

Rinehart Wealth Management

Third Quarter 2012 Economic Overview

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November 2012

Rinehart Wealth Management
Greater Trust

Positive Indications

Stimulus QE Infinity



Maintain Solid US Equity Exposure
In-line Small Cap Exposure

Fund Flows Suggest Equity
Underowned



Overweight US Equity Exposure
Underweight Treasuries

Housing



Overweight Domestic Equities

Election Year



Equities tend to perform well

Negative Indications

Unemployment Structurally
High



Overweight High-Quality, Lower-
Risk Assets

GDP Growth Stymied by Debt
“Debt will accumulate until the overhang
weighs on growth” (*Source: Bloomberg, Carmen
Reinhart & Kenneth Rogoff*)



Underweight Cyclicals

“The Fiscal Cliff”



Position Portfolios for Volatility
Underweight Risky Assets

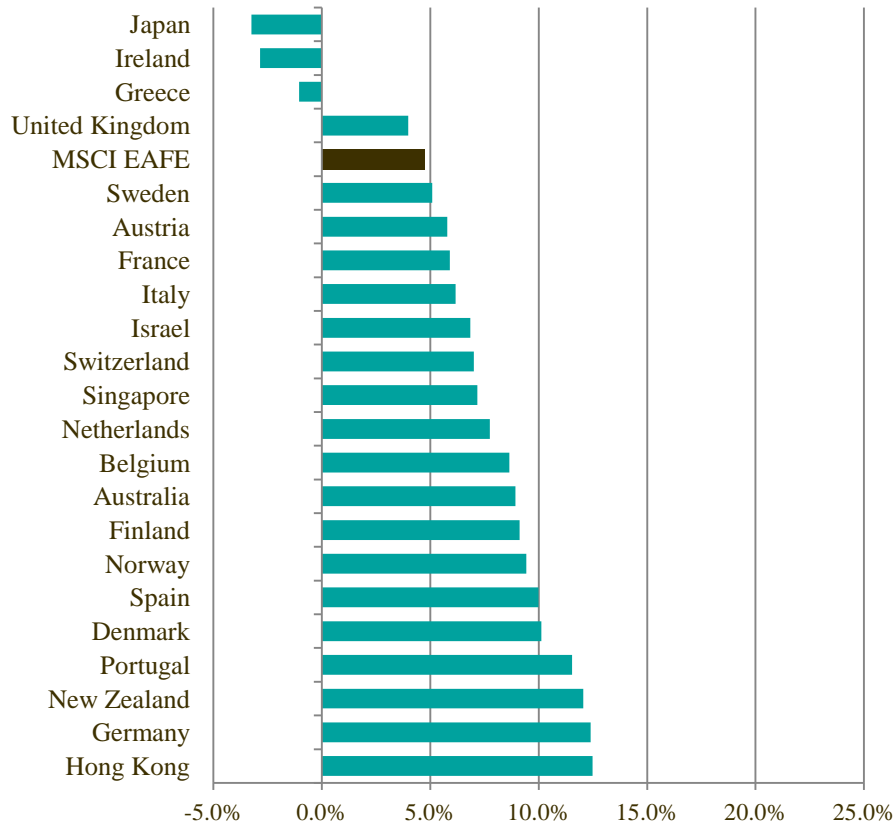
Emerging Market Slowdown



Cautious on International

Around the Globe – International Breakdown of 3Q12

Developed Countries - 60% Allocation



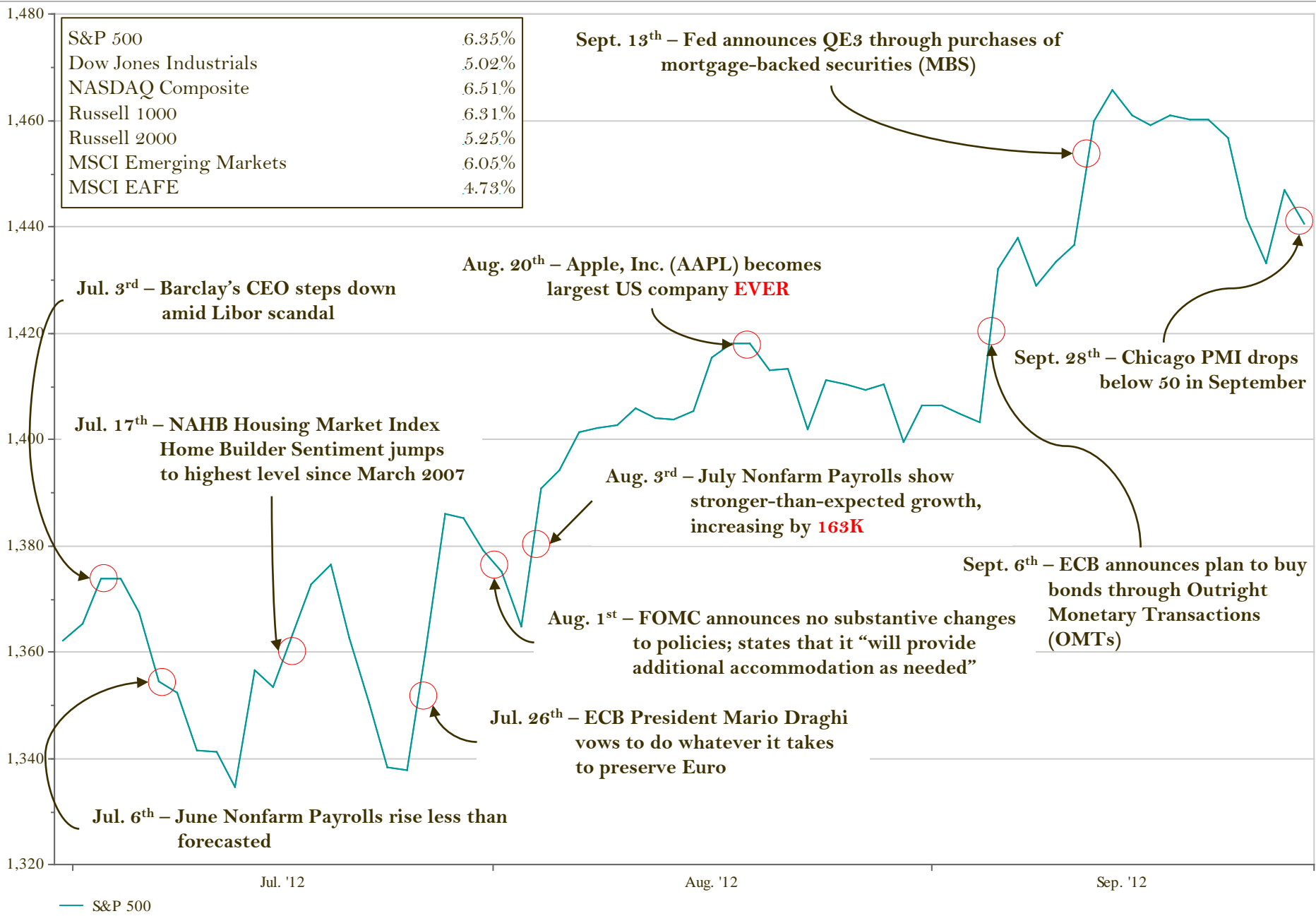
Emerging Market Countries - 40% Allocation



- European concerns abate with countries like Spain and Portugal rallying in excess of the benchmark
- We think structural issues will continue to plague Europe and remain guarded in our positioning

- As is typical, country performance dispersion is high
- Egypt rallied against the backdrop of stabilizing political environment

