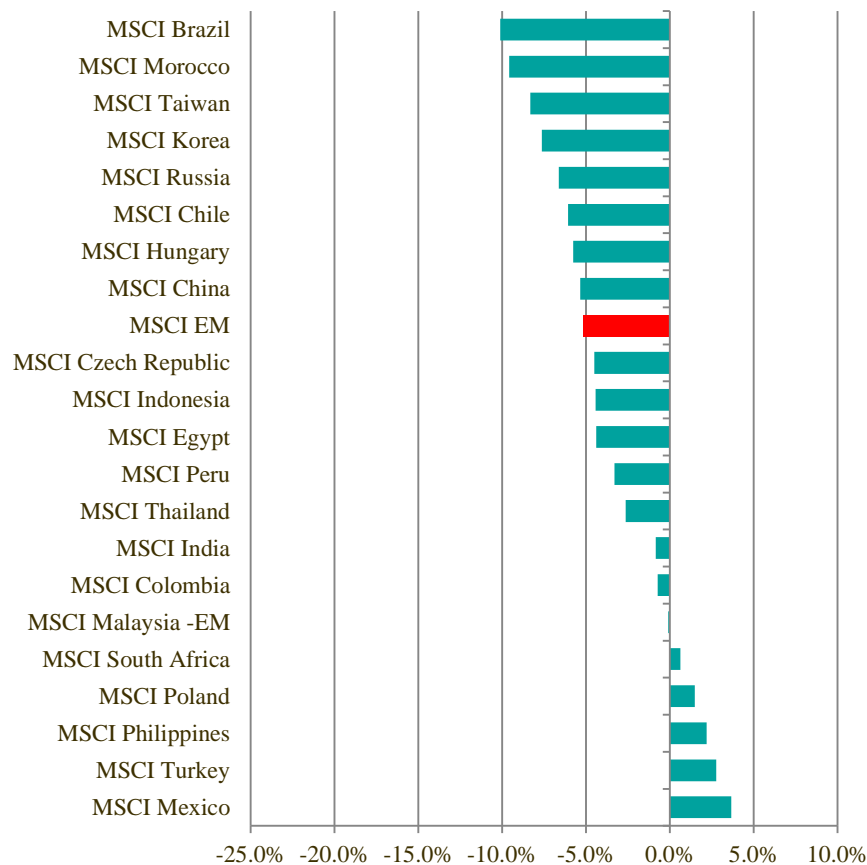
Position portfolios for volatility and underweight risky assets; identify equities with the potential to outperform due to high-quality business models, dividend increases, and lower cyclical
- “Debt will accumulate until the overhang weighs on growth” (*Source: Bloomberg, Carmen Reinhart & Kenneth Rogoff*)
- Market movements are increasingly dictated by political issues, such as the ongoing European Union debate, the upcoming US Presidential Election, and bubbling deficits & entitlements

Around the Globe – International Breakdown of 2Q12

Developed Countries - 60% Allocation



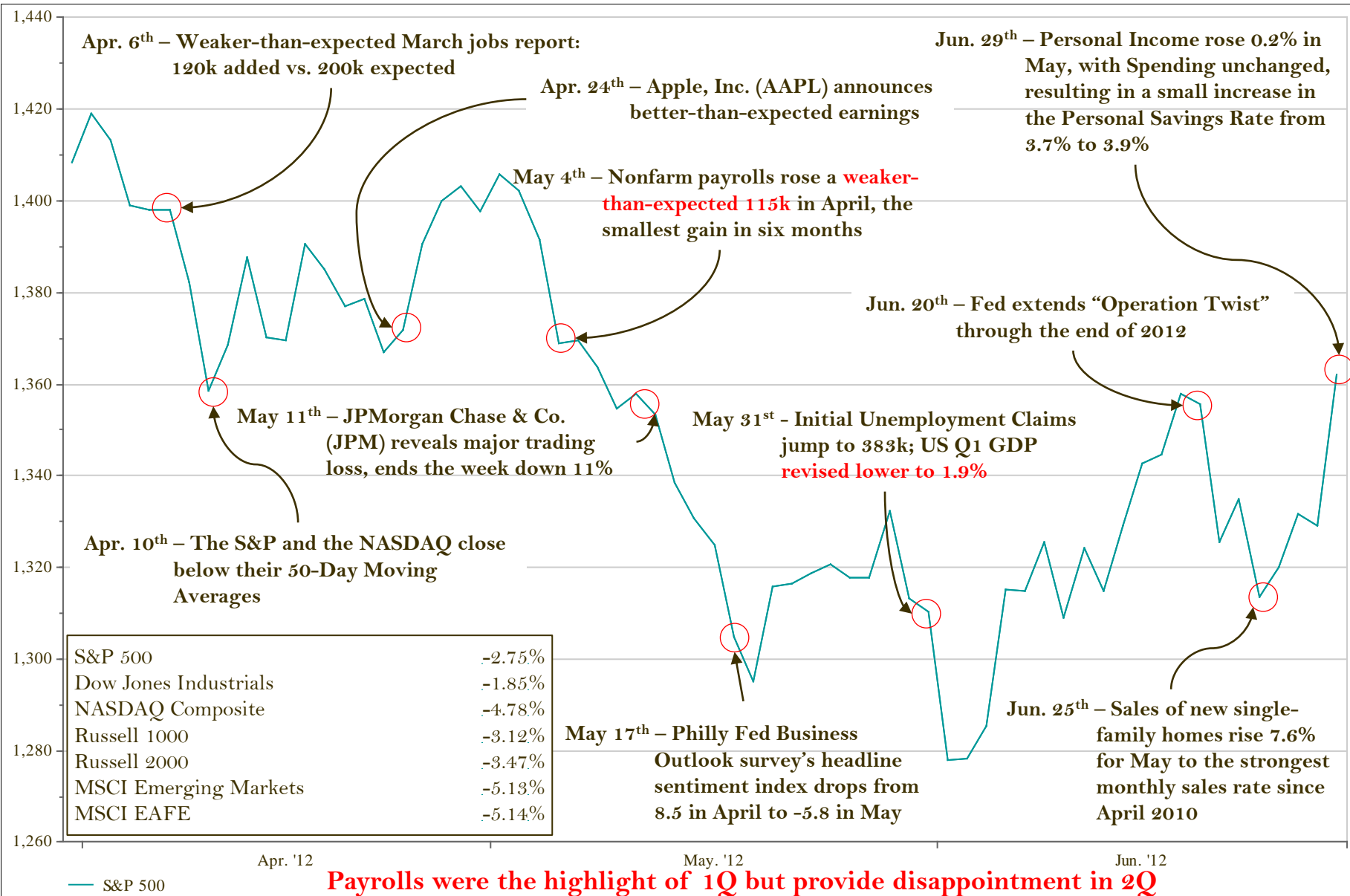
Emerging Market Countries - 40% Allocation



- International stocks continue to lag their domestic counterparts
- Greece leads the slide, down almost 25%
- We expect the European Credit Contagion to continue to weigh on European Equities

- Similar decline with less country-specific dispersion
- With exposure to commodities, Brazil was hit hard due to concerns over global growth slowing
- Further economic deterioration could lead to a mass exodus by investors despite the 9.1% 12-month correction

