

## Second Quarter 2012 Economic Overview

The onset of summer resulted in volatility heating up and the S&P 500 declining 2.8% during the second quarter; however, it remains up almost 9.4% year-to-date. As has become customary over the past few years, the summer months for the market have been volatile and this summer appears to be no different. The stage is the same and the antagonists remain consistent: European debt, Emerging Market slowdown, unemployment and political distrust.

<b>S&amp;P 500</b>	<b>-2.75%</b>
<b>Dow Jones Industrials</b>	<b>-1.85%</b>
<b>NASDAQ Composite</b>	<b>-4.78%</b>
<b>Russell 1000</b>	<b>-3.12%</b>
<b>Russell 2000</b>	<b>-3.47%</b>
<b>MSCI Emerging Markets</b>	<b>-5.13%</b>
<b>MSCI EAFE</b>	<b>-5.14%</b>

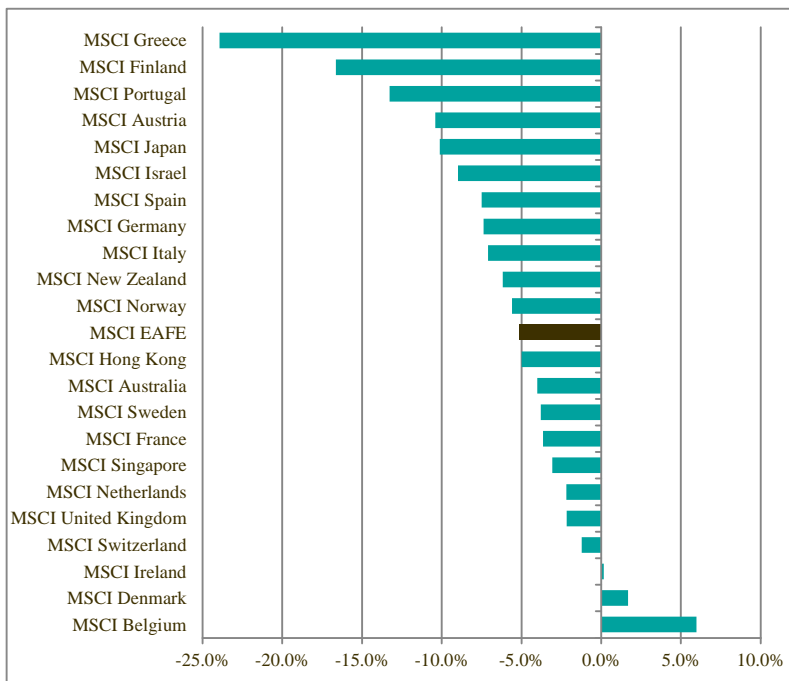
We saw International stocks continue to lag their domestic counterparts. The MSCI EAFE Developed International benchmark decline was 5.1%, almost double that of the S&P 500. Most of the countries comprising the MSCI EAFE were down during the quarter, with Greece leading the slide, down almost 25%.

As the concern of European credit contagion spread, the MSCI Emerging Market index declined 5.1% as investors focused on declining GDP growth and inflation. Our concern is that due to the significant relative flow of funds into Emerging Markets over the past few years, further economic deterioration could lead to a mass exodus by investors which we have yet to see despite the significant 9.1% 12-month correction in the index.

Despite the well-publicized challenges across the pond, the US housing market exhibits signs of life. For a few quarters we have articulated how the cost of home ownership relative to the cost of renting is attractive. The chart to the right shows the intersection of Median Rent and the Housing Affordability Index. This is the first time since the recession that we have seen home ownership consistently more affordable than renting.

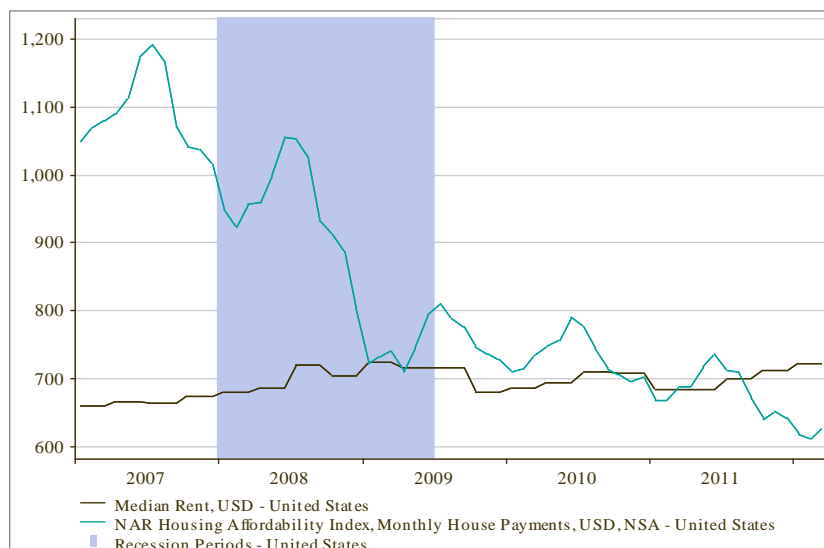
If access to credit continues to improve, we would expect housing metrics to continue to improve as consumers make the more economically advantageous decision to own their houses versus renting. The following page contains a snapshot of some key housing market data.

