

Rinehart Wealth Management

Second Quarter 2011 Economic Overview

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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

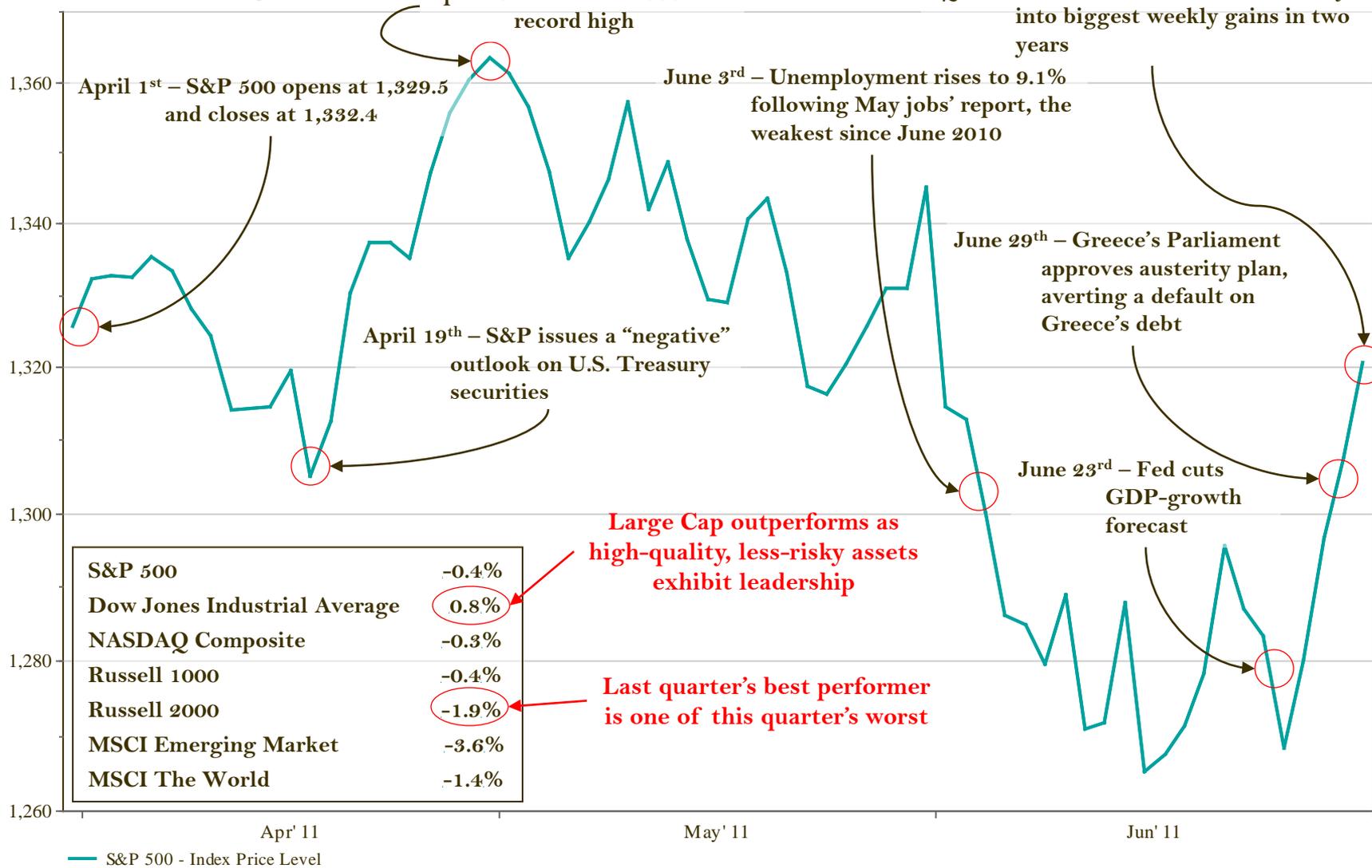
Overweight: With monetary stimulus (QE2) rolling off and little likelihood of future monetary stimulus, we feel Domestic Equity performance will be more modest going forward. Within Domestic Equity, we are Overweight Large Cap stocks with the potential to increase dividend payouts.