S&P 500 Performance 2Q12

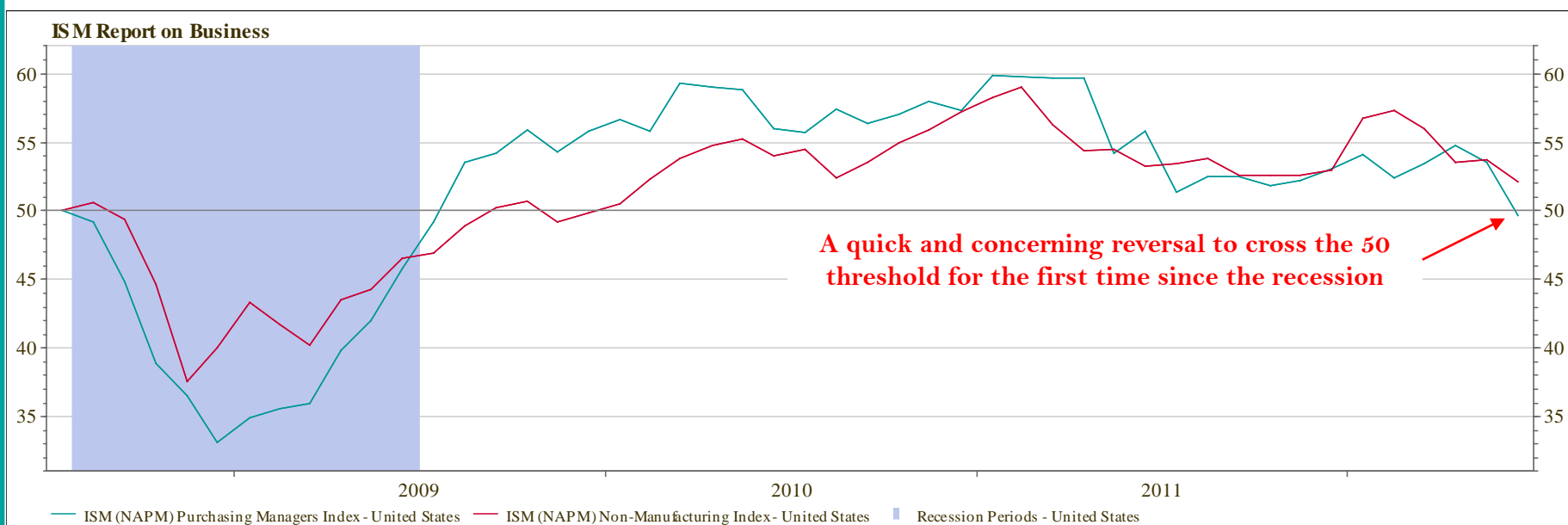
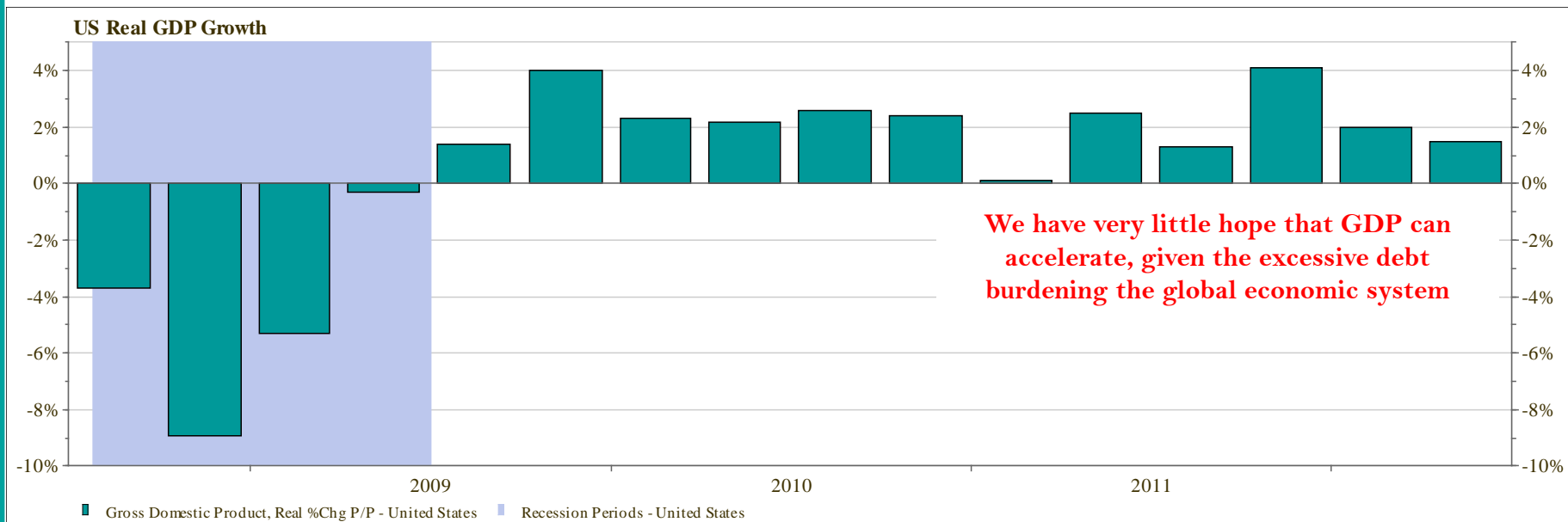


S&P 500 Sector Heat Map

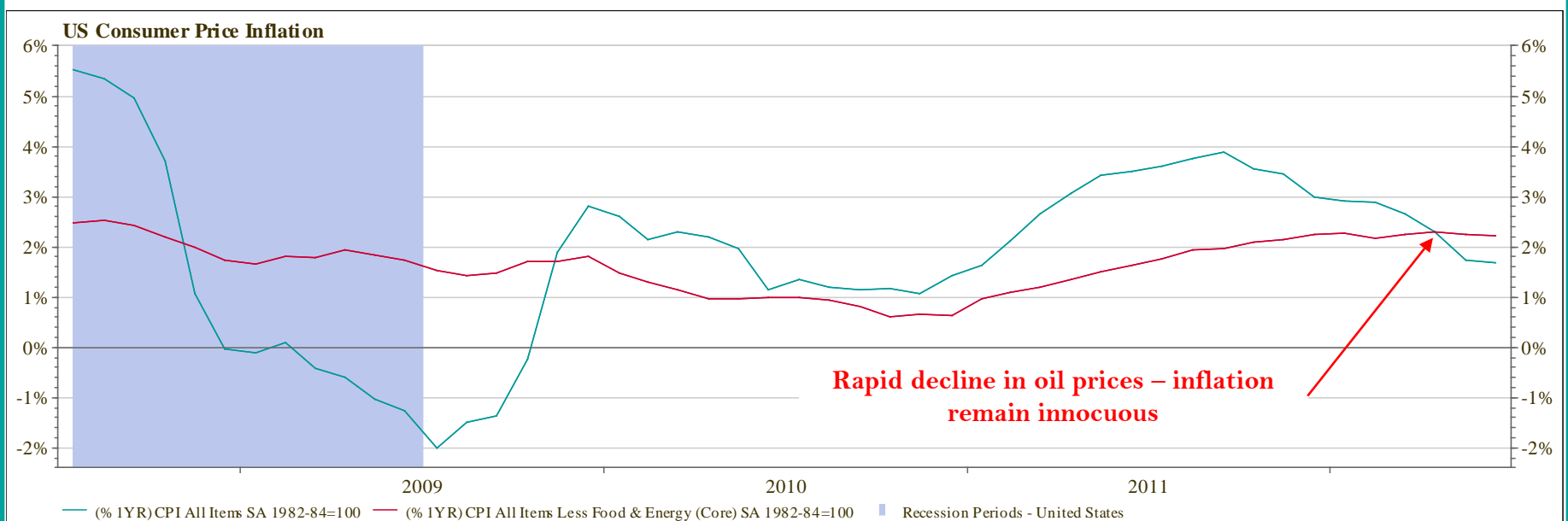
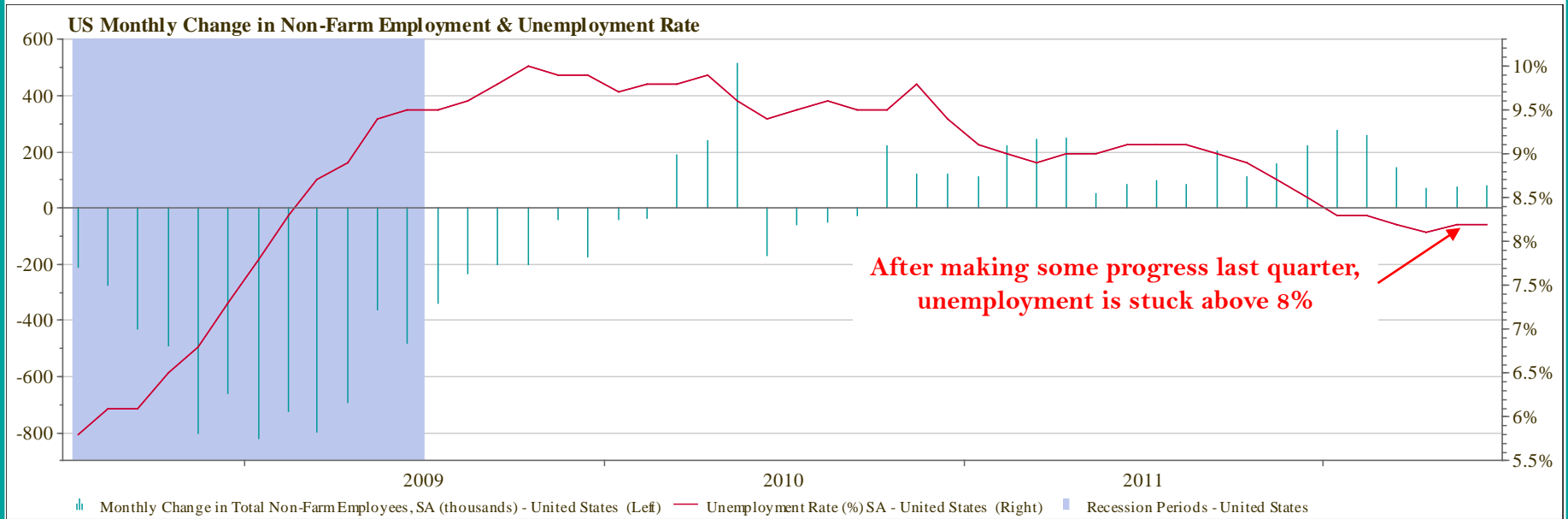
S&P Sector Total Return						S&P Sector Trailing 3-Month Relative Performance							
Sectors	2009	2010	2011	1Q12	2Q12	11/30/2011	12/30/2011	1/31/2012	2/29/2012	3/30/2011	4/30/2012	5/31/2012	6/29/2012
Defensives													
Utilities	11.91%	5.46%	19.91%	-1.62%	6.55%	-5.24%	-6.18%	-2.46%	-0.84%	6.57%	1.06%	3.91%	4.04%
Telecom	8.93%	18.97%	6.27%	2.08%	14.13%	-3.31%	-4.57%	-1.21%	-0.90%	1.76%	2.62%	6.40%	7.34%
Health Care	19.70%	2.90%	12.73%	9.06%	1.75%	-0.65%	-1.53%	-0.86%	0.50%	7.39%	0.18%	1.21%	1.96%
Staples	14.89%	14.11%	13.99%	5.54%	2.88%	-2.30%	-3.06%	-0.26%	0.06%	7.70%	0.40%	2.52%	2.45%
Near Cyclical													
Energy	13.82%	20.46%	4.72%	3.88%	-5.99%	-4.75%	-3.79%	-2.35%	-2.88%	-2.85%	-0.15%	-1.94%	-1.41%
Financials	17.22%	12.13%	-17.06%	22.05%	-6.83%	4.55%	4.11%	2.22%	1.84%	-0.68%	-0.76%	-2.04%	-1.77%
Cyclical													
Technology	61.72%	10.19%	2.41%	21.46%	-6.68%	2.90%	3.86%	2.22%	0.77%	8.93%	-0.54%	-1.21%	-1.71%
Discretionary	41.30%	27.66%	6.13%	15.96%	-2.60%	1.61%	1.47%	0.75%	0.57%	7.69%	0.85%	0.95%	0.07%
Industrials	20.93%	26.73%	-0.59%	11.31%	-3.56%	-0.49%	-0.55%	-1.61%	-0.89%	1.19%	-0.20%	-0.20%	-0.35%
Materials	48.59%	22.20%	-9.75%	11.19%	-4.19%	-2.13%	-0.61%	-3.37%	-1.27%	-1.30%	-0.12%	-0.88%	-0.62%
S&P 500	26.46%	15.06%	2.11%	12.59%	-2.75%	5.97%	5.47%	3.37%	1.43%	3.63%	-0.27%	-2.87%	-1.20%

