

# Rinehart Wealth Management

## Second Quarter 2011 Economic Overview

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**July 2011**

**Rinehart** Wealth Management  
Greater Trust

## Positive Market Indications

- **Volatility Remains Minimal**

- ✓ Recent volatility, relative to history, is not concerning



- **Maintain exposure to Equities**

- ✓ Higher-risk Fixed Income

- **Dividend Payout Levels are Depressed and Cash Levels are High**

- ✓ S&P 500 companies have almost \$1 trillion in unused cash
- ✓ 60% of unused cash already in the United States  
(Source: *WSJ and Standard & Poor's*)



- **Overweight Large Cap Equities**

- ✓ Screen for companies likely to grow dividends, not already paying a high yield

- **Loan & Money Supply (M2) Growth are Underway**

- ✓ M2 velocity could lag stimulus and move higher



- **Maintain sufficient exposure to Domestic Equity**

- **Portfolios Remain Underweight Equities**



- **Maintain sufficient exposure to Domestic Equity**

- ✓ Rebalancing to Equities could provide tailwind for equity market

## Negative Market Indications

- **Interest Rates are abnormally low and short-term, high-quality debt instruments appear overvalued**



### **Underweight Fixed Income**

- ✓ Expectation that rates will move higher

- **Inflation Signs are Emerging**

- ✓ Commodity cost spikes are affecting the consumer, as well as manufacturing
- ✓ The recent upward move in the Core CPI (0.3% month-over-month rise in June) may suggest the beginning of an enduring increase in prices



### **Underweight Fixed Income Overweight Hybrids**

- **M2 Money Supply velocity sluggish despite unprecedented stimulus efforts**

- ✓ The sluggish velocity of money suggests financial institutions are either reluctant to lend or don't have any growth to finance



### **Underweight Risky Assets**

- ✓ Small Cap, hyper-cyclicals, low-quality, highly-levered and high-beta

- **US Government is still the main source of liquidity for consumers**



### **Overweight International Equities, Global Fixed Income, and Foreign Currency**

- ✓ Diversify exposure to US market

# Increased Volatility and Inflation Concerns Move Our Outlook to Overweight Hybrids

## Asset Class

## Investment Opinion

### Cash

**Underweight:** We recommend a small cash balance for distributions, fees, and opportunistic buying. Cash yields are negligible, we recommend keeping cash at a low level.

### Fixed Income

**Underweight:** We recommend a core weighting in Fixed Income to dampen volatility; however, we are underweight this asset class relative to Equities. Yields are unsustainably low and should creep due to inflation. As bond yields creep up, bond portfolios will suffer. To help combat bond portfolio erosion, we recommend actively managed products, international bond exposure, and intermediate-term bonds. If we see a rate hike on the horizon, we may add a floating-rate product.

### Hybrid

**Overweight:** We believe that exposure to these alternative asset classes can accentuate return, reduce risk, and mitigate volatility. Our Hybrid category contains hedge funds, utilities, real estate, and hard assets; these asset classes perform differently than a core portfolio allocation. Overweight Hybrids in an attempt to hedge inflation while controlling volatility.

### Domestic Equity

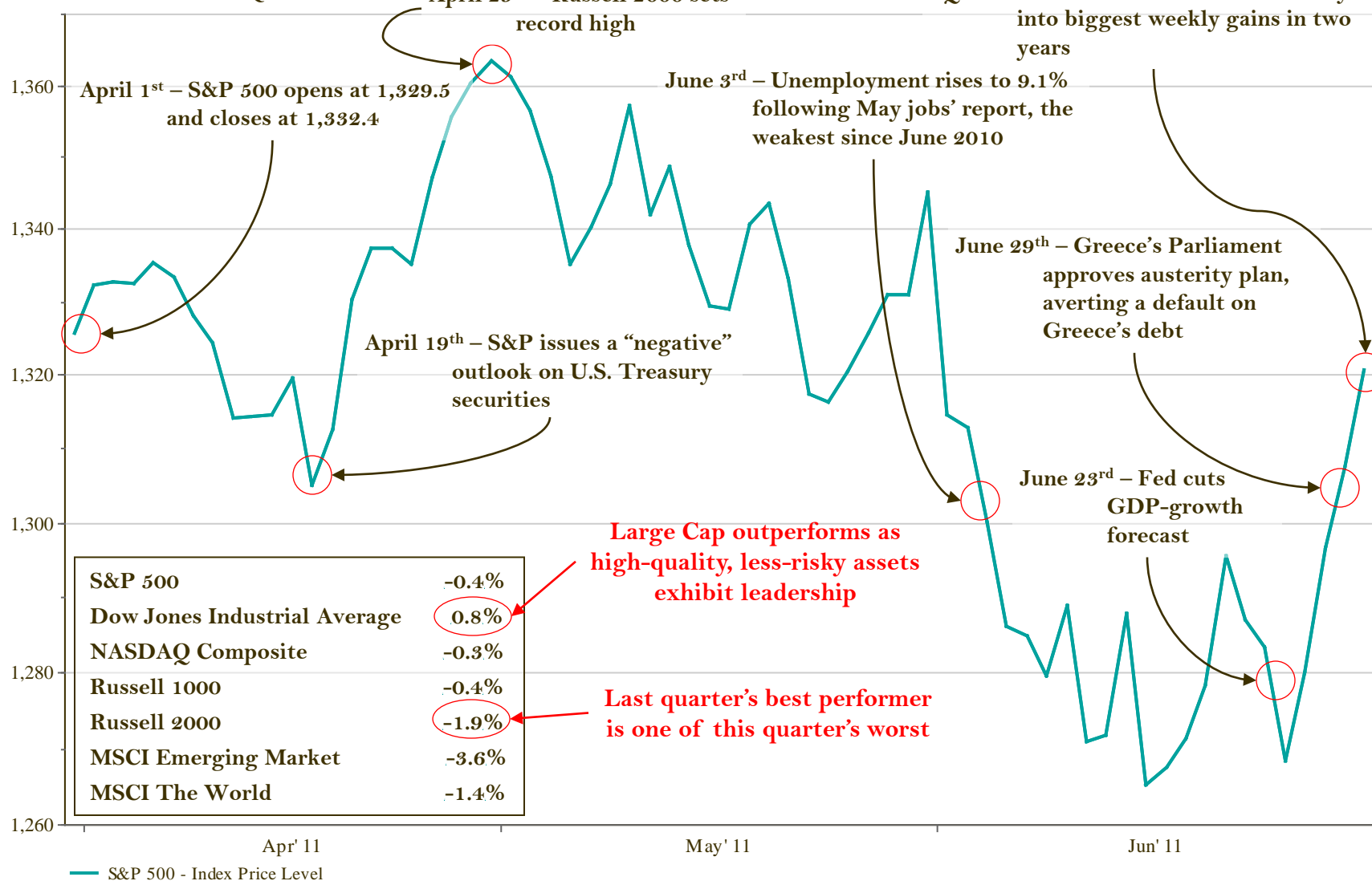
**Overweight:** With monetary stimulus (QE2) rolling off and little likelihood of future monetary stimulus, we feel Domestic Equity performance will be more modest going forward. Within Domestic Equity, we are Overweight Large Cap stocks with the potential to increase dividend payouts.