International Equity

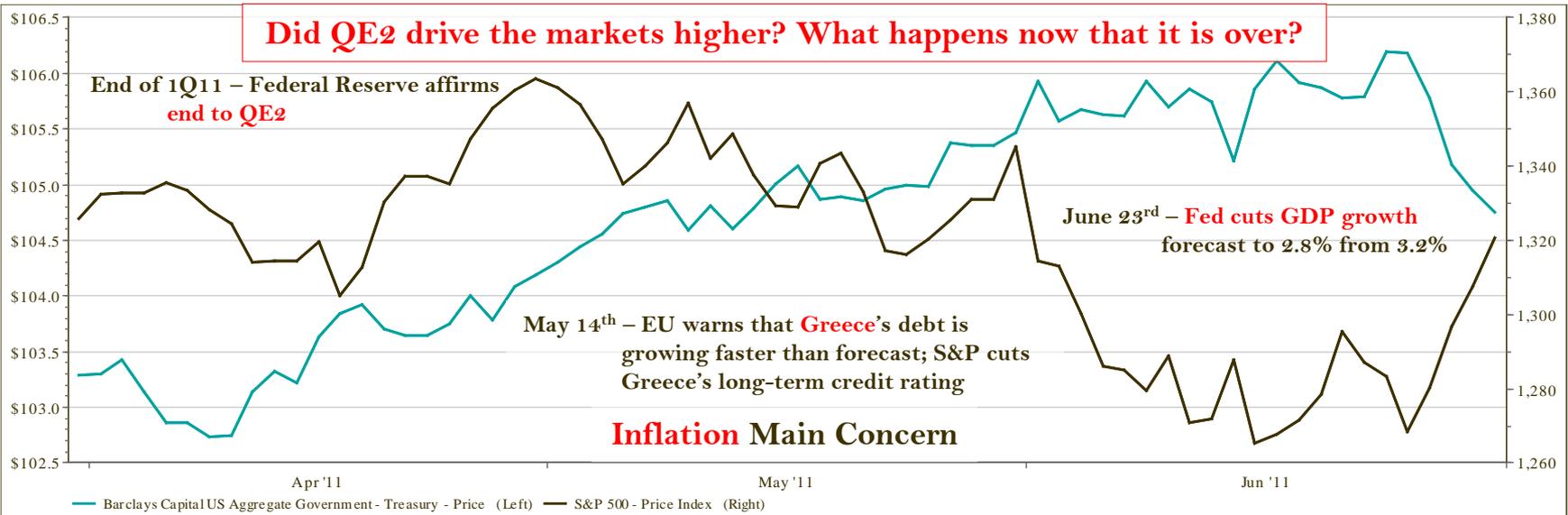
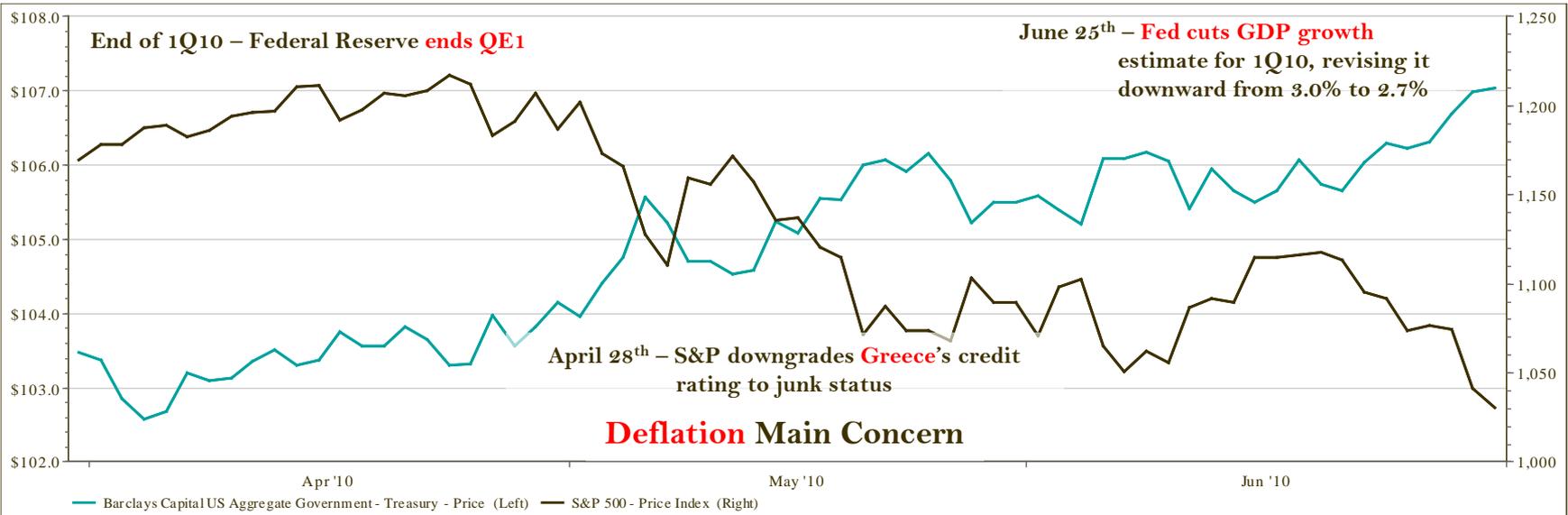
Overweight: Superior growth and continued financing of the developed world's debt should result in the Emerging Markets category capturing a larger piece of the world index and a larger portion of the investment pie. As Emerging Markets grow and more companies trade publically, the Emerging Markets asset 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.