- As we expected, **Financials** experienced a significant correction, benefitting our underweight positioning
- After a strong 1Q rally in risky assets, the market quickly reverted to “risk-off,” and our overweight in **Defensives & Quality** once again paid dividends
- The magnitude of the sell-off in **Technology** startled us; the majority of the decline, however, was in Semiconductors (-9.1%) and Hardware & Equipment (-9.5%)

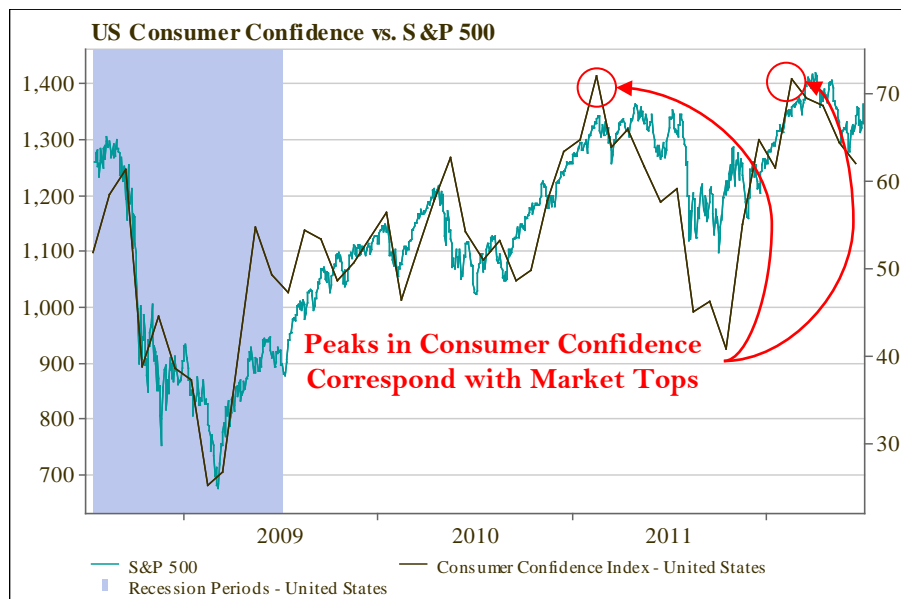
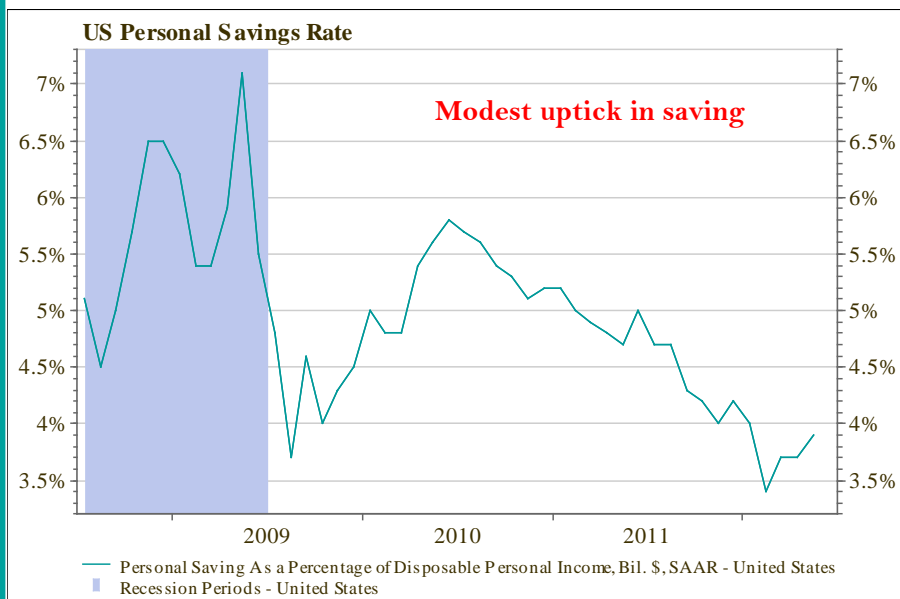
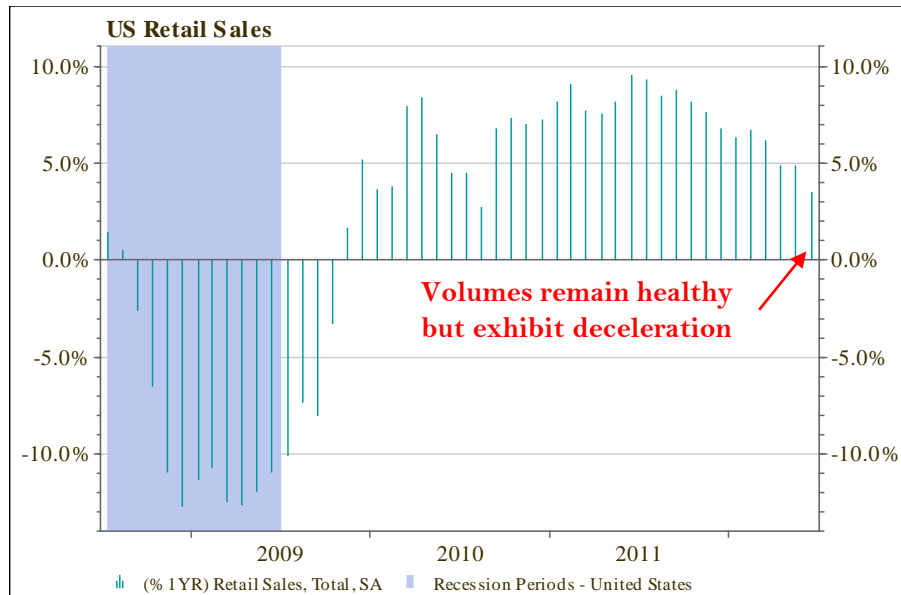
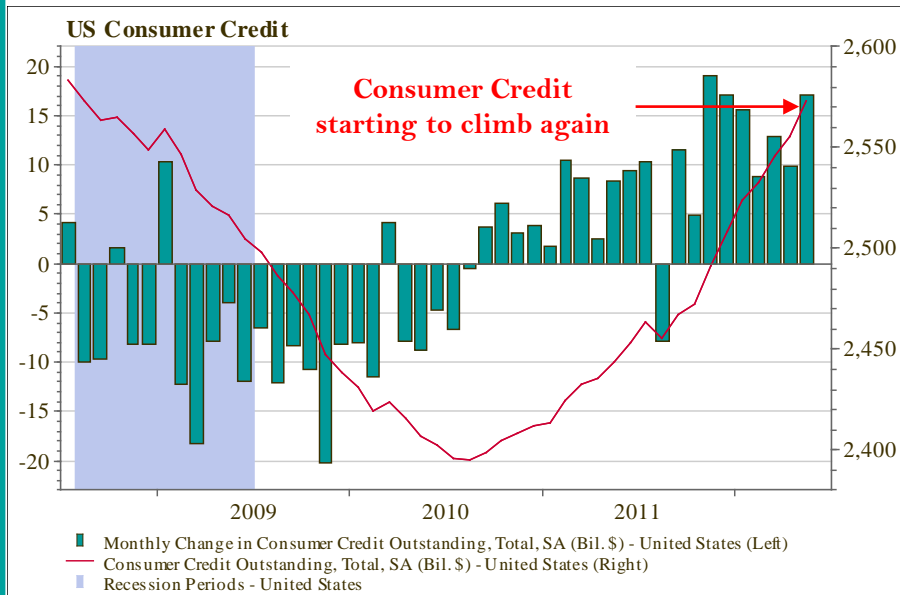
US Economic Snapshot