### International Equity

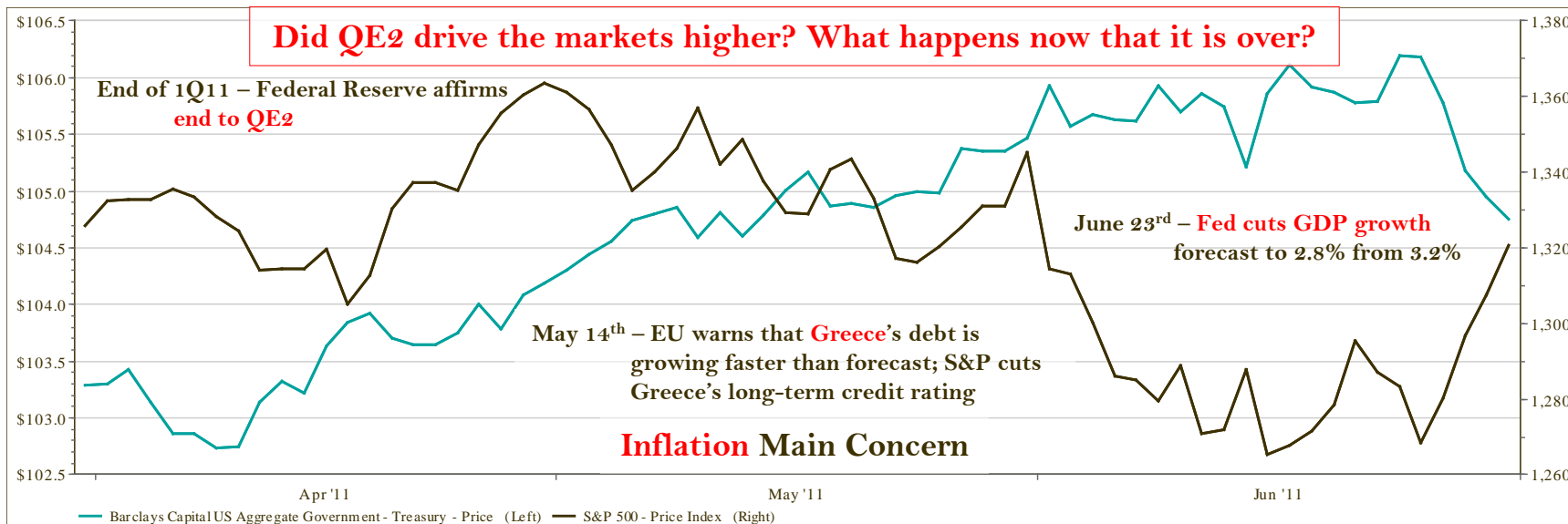
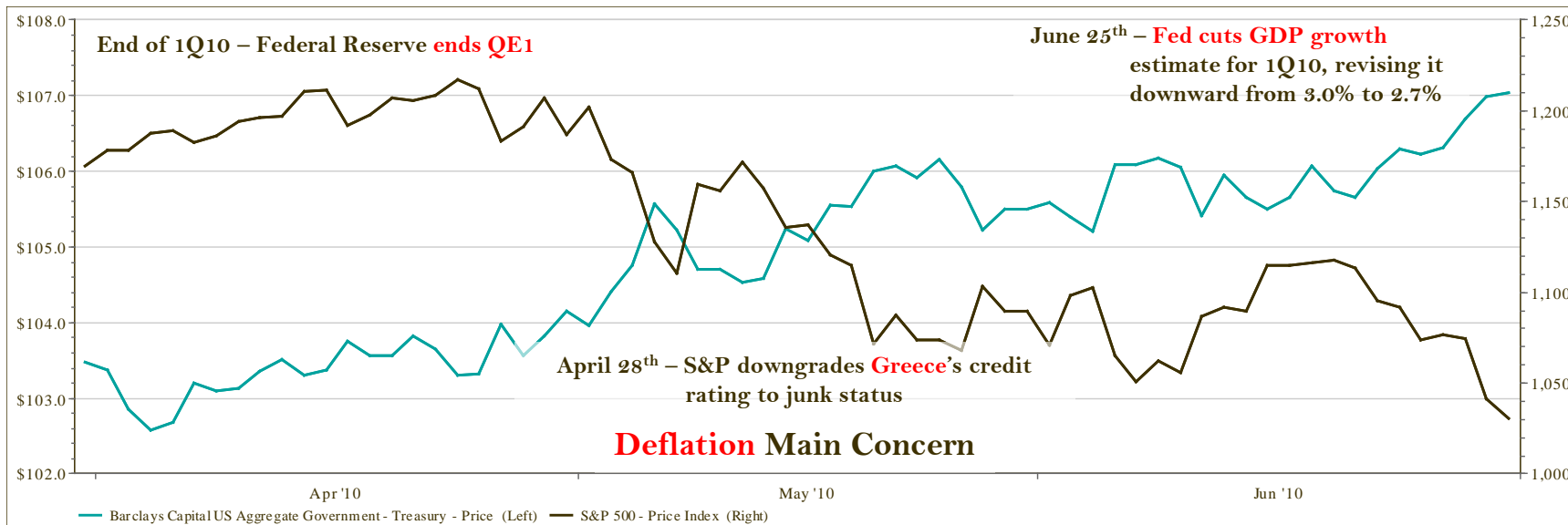
**Overweight:** Superior growth and continued financing of the developed world's debt should result in the Emerging Markets category capturing a larger piece of the world index and a larger portion of the investment pie. As Emerging Markets grow and more companies trade publically, the Emerging Markets asset class should outgrow other areas. We currently suggest 30-40% of a portfolio's international exposure be dedicated to Emerging Markets. We are Underweight developed, international to avoid the sovereign debt issues in Europe. However, we like certain Japanese equities.