2nd Quarter Performance – Market Dips After Unsustainable 1st 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%	2.94%	-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%	-0.69%	-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%	11.05%	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%	
Cyclicals															
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%	

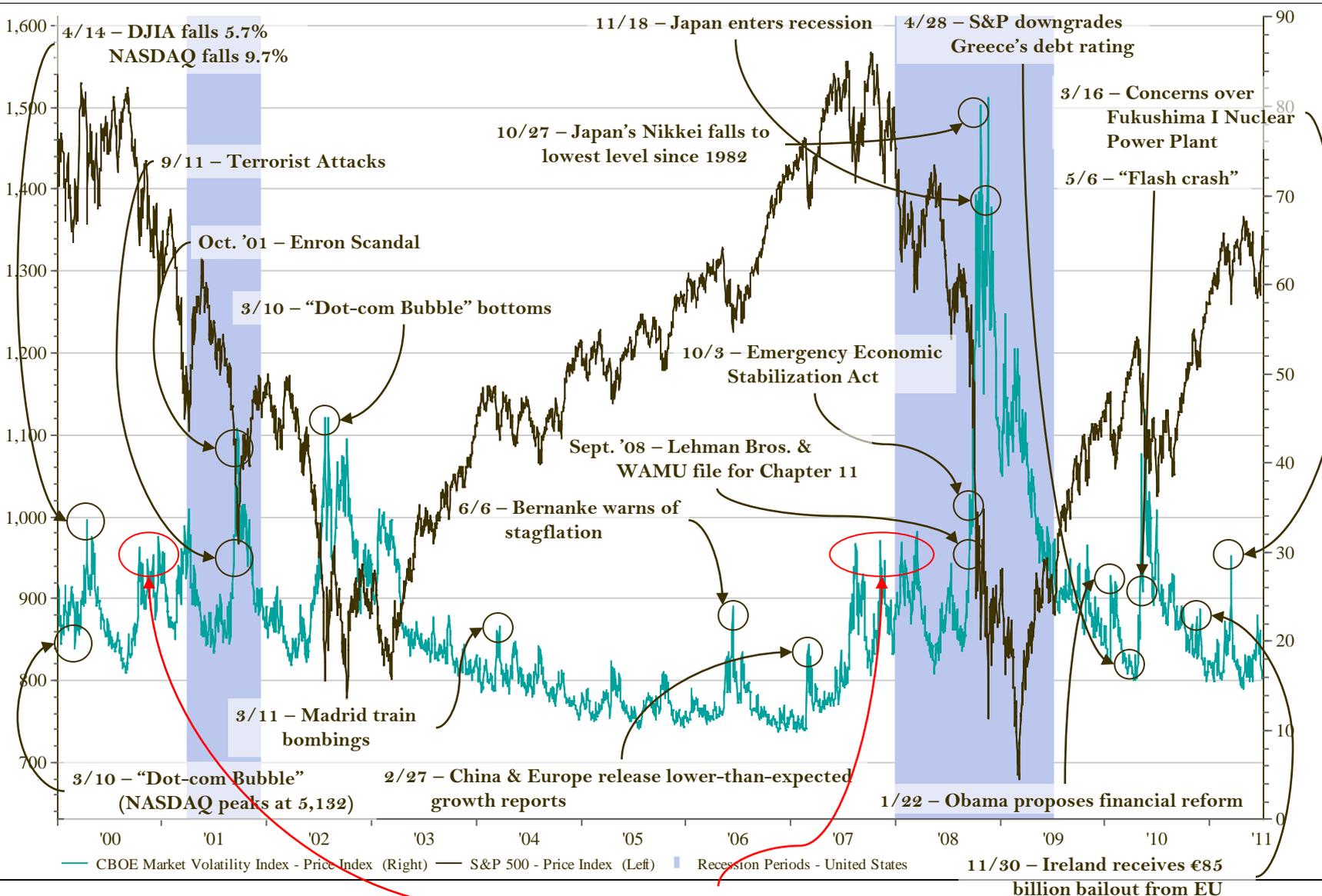
RE-RISKING

Last quarter, we were buying Health Care and Staples

DE-RISKING

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

Recent Volatility is Minimal