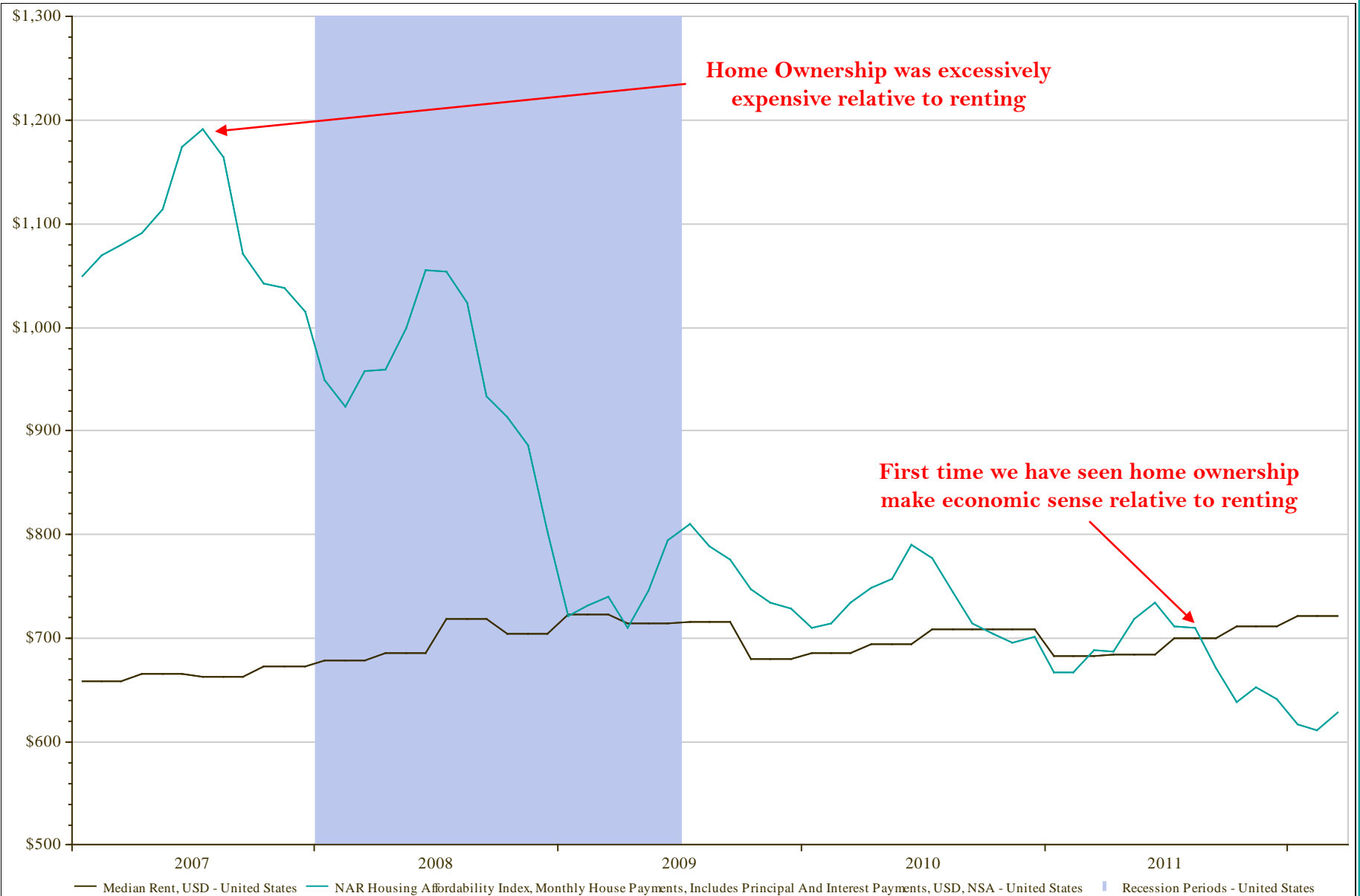
Unemployment & Inflation



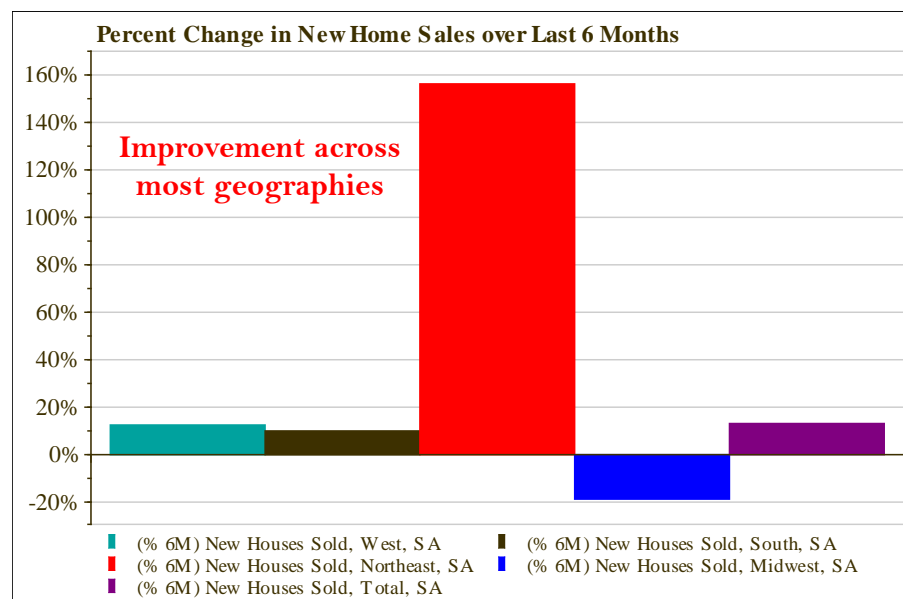
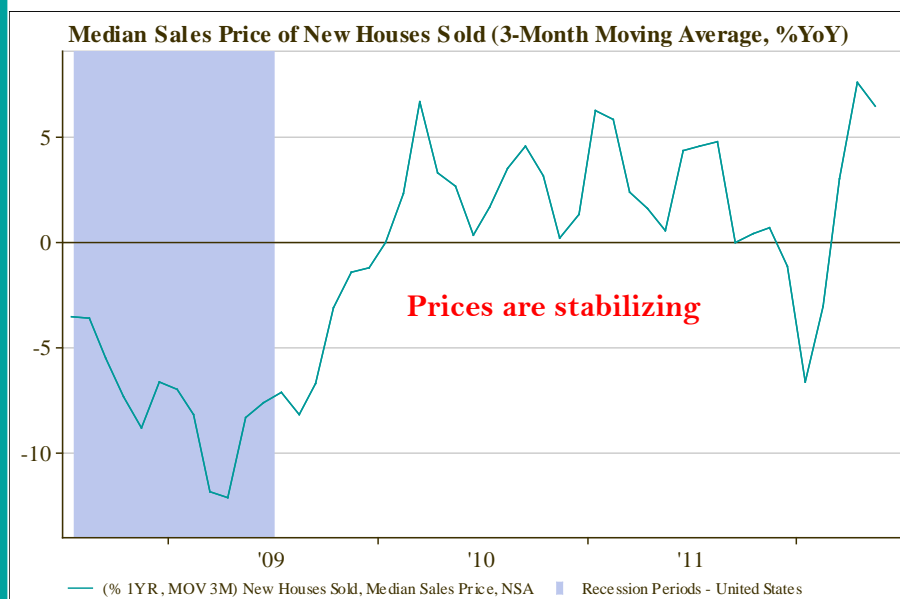
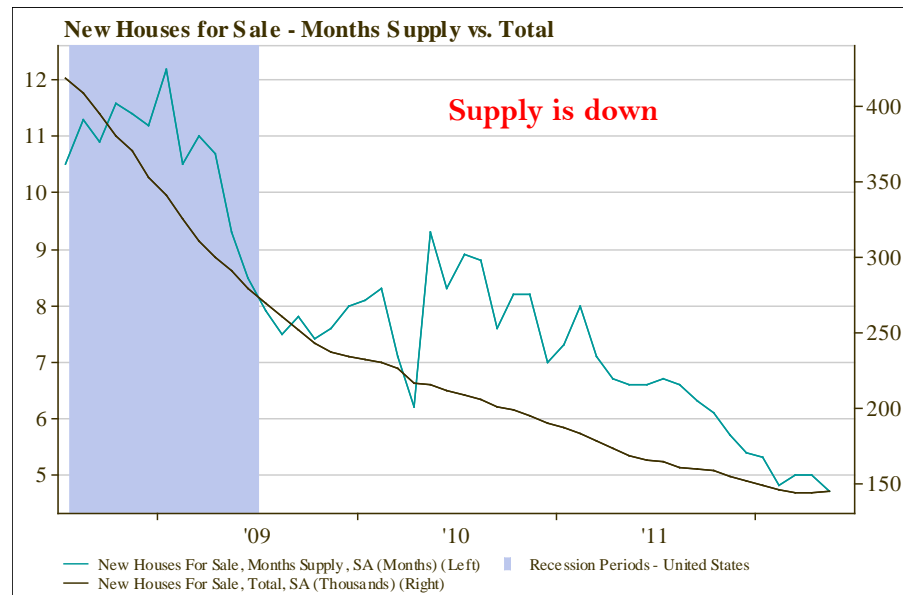
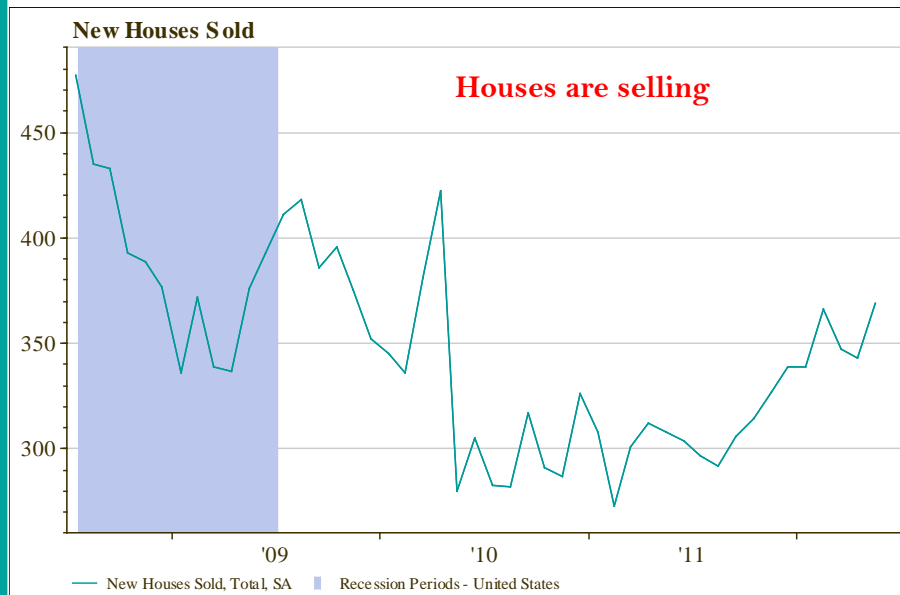
Consumer