## 2<sup>nd</sup> Quarter Performance – Market Dips After Unsustainable 1<sup>st</sup> Quarter Performance

S&P 500 Price Index - 2Q11



## Déjà Vu – Strikingly Similar to Last Summer

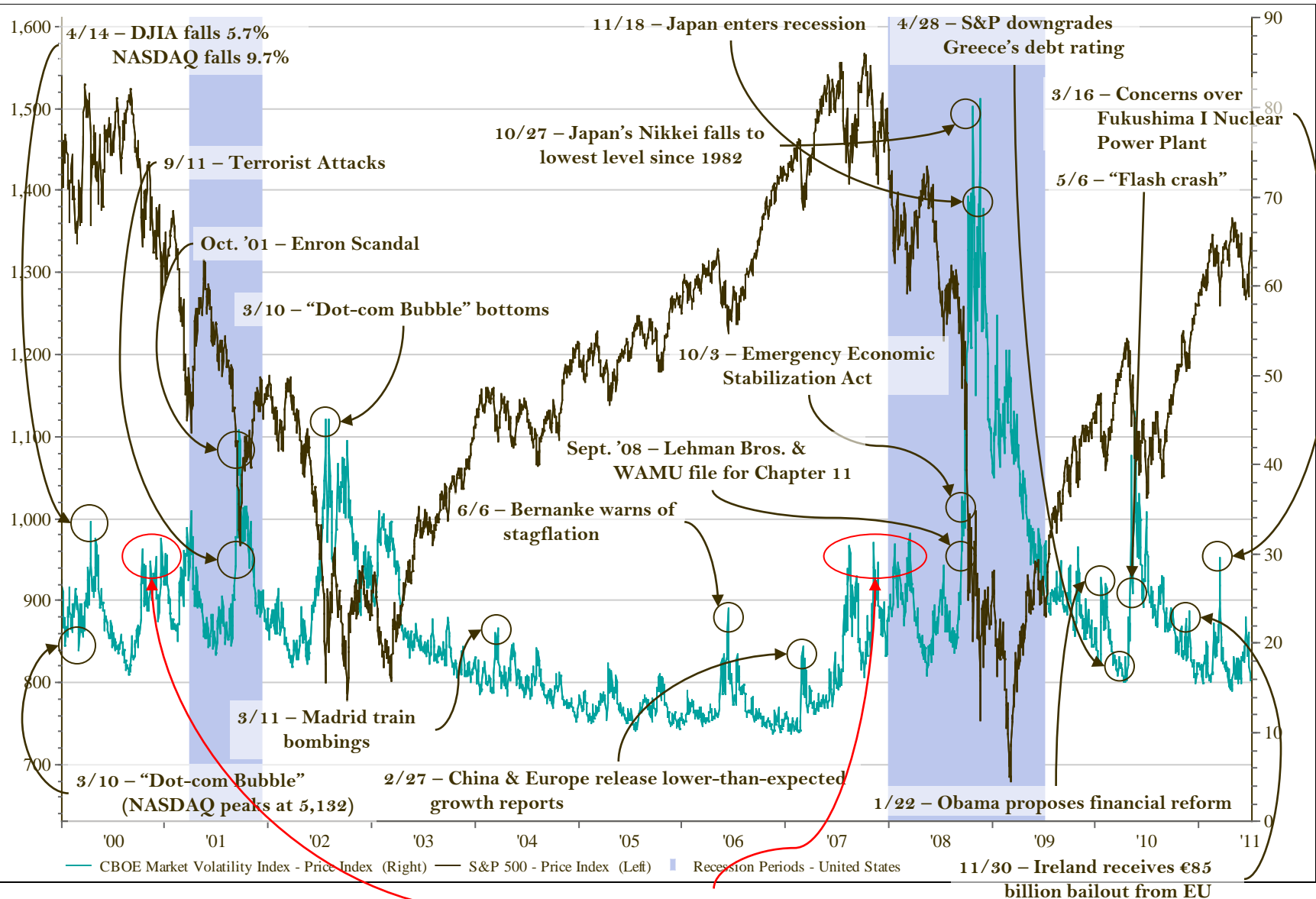


## As Expected, Defensive Assets Outperform – Health Care Emerges as Top YTD Performer

S&P Sector Annualized Returns						S&P Sector Trailing 3-Month Relative Performance									
Sectors	2007	2008	2009	2010	YTD	10/30/2010	11/30/2010	12/30/2010	1/30/2011	2/28/2011	3/30/2011	4/30/2011	5/30/2011	6/30/2011	
Defensives															
Utilities	15.81%	-31.55%	6.80%	0.86%	7.48%	-3.62%	-12.31%	-10.23%	-7.62%	-7.40%	-3.69%	-2.34%	4.81%	5.28%	
Telecom	8.45%	-33.62%	2.63%	12.30%	4.22%	-2.73%	-5.07%	-4.64%	-5.93%	-6.61%	-1.73%	1.68%	7.61%	1.37%	
Health Care	5.39%	-24.48%	17.07%	0.71%	13.34%	-0.84%	-5.44%	-6.98%	-6.99%	-5.11%	-0.69%	4.62%	9.40%	7.83%	
Staples	11.60%	-17.65%	11.20%	10.67%	7.73%	-0.89%	-5.48%	-4.96%	-6.73%	-7.93%	-3.60%	1.66%	7.37%	4.82%	