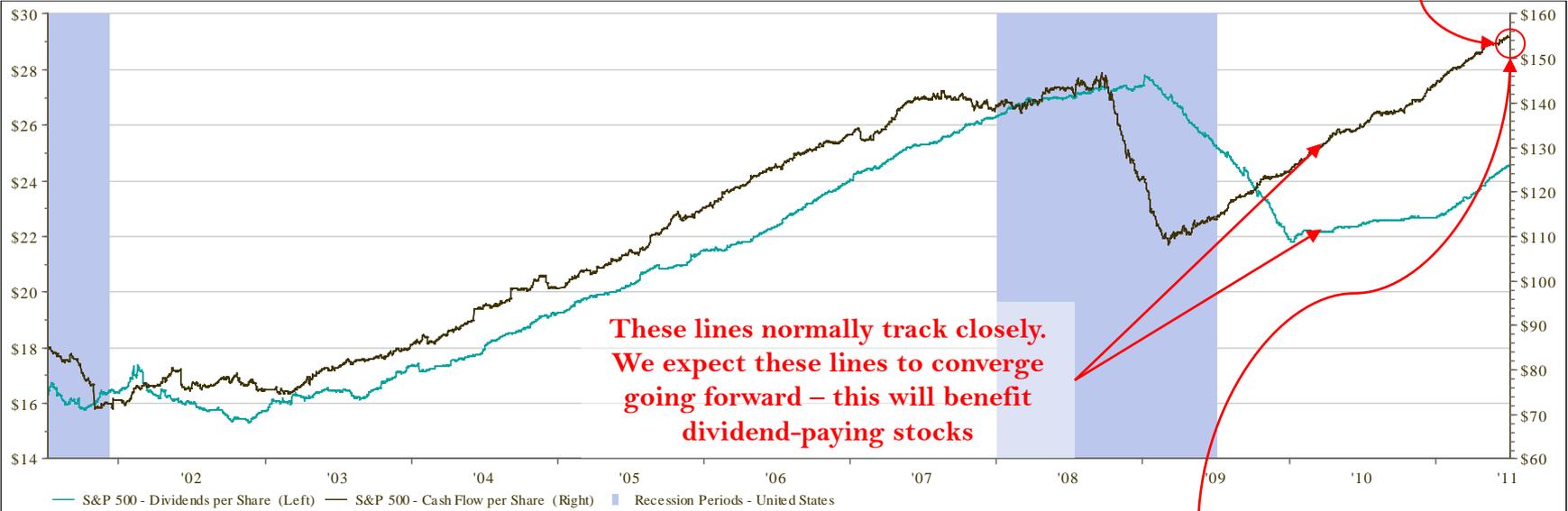


Source: FactSet Research Systems, Inc. - Rinehart Wealth Management

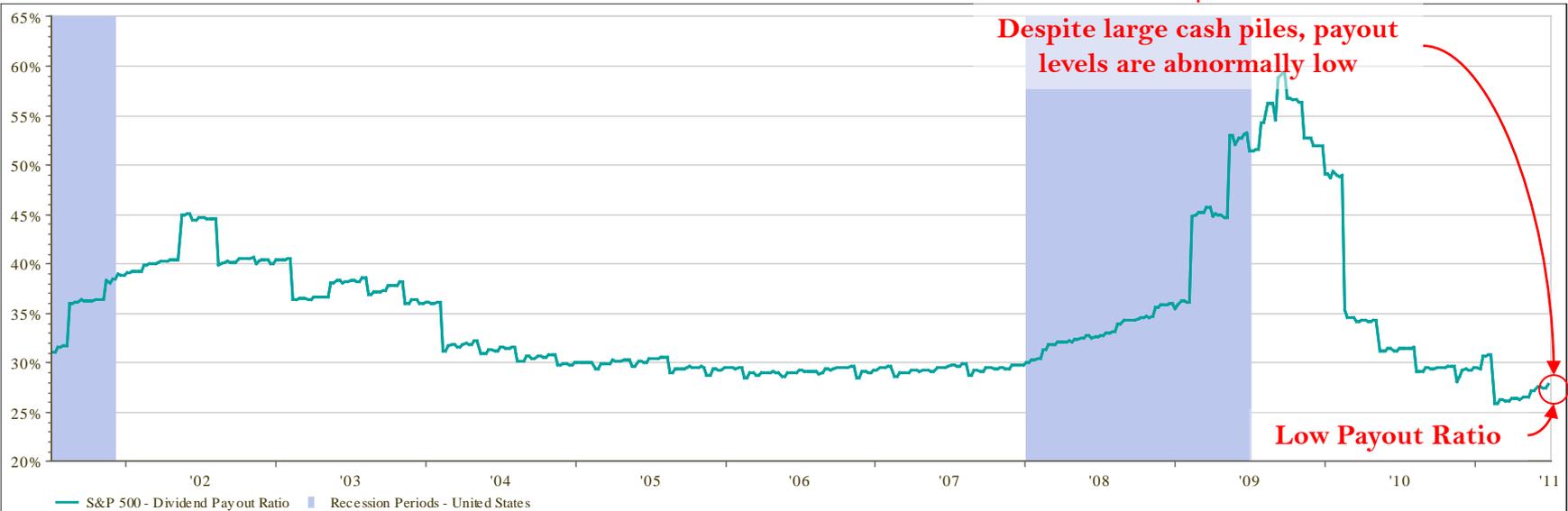
Foreboding Cluster of Volatility Spikes

Dividend Payout Levels are Depressed & Cash Levels are High

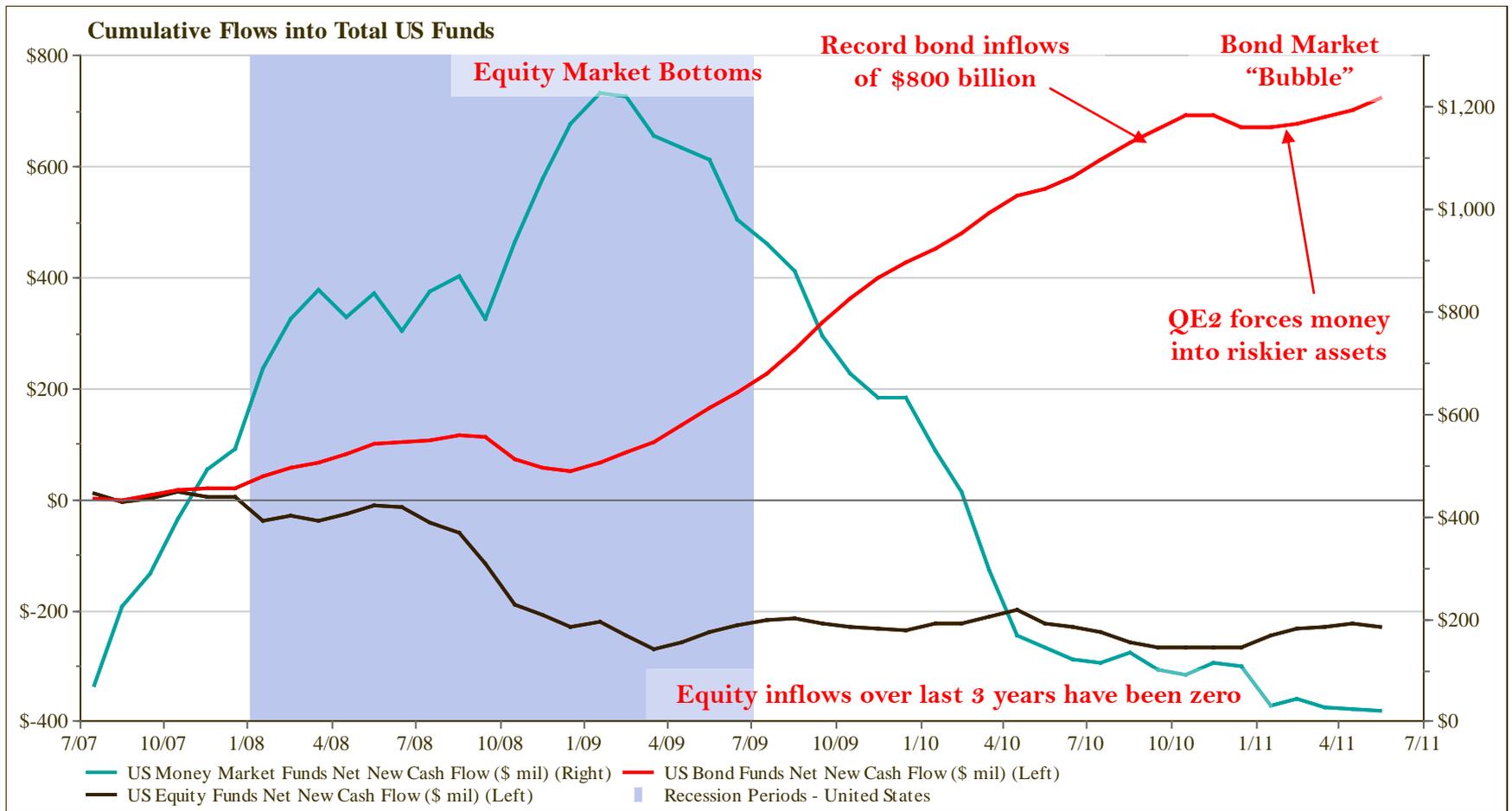