Housing

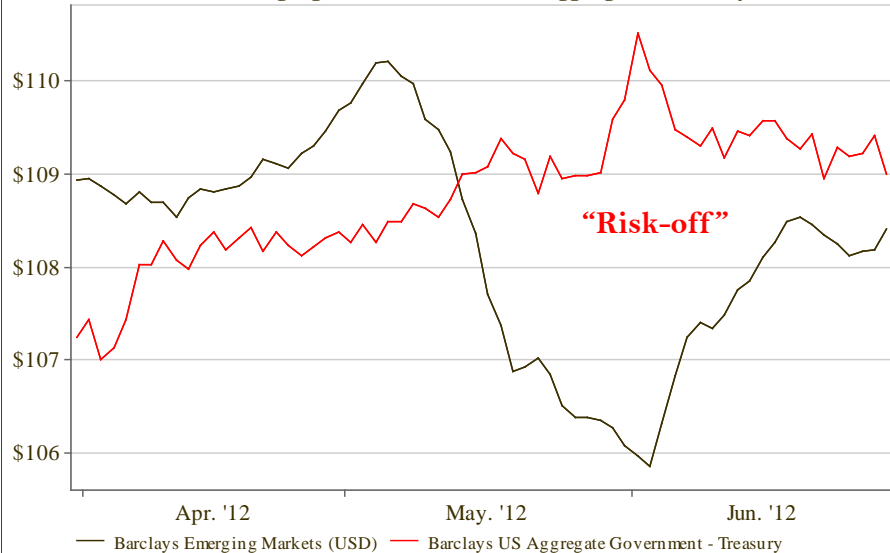


Housing

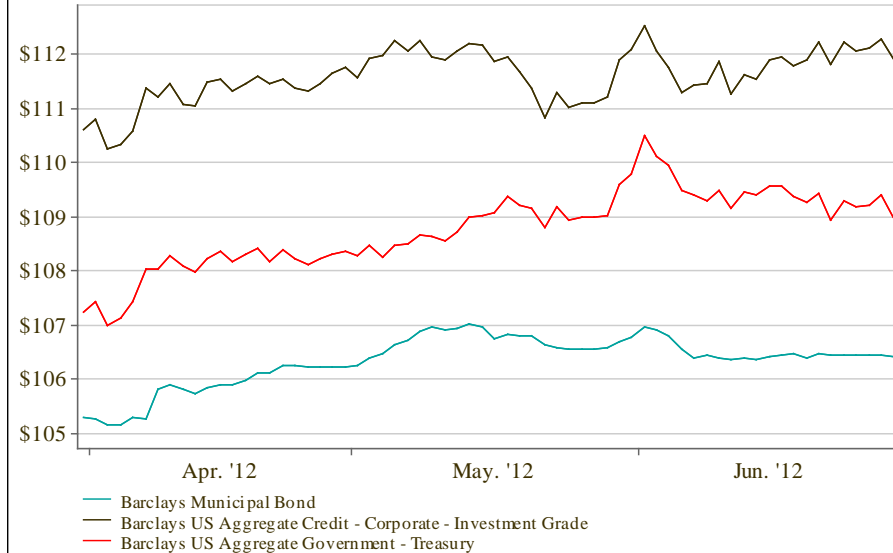


Fixed Income

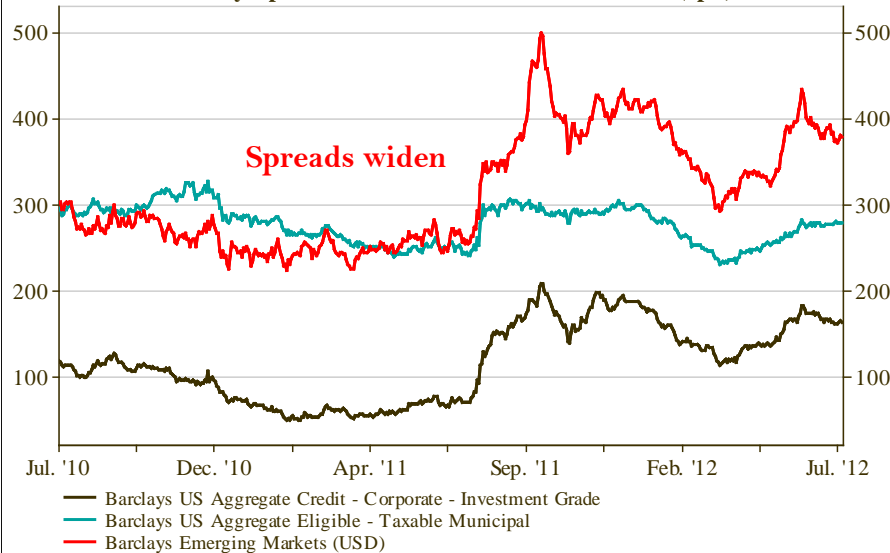
Bond Prices - Emerging Market Bond vs. US Aggregate Treasury