Near Cyclical															
Energy	32.38%	-35.93%	11.29%	17.86%	12.36%	2.09%	8.28%	10.69%	11.93%	13.50%	11.65%	5.93%	-3.06%	-4.82%	
Financials	-20.84%	-56.95%	14.80%	10.83%	-3.36%	-8.50%	-5.05%	0.72%	3.61%	5.06%	-2.16%	-5.95%	-7.36%	-6.11%	
Cyclical															
Technology	15.54%	-43.68%	59.92%	9.13%	4.67%	2.82%	3.95%	-0.02%	-0.94%	-2.20%	-2.31%	-4.21%	-3.85%	-1.29%	
Discretionary	-14.32%	-34.73%	38.76%	25.72%	10.30%	5.44%	7.28%	2.19%	-2.32%	-3.31%	-1.09%	2.46%	1.89%	3.25%	
Industrials	9.83%	-41.52%	17.27%	23.92%	8.26%	-1.53%	2.05%	0.84%	4.21%	2.40%	2.33%	0.74%	0.01%	-0.28%	
Materials	19.99%	-47.05%	45.23%	19.92%	4.65%	4.46%	3.51%	8.18%	2.41%	1.69%	-1.87%	1.22%	-0.11%	-0.39%	
S&P 500	3.53%	-38.49%	23.45%	12.78%	6.63%	7.42%	12.55%	10.22%	7.82%	11.59%	5.60%	6.84%	0.85%	-0.57%	

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

# Recent Volatility is Minimal

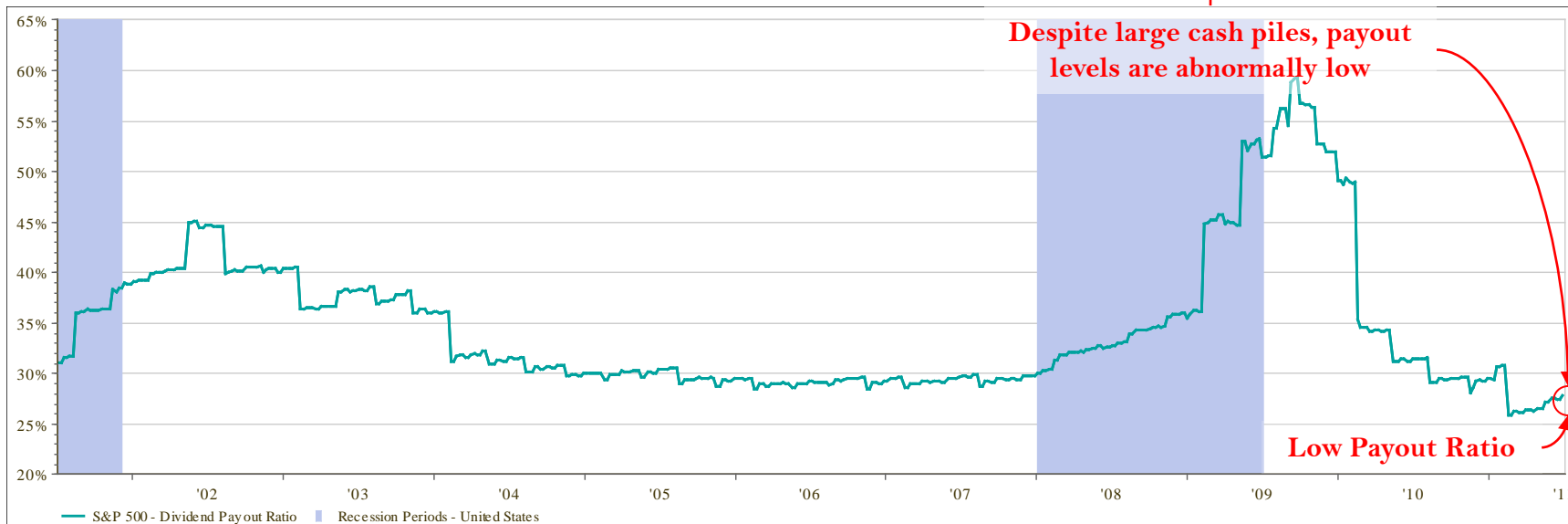
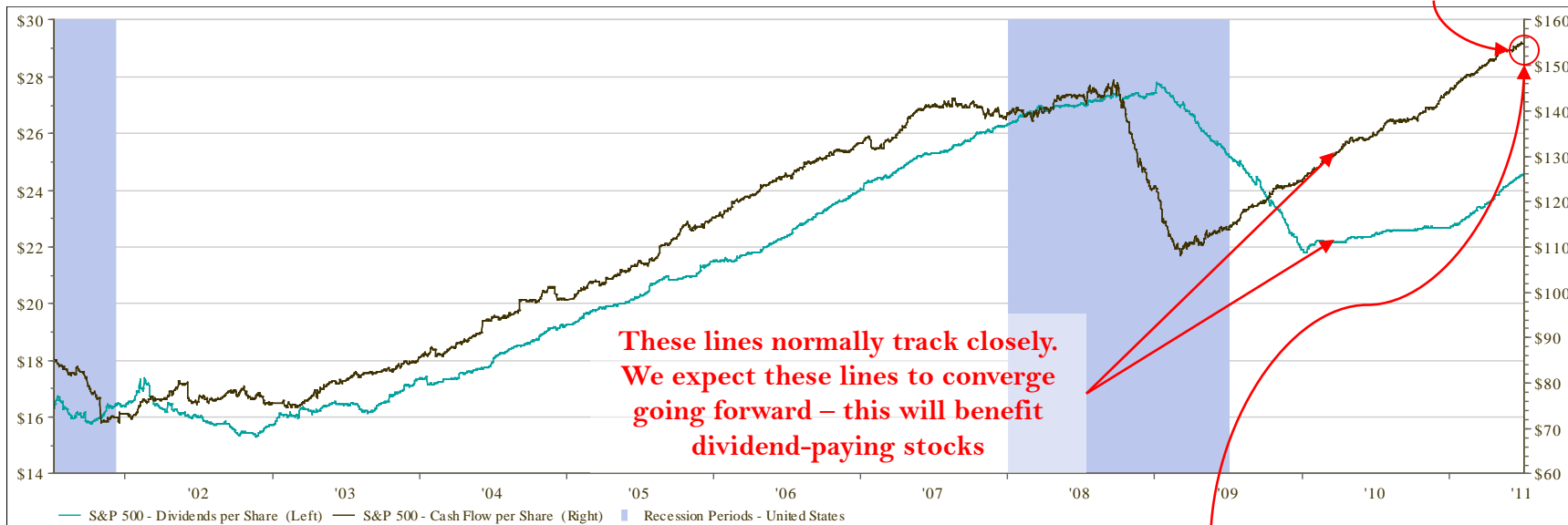