**Chart I: MSCI EAFE Index Breakdown**



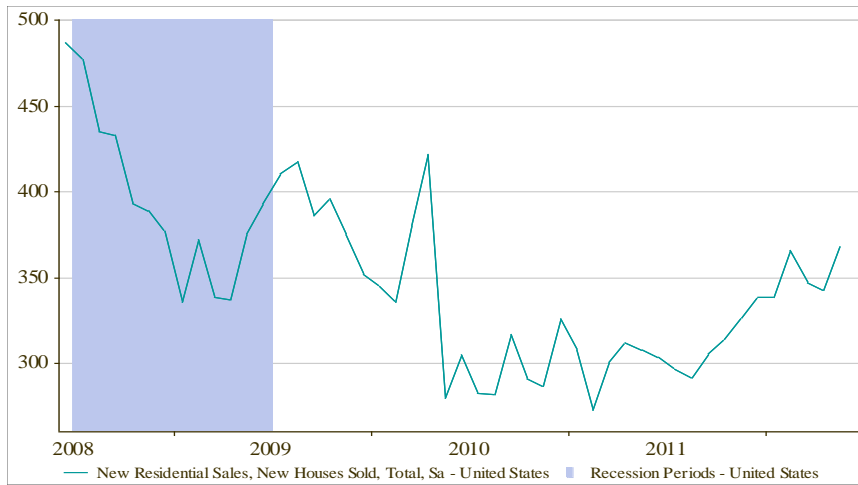
Source: FactSet Research Systems, Inc. – Rinehart Wealth Management

**Chart II: Cost of Home Ownership vs. Cost of Renting – United States**



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

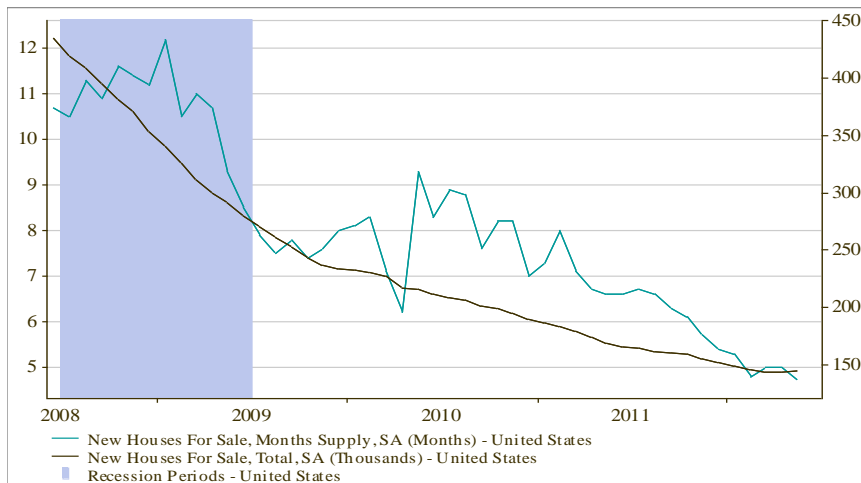
**Chart III: New Homes Sold**



Sales volume appears to have stabilized. If this trend continues, we would hope to see prices move upward at a modest pace.

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

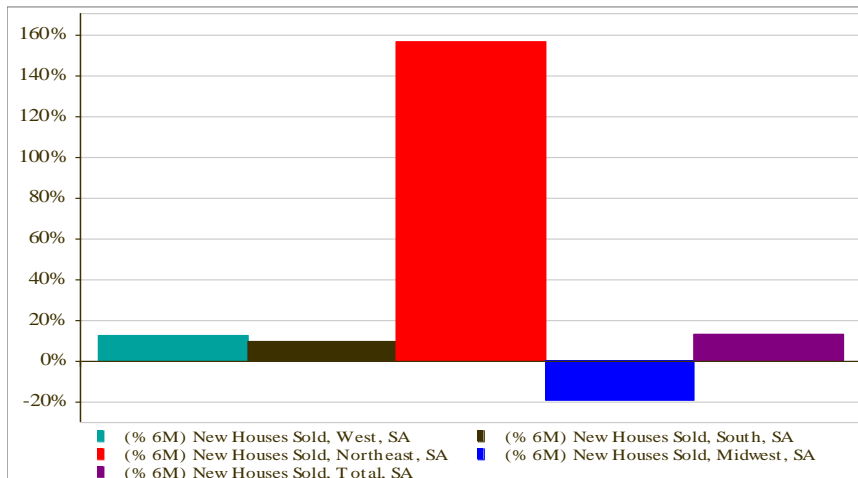
**Chart IV: New Houses for Sale – Months Supply vs. Total**



Both the total new homes for sale as well as the monthly supply of new homes for sale has fallen dramatically suggesting prices should be stabilizing as supply is tightening.

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

**Chart V: Percent Change in New Home Sales over Last 6 Months**



New home sales have improved across most of the regions in the United States with the exception being in the Midwest. The red bar highlights the significant improvement in the Northeast.

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