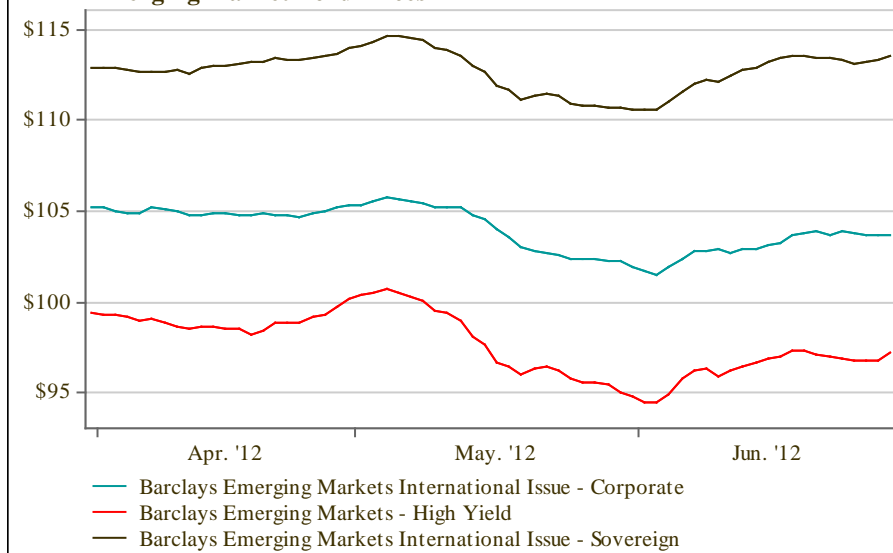
Domestic Bond Prices



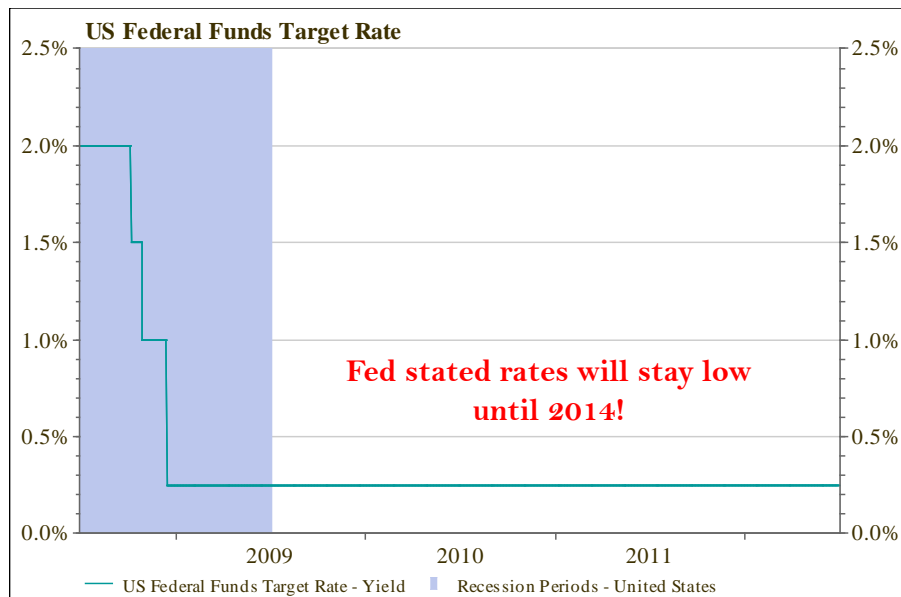
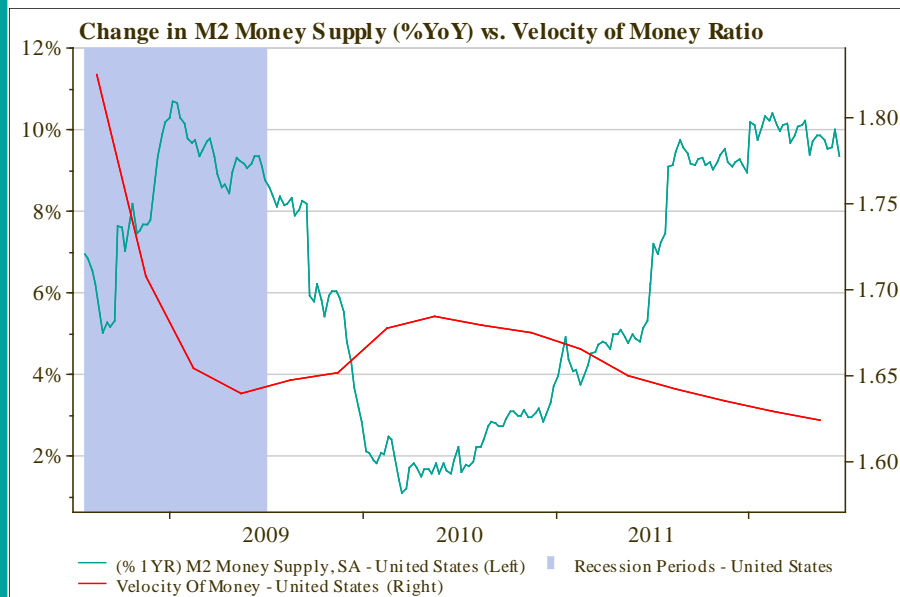
Yield to Maturity Spread vs. 10-Year US Benchmark Bond (bps.)



Emerging Market Bond Prices



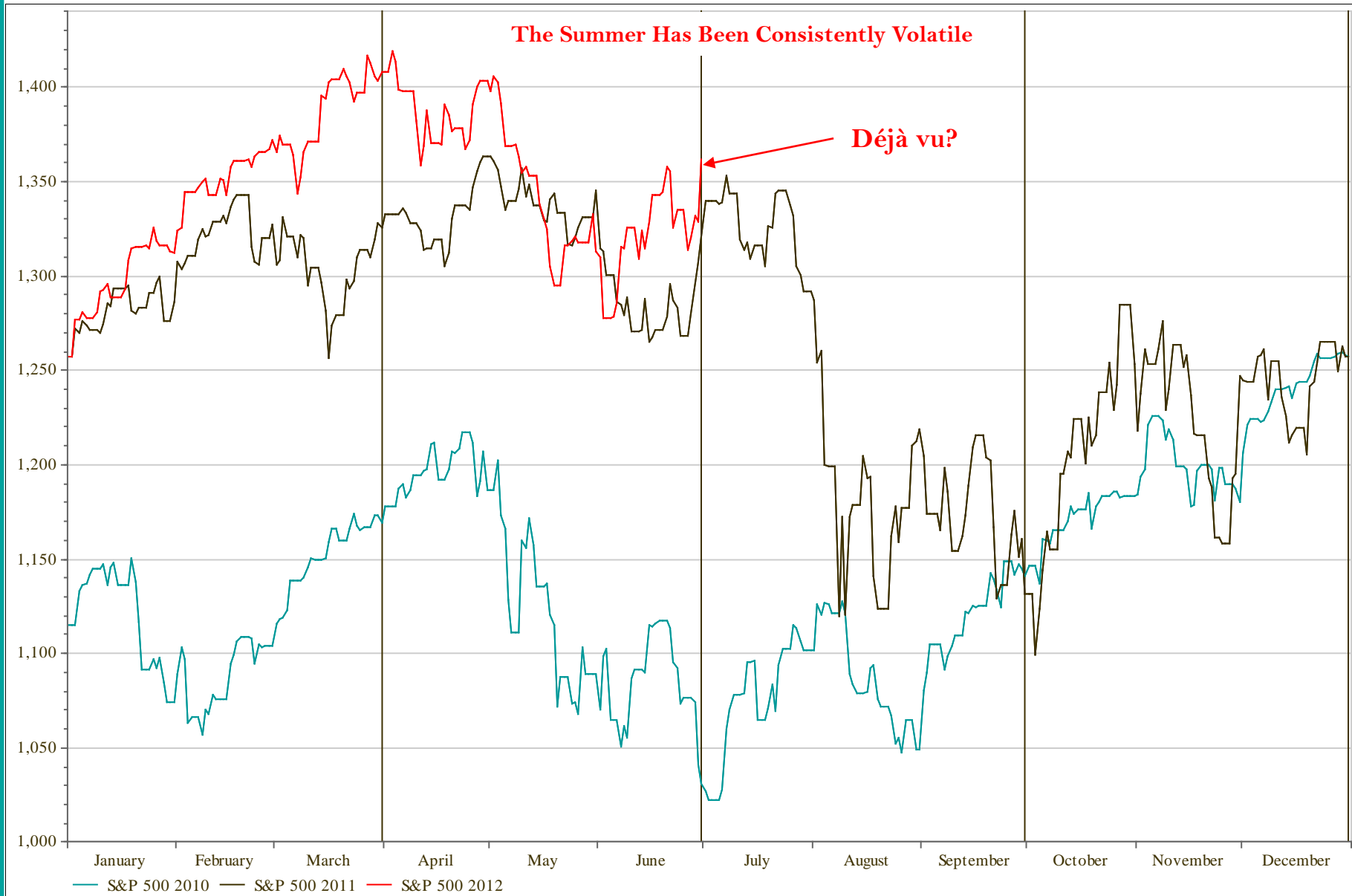
Monetary Policy



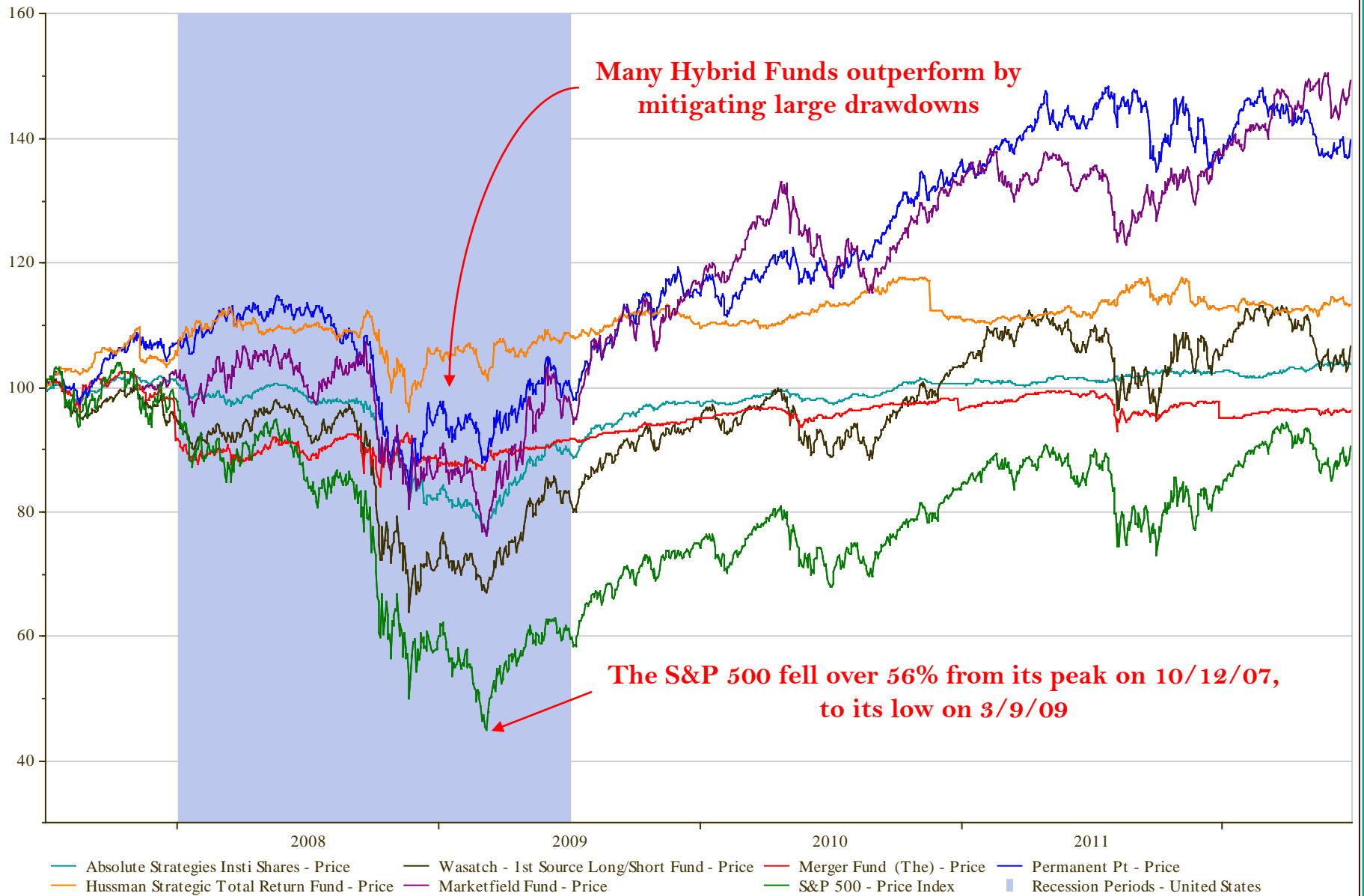
- End of QE1 to Bernanke's Jackson Hole Speech -10.45%
- Bernanke's Jackson Hole Speech to End of QE2 +26.11%
- End of QE2 to Beginning of "Operation Twist" -11.65%
- Beginning of "Operation Twist" to End of 2Q12 +16.75%