Source: FactSet Research Systems, Inc. - Rinehart Wealth Management

**Foreboding Cluster of Volatility Spikes**

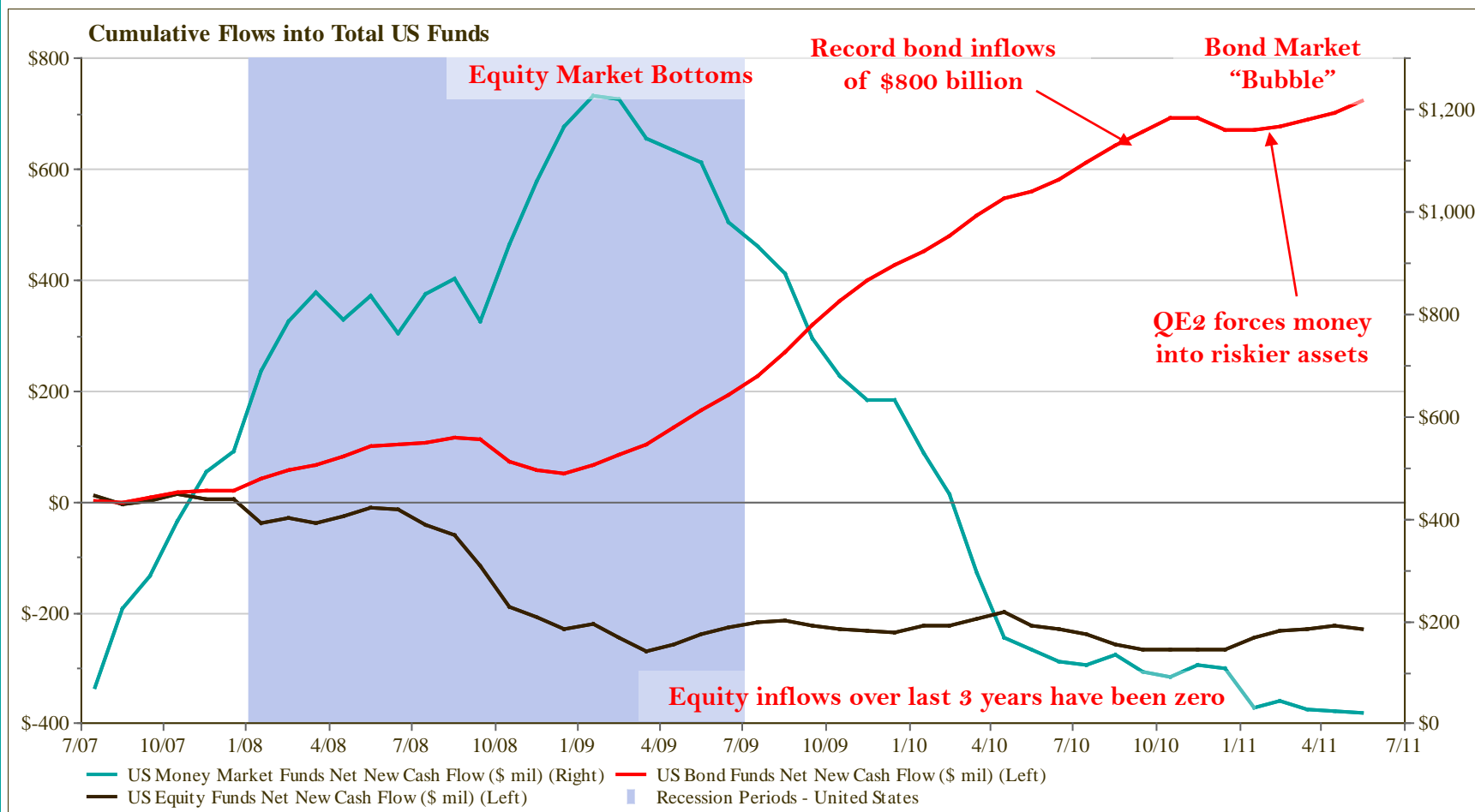


## Dividend Payout Levels are Depressed & Cash Levels are High



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

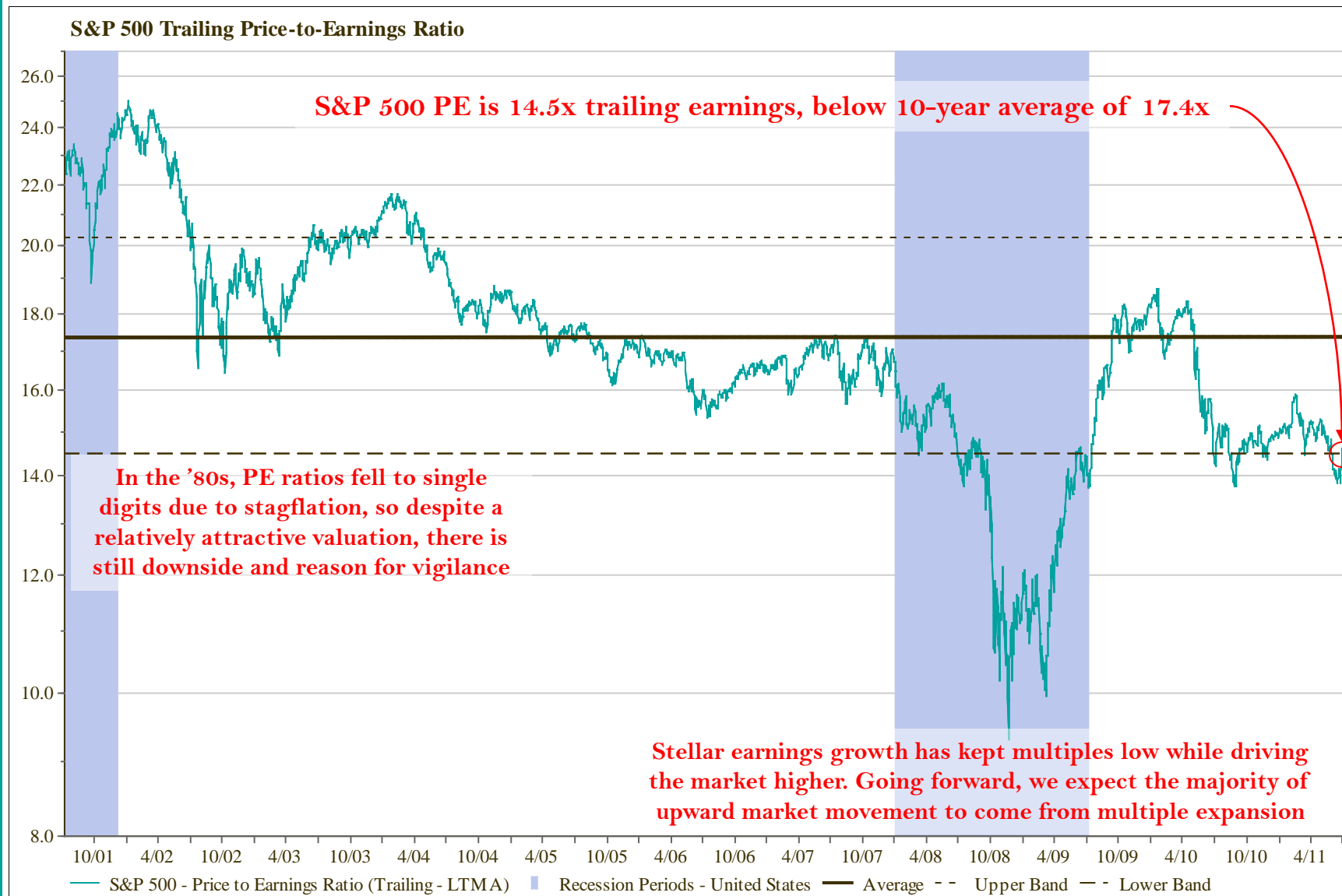
## Portfolios Remain Underweight Equities