S&P 500 Performance 3Q12

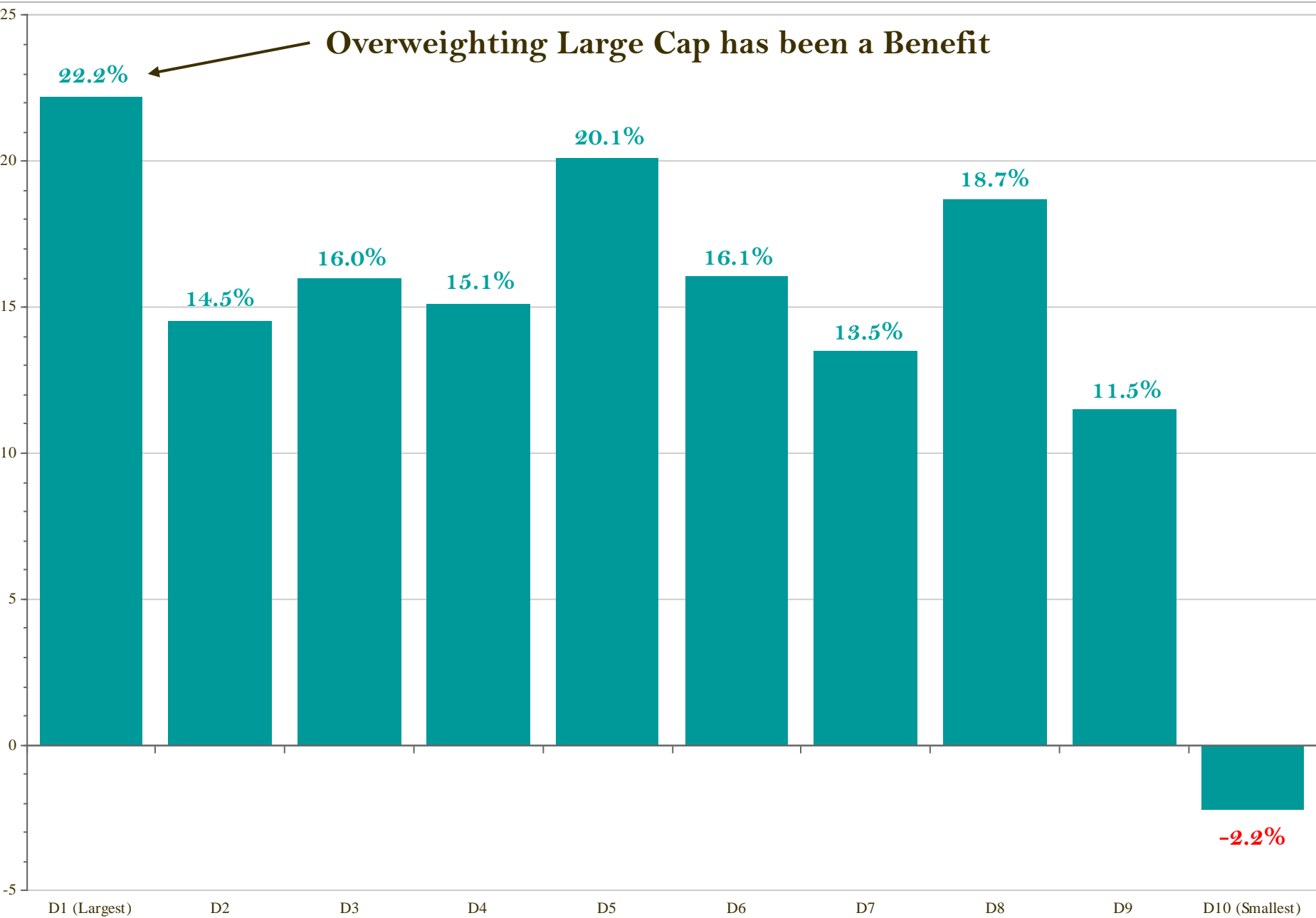


S&P 500 Sector Heat Map

S&P Sector Total Returns						S&P Sector Trailing 3-Month Relative Performance									
Sectors	2011	1Q12	2Q12	3Q12	YTD	1/31/12	2/29/12	3/30/12	4/30/12	5/31/12	6/29/12	7/31/12	8/31/12	9/28/12	
Defensives															
Utilities	19.91%	-1.62%	6.55%	-0.53%	4.27%	5.93%	9.39%	11.08%	8.58%	1.89%	-1.94%	-0.81%	-7.39%	-8.98%	
Telecom	6.27%	2.08%	14.13%	8.05%	25.89%	16.40%	16.38%	13.02%	7.24%	4.52%	0.99%	7.60%	4.89%	9.12%	
Health Care	12.73%	9.06%	1.75%	6.16%	17.80%	3.43%	6.33%	-0.10%	0.11%	3.86%	1.85%	2.93%	4.00%	8.13%	
Staples	13.99%	5.54%	2.88%	3.84%	12.74%	5.99%	6.47%	1.00%	0.70%	1.81%	1.85%	4.72%	4.18%	5.76%	
Near Cyclicals															
Energy	4.72%	3.88%	-5.99%	10.14%	7.56%	-8.89%	-9.84%	-8.79%	-7.91%	2.54%	3.08%	7.37%	9.84%	13.53%	
Financials	-17.06%	22.05%	-6.83%	6.95%	21.62%	0.23%	-0.39%	-9.21%	-7.01%	2.35%	2.63%	2.81%	6.11%	9.76%	
Cyclicals															
Technology	2.41%	21.46%	-6.68%	7.45%	21.79%	-0.29%	-3.09%	-9.66%	-7.94%	-0.31%	3.30%	4.33%	9.64%	10.99%	
Discretionary	6.13%	15.96%	-2.60%	7.45%	21.36%	2.43%	1.99%	-4.41%	-5.65%	0.02%	1.89%	1.58%	6.09%	9.48%	
Industrials	-0.59%	11.31%	-3.56%	3.62%	11.23%	-5.13%	-3.52%	-6.67%	-5.65%	0.41%	3.34%	3.77%	5.24%	7.07%	
Materials	-9.75%	11.19%	-4.19%	5.10%	11.96%	-9.14%	-4.56%	-6.91%	-6.06%	1.87%	2.92%	1.69%	4.18%	8.17%	
S&P 500	2.11%	12.59%	-2.75%	6.35%	16.44%	2.24%	-2.00%	-5.12%	-4.52%	1.58%	2.50%	3.92%	6.26%	9.01%	