The market has *not* proven that it can sustain momentum without stimulus

Summer Volatility



Hybrids



Hybrids

The Bursting of the Technology Bubble (2000-2002)

	LC Stocks	MC Stocks	SC Stocks	Int'l Stocks	EM Stocks	Corp. FI	Treas. FI	HY FI
LC Stocks	1.00							
MC Stocks	0.89	1.00						
SC Stocks	0.80	0.93	1.00					
Int'l Stocks	0.84	0.89	0.82	1.00				
EM Stocks	0.82	0.85	0.81	0.77	1.00			
Corp. FI	-0.16	-0.11	-0.04	-0.09	0.00	1.00		
Treas. FI	-0.61	-0.56	-0.46	-0.47	-0.47	0.75	1.00	
HY FI	0.56	0.64	0.64	0.51	0.75	0.38	-0.18	1.00

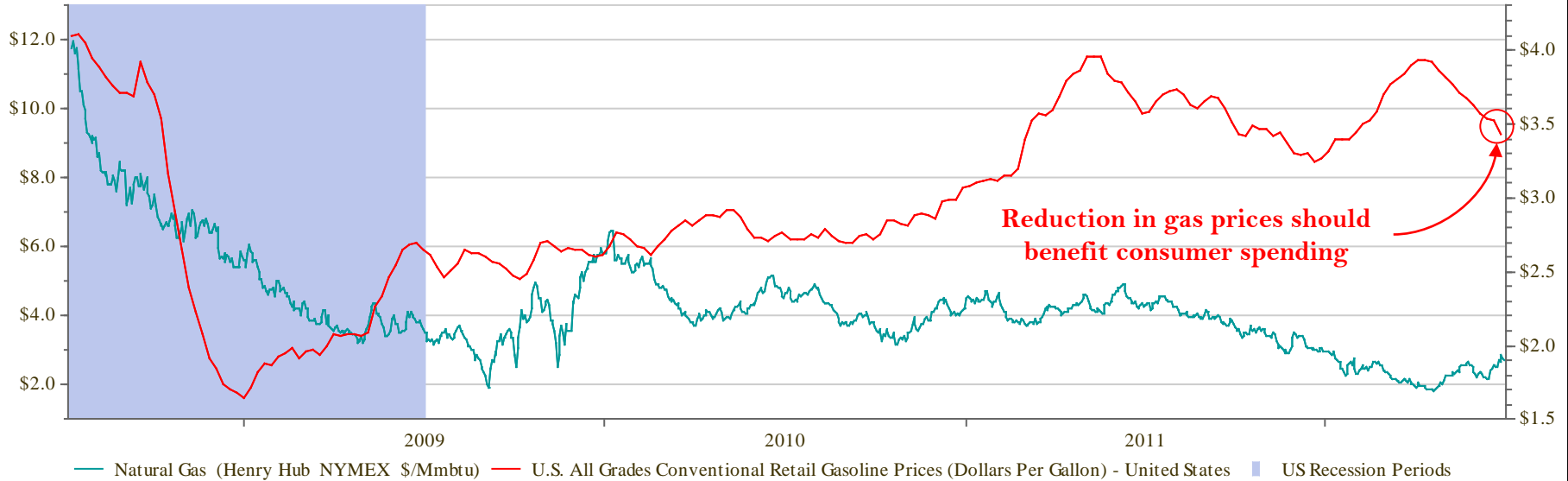
The "Great Recession" (2008-2009)

	LC Stocks	MC Stocks	SC Stocks	Int'l Stocks	EM Stocks	Corp. FI	Treas. FI	HY FI
LC Stocks	1.00							
MC Stocks	0.97	1.00						
SC Stocks	0.95	0.94	1.00					
Int'l Stocks	0.91	0.93	0.83	1.00				
EM Stocks	0.79	0.87	0.72	0.94	1.00			
Corp. FI	0.53	0.56	0.44	0.70	0.64	1.00		
Treas. FI	-0.01	-0.08	0.01	0.12	-0.05	0.51	1.00	
HY FI	0.72	0.81	0.68	0.73	0.78	0.60	-0.24	1.00

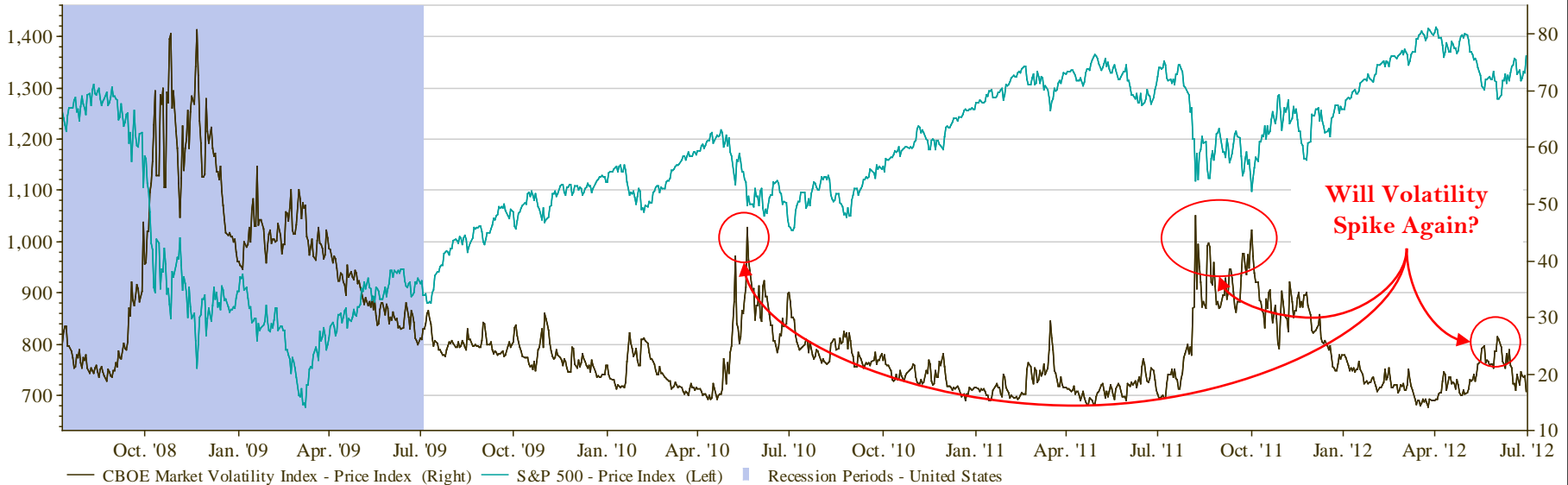
In times of great financial stress, correlations rise and a traditionally diversified portfolio can exhibit extreme volatility and disappointing downside protection