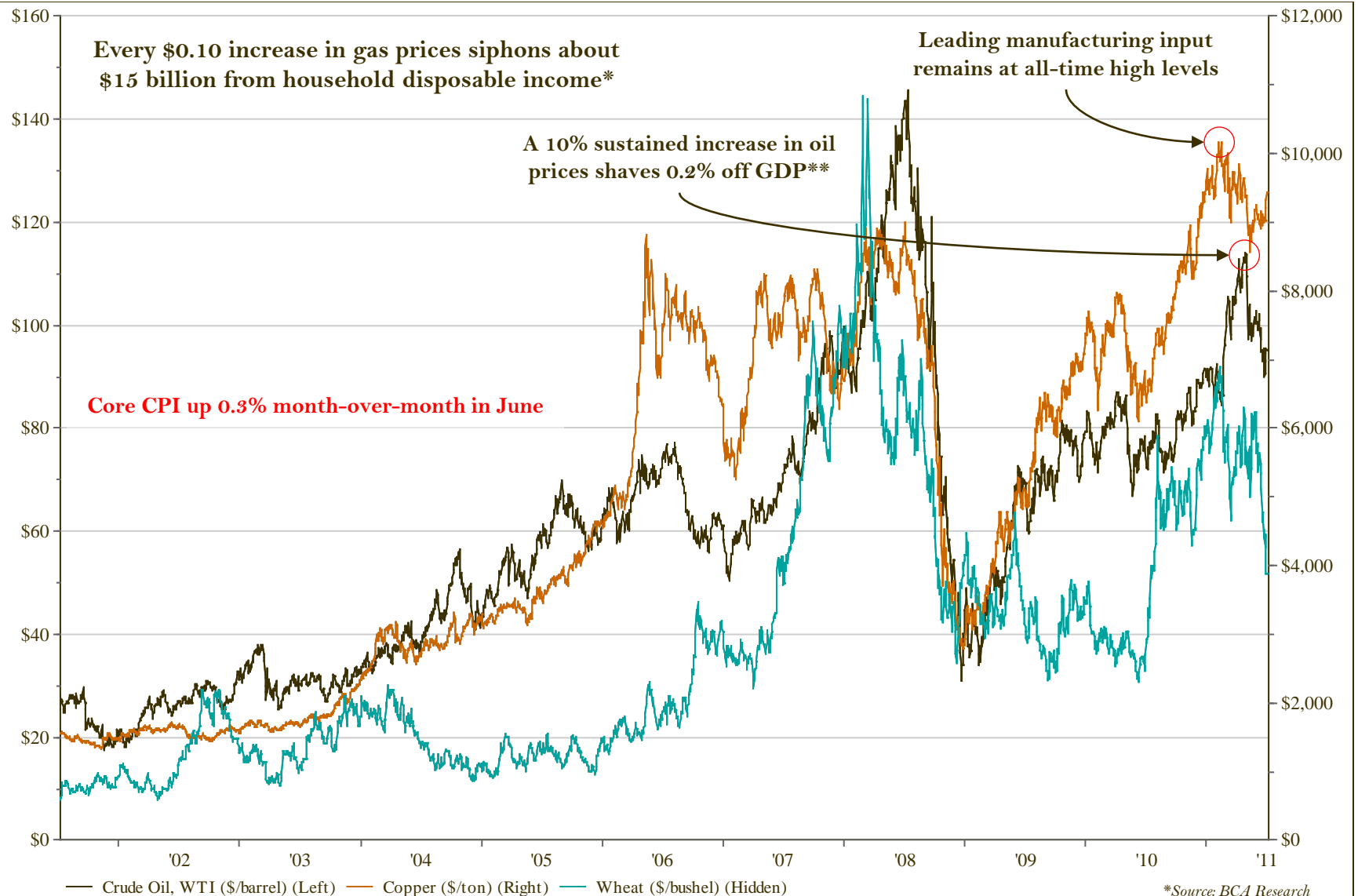
Source: FactSet Research Systems, Inc. - Rinehart Wealth Management

- 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 During Periods of Declining Growth