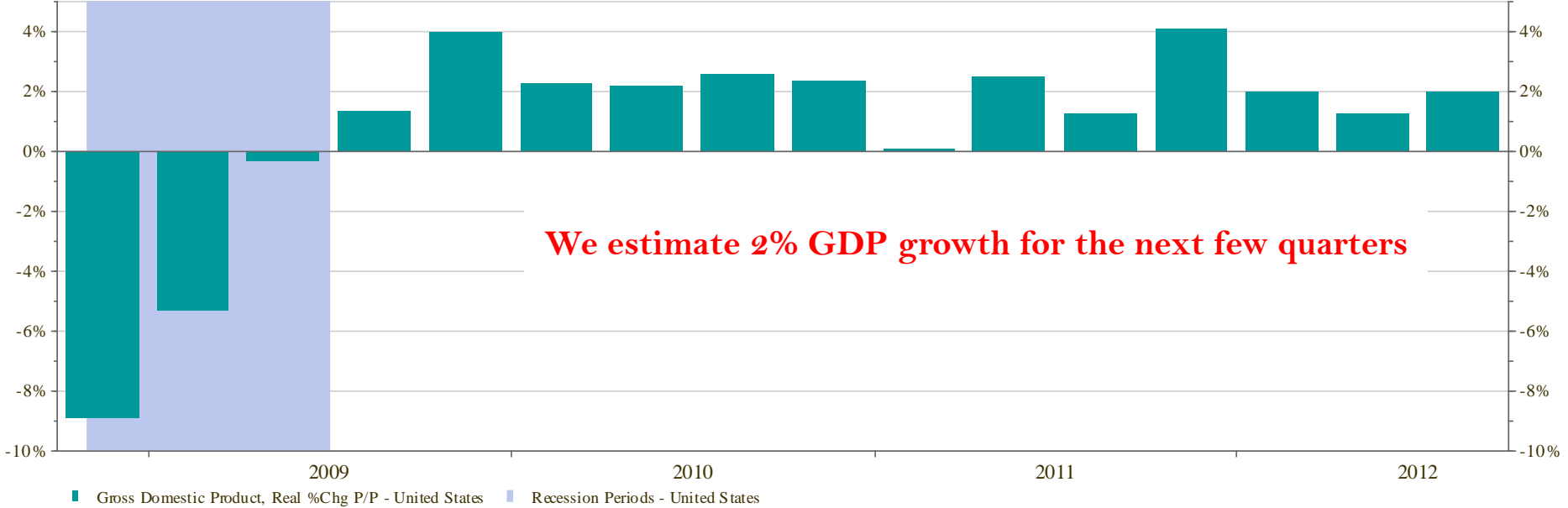
- Our Defensive Posture was again out of favor this quarter, similar to 1Q12
- Technology has performed well, led by Apple, Inc. (AAPL) and Google, Inc. (GOOG)
- After underperforming early in the year, we saw an opportunity to add to our Energy exposure, which paid off during 3Q12

S&P 500 Performance by Market Cap (Unweighted, YTD)