High Cash per Share



Despite large cash piles, payout levels are abnormally low



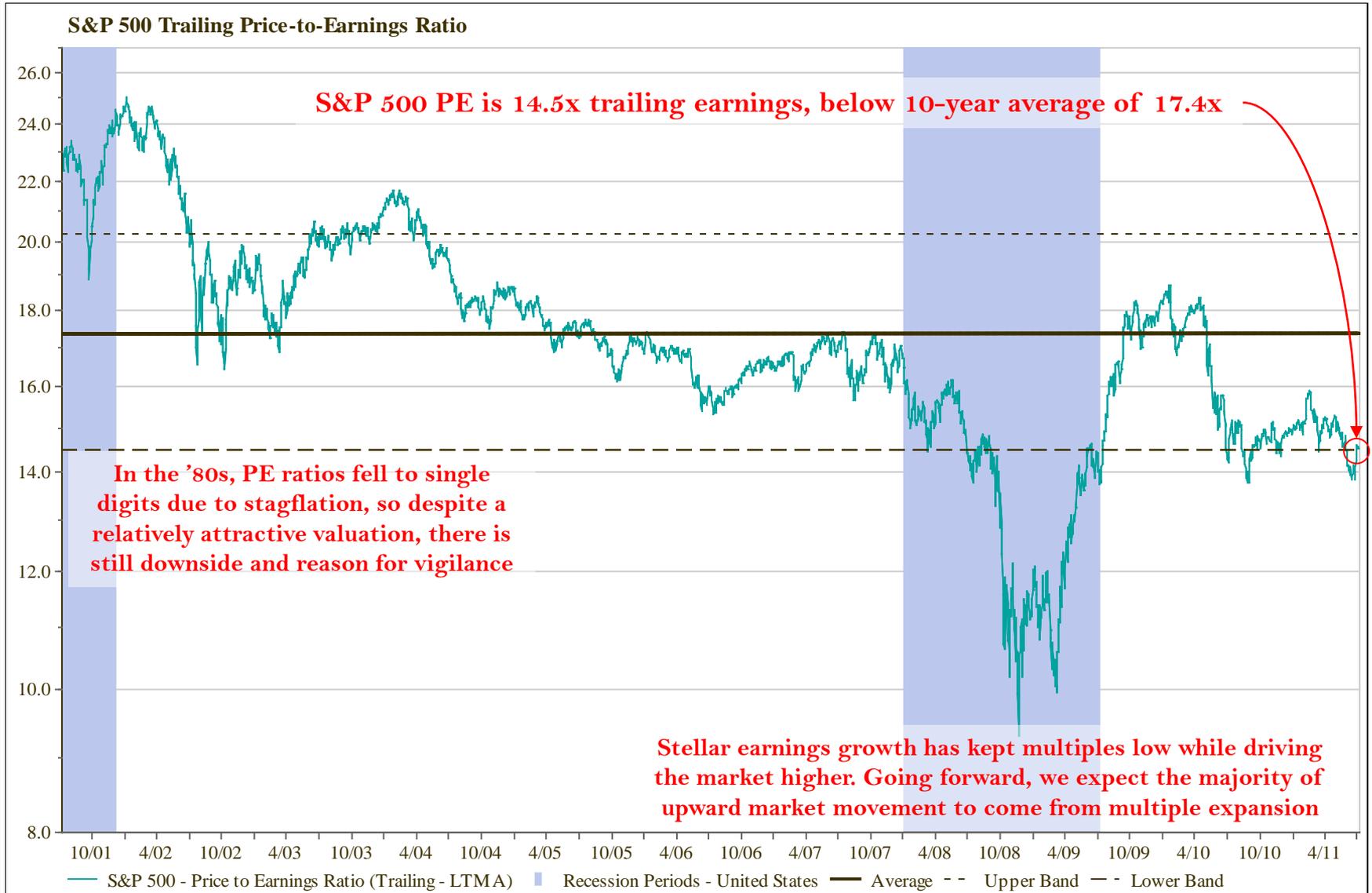
Portfolios Remain Underweight Equities



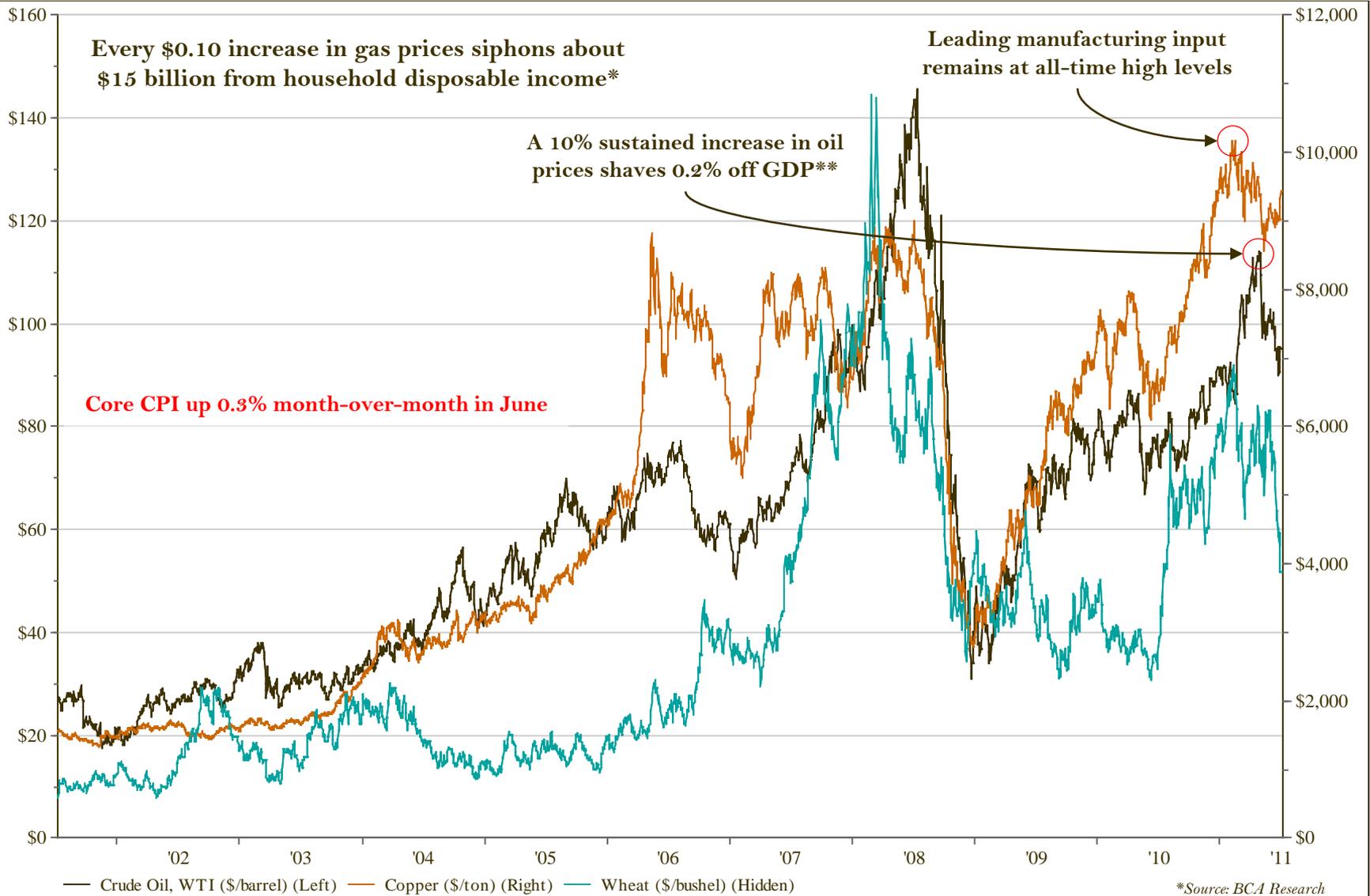
Source: FactSet Research Systems, Inc. - Rinehart Wealth Management