# Inflation Signs are Emerging

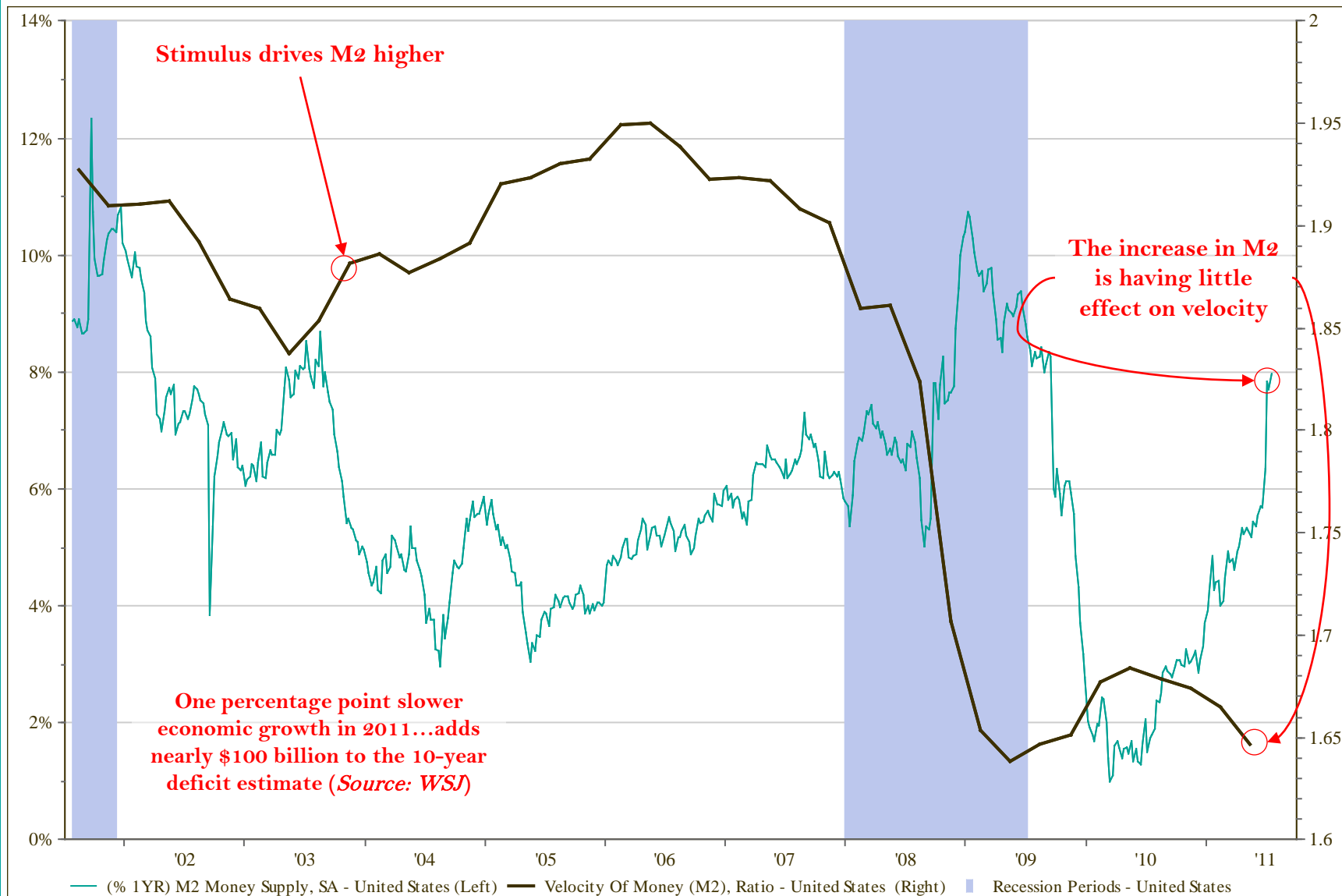


\*Source: BCA Research

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

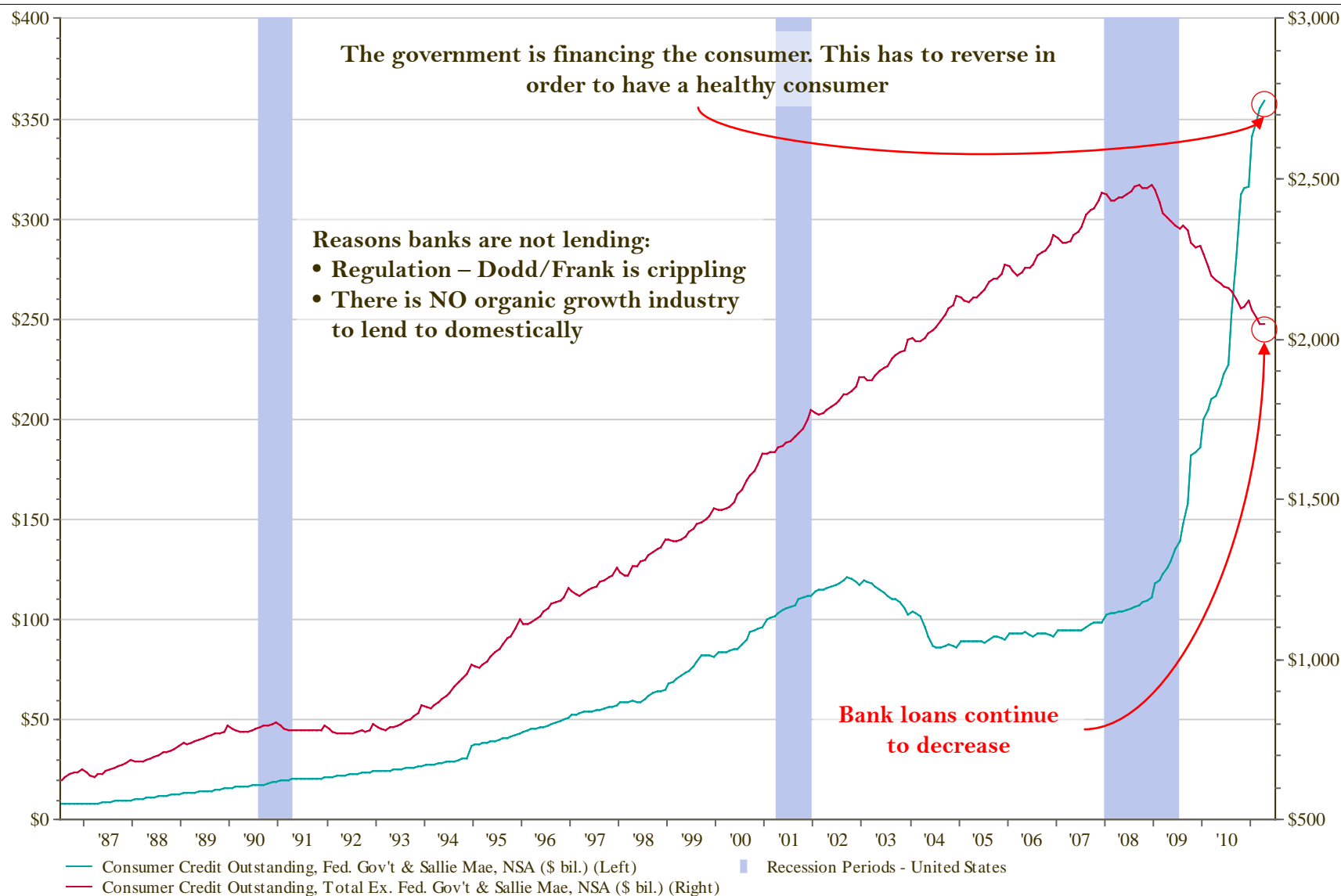
\*\*Source: Deutsche Bank

## Unprecedented Stimulus Results in Slow Growth



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

# US Government is Still the Main Source of Liquidity for Consumers



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

# Rinehart Wealth Management

## Greater Trust

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