Commodities & Volatility

Natural Gas vs. Conventional Gasoline

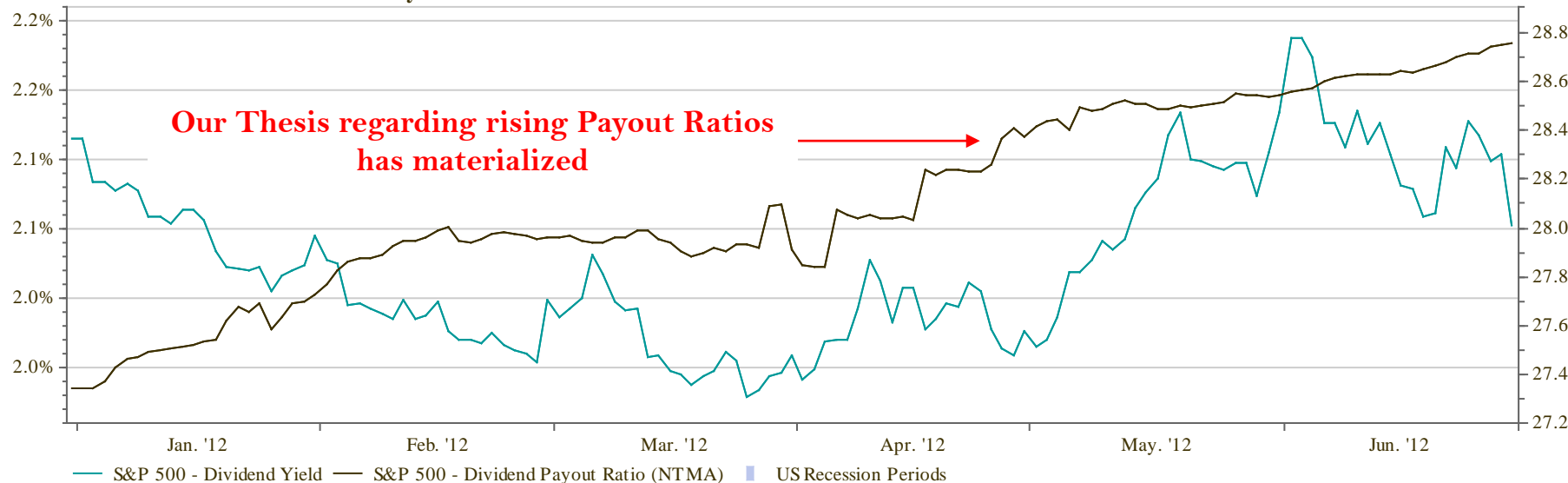


S&P 500 vs. CBOE VIX

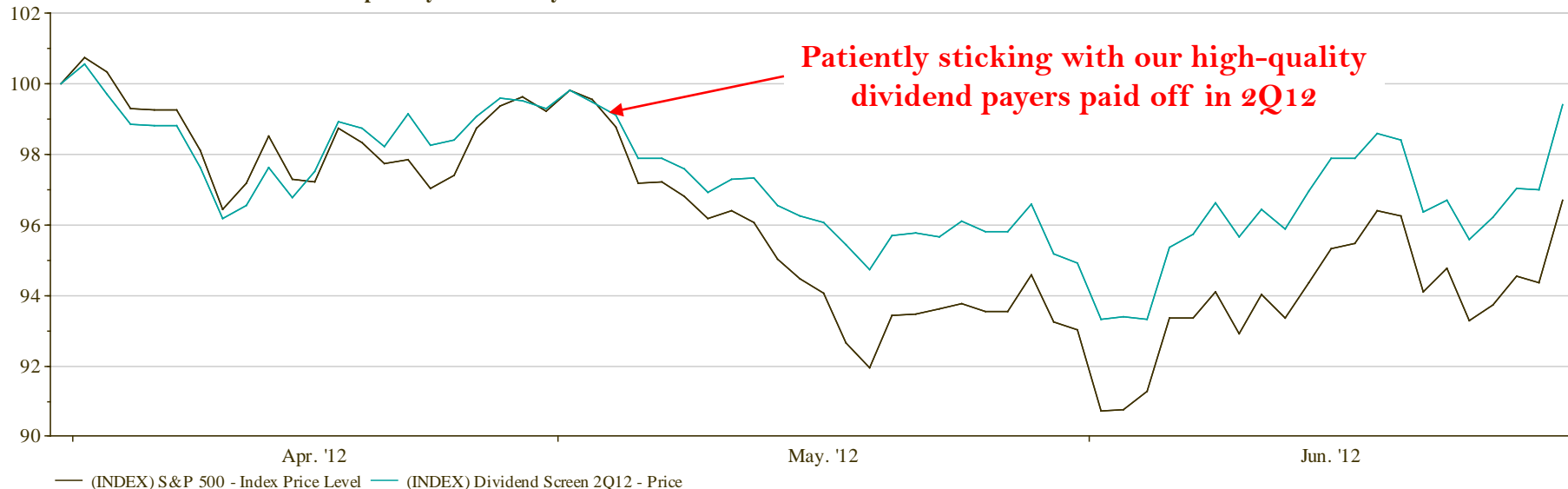


Dividends

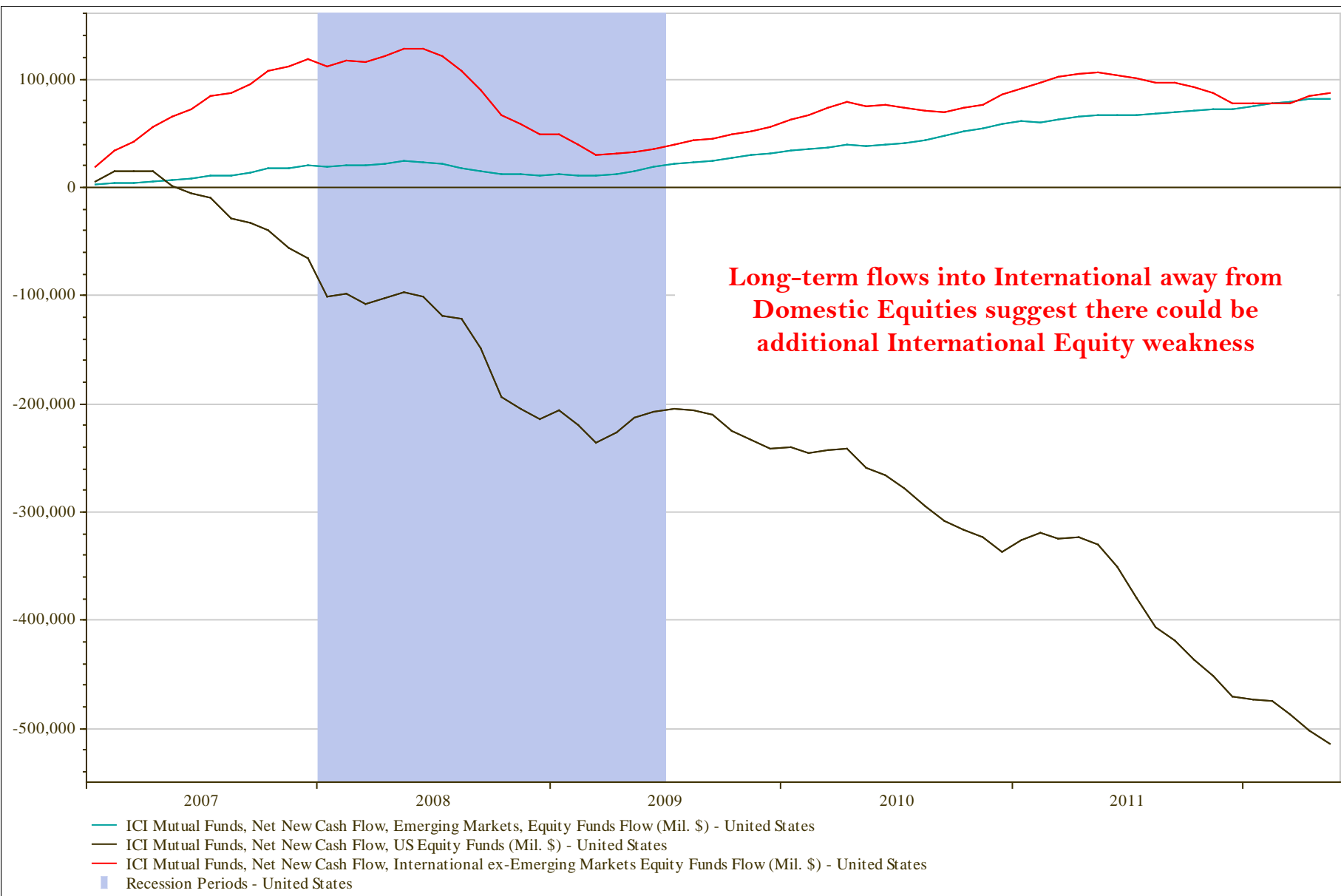
S&P Dividend Yield vs. Dividend Payout Ratio



S&P 500 Price Index vs. RWM Proprietary Dividend Payers Screen



Fund Flows



S&P 500 Flat

-5% to +5%

Negative
(-15% to -5%)

- ✓ Underweight Low-Quality
- ✓ Underweight Beta
- ✓ Overweight Large Cap
Defensives
- ✓ Overweight Dividend Growth
- ✓ Lowering International
Exposure
- ✓ Overweight Hybrids

Positive
(5% to 15%)

- ✓ Underweight Treasuries
- ✓ Add back to Small Cap
- ✓ Slight Increase in
Commodity & Energy
Exposure

- ✓ Treasuries
- ✓ Large Cap, High-Quality
- ✓ Cash
- ✓ Hybrids

- ✓ Small Caps Rally
- ✓ Commodities Rise
- ✓ Inflation Becomes a
Concern
- ✓ Emerging Markets Rally

- Break up of EU
- Housing **Recovery Stalls**
- Political gridlock and a sloppy election
- **Unemployment Remains Stubborn**

Cautiously Optimistic

- Unemployment trends below 7%
- **European Resolution**
- **Orderly Election**
- **GDP Growth Accelerates**

Daniele M. Donahoe, CFA

Chief Investment Officer



Daniele Donahoe came to our firm in May 2010 from Columbia Management Group, previously owned by Bank of America, where as a Senior Portfolio Manager she co-managed the Columbia Small Cap Growth II fund. Prior to Columbia Management, Daniele served as an Associate Analyst on an *Institutional Investor Magazine* Ranked Equity Research Team following the Enterprise Software Industry at Salomon Smith Barney (Citigroup) in New York. She has also served as an associate at Thomas Weisel Partners in San Francisco, CA and J.C. Bradford in Nashville, TN.

Throughout her career, Daniele has focused on equity research across a broad range of industries ranging from multi-billion dollar corporations to small and micro capitalization equities, and she has co-authored industry publications such as *B2B eCommerce: A Vertical and Horizontal Perspective* and *E2E Commerce: How the Internet Redefines Enterprise Software*. Daniele is a CFA charterholder and a graduate of the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill.

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We would like to thank you all for joining and participating in our 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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