- 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

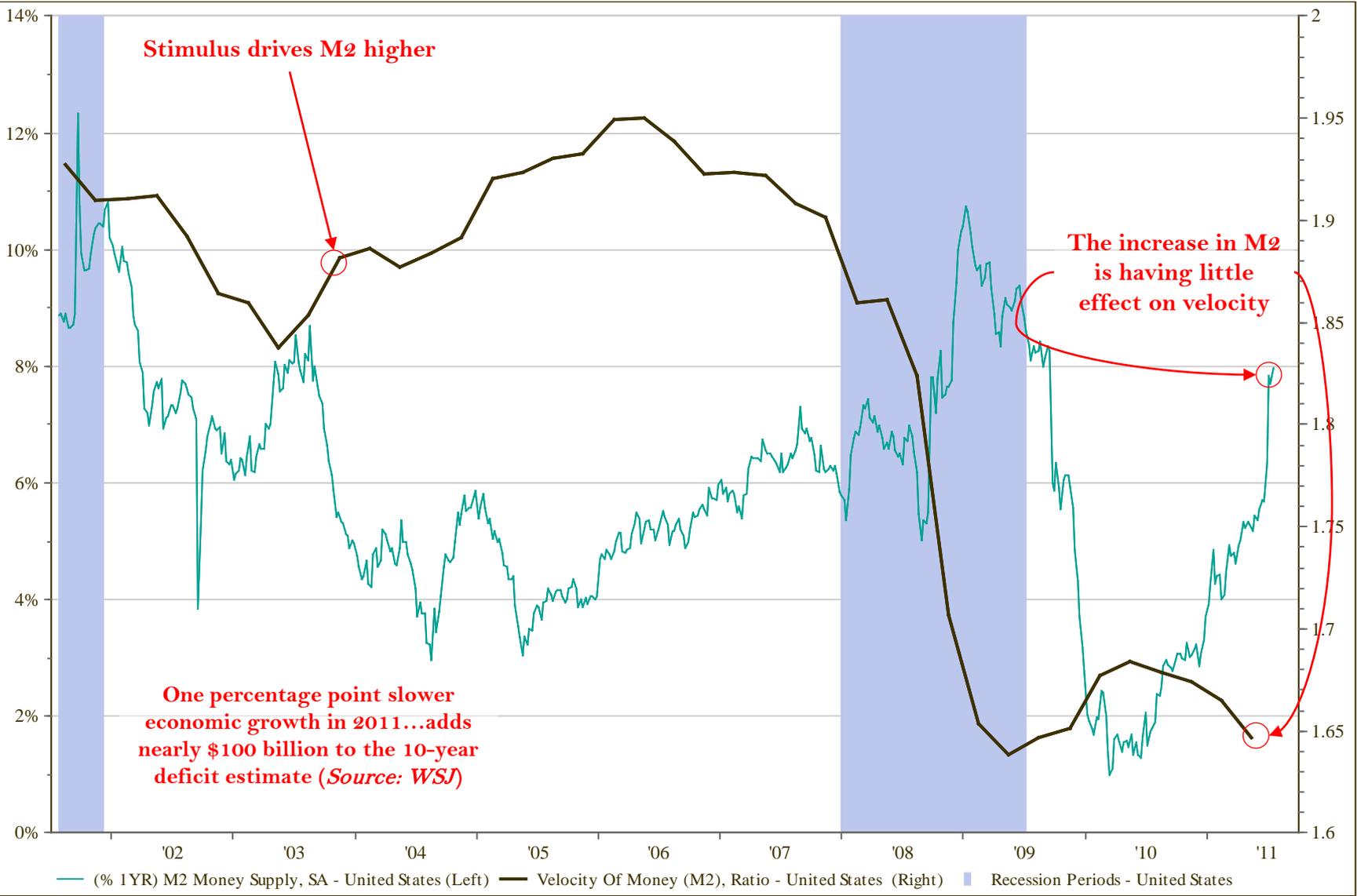


*Source: BCA Research

**Source: Deutsche Bank

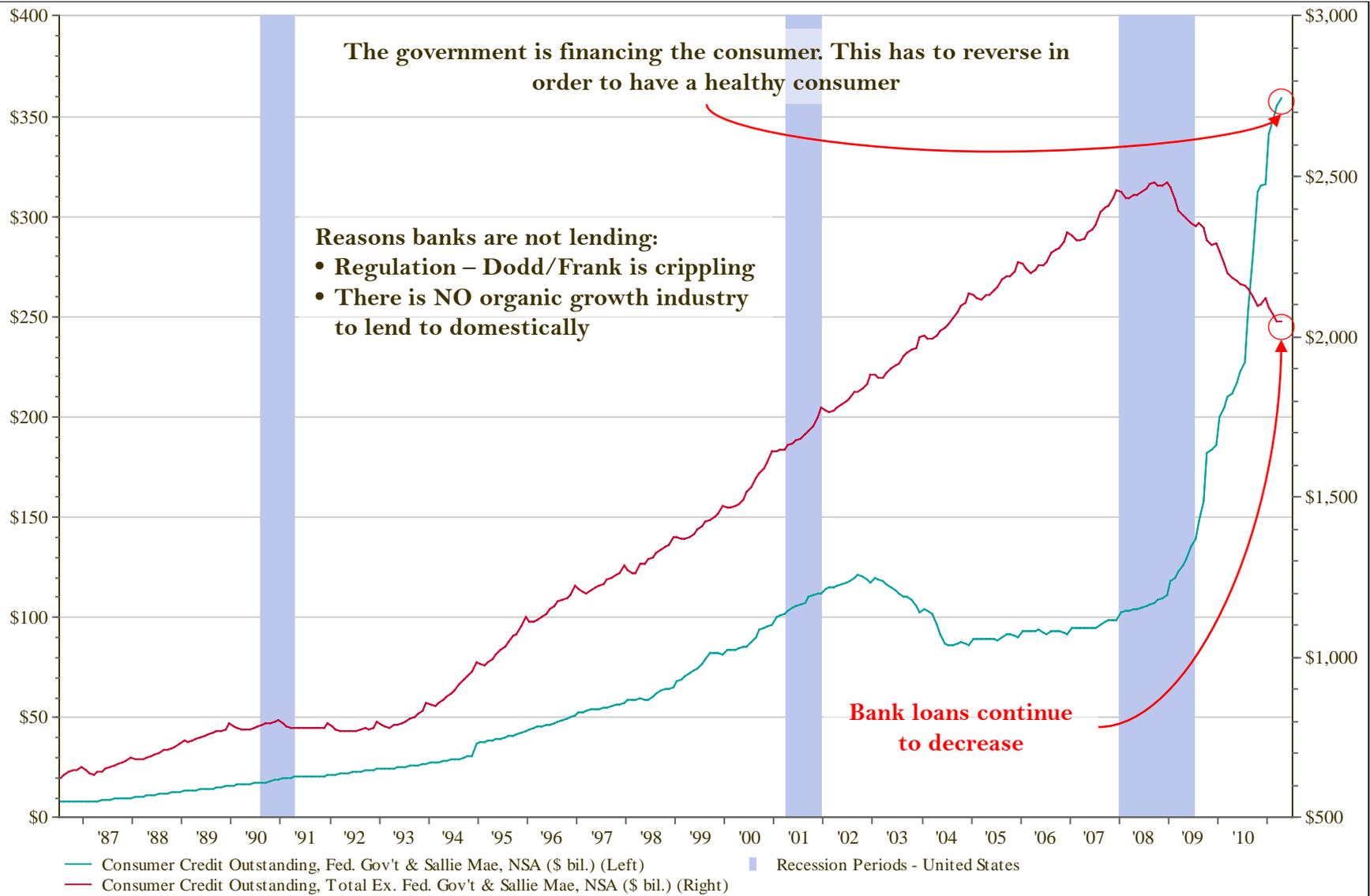
Source: FactSet Research Systems, Inc. - Rinehart Wealth Management

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

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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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