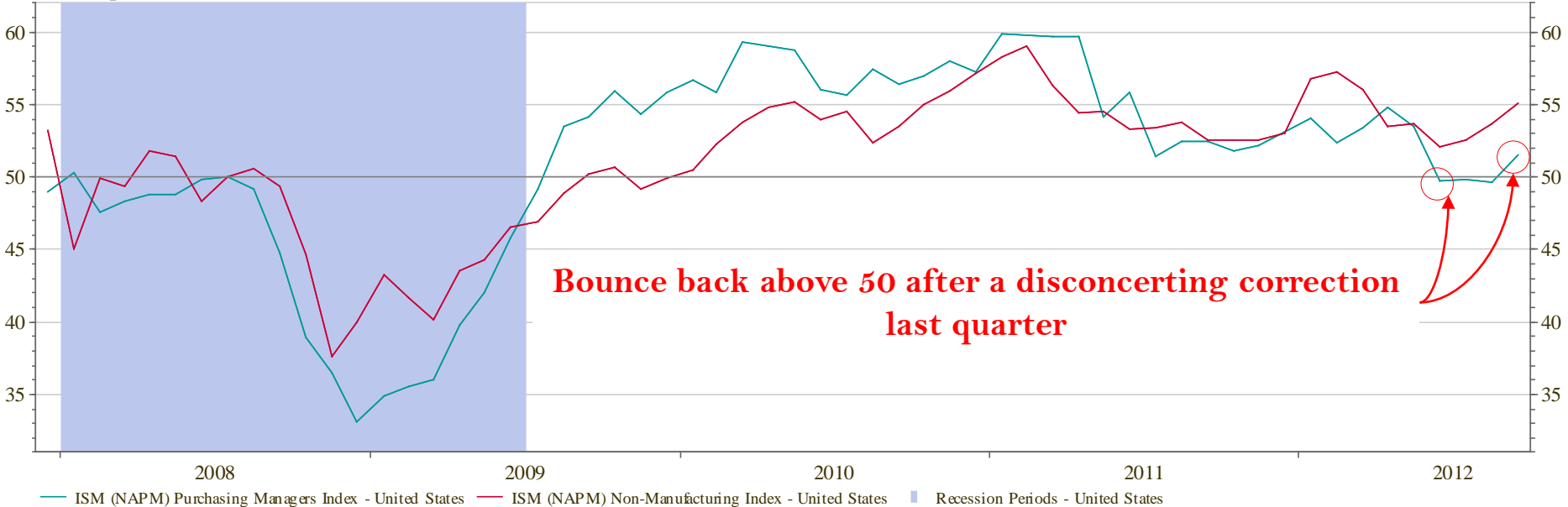


US Economic Snap Shot

US Real GDP Growth

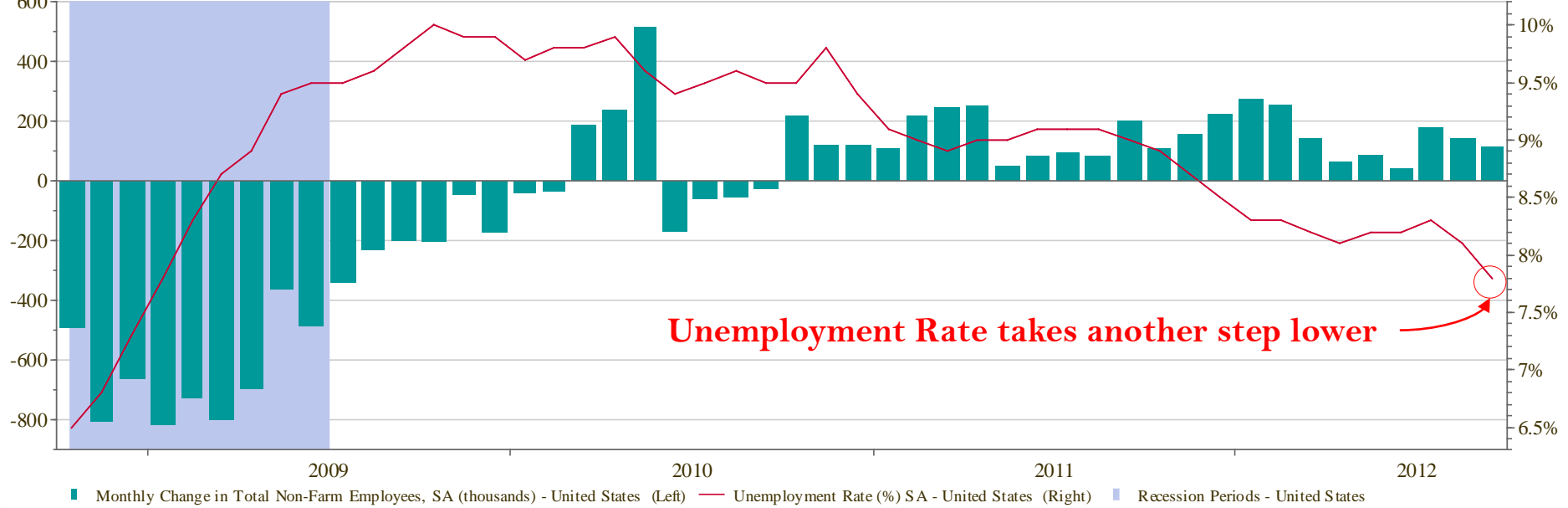


ISM Report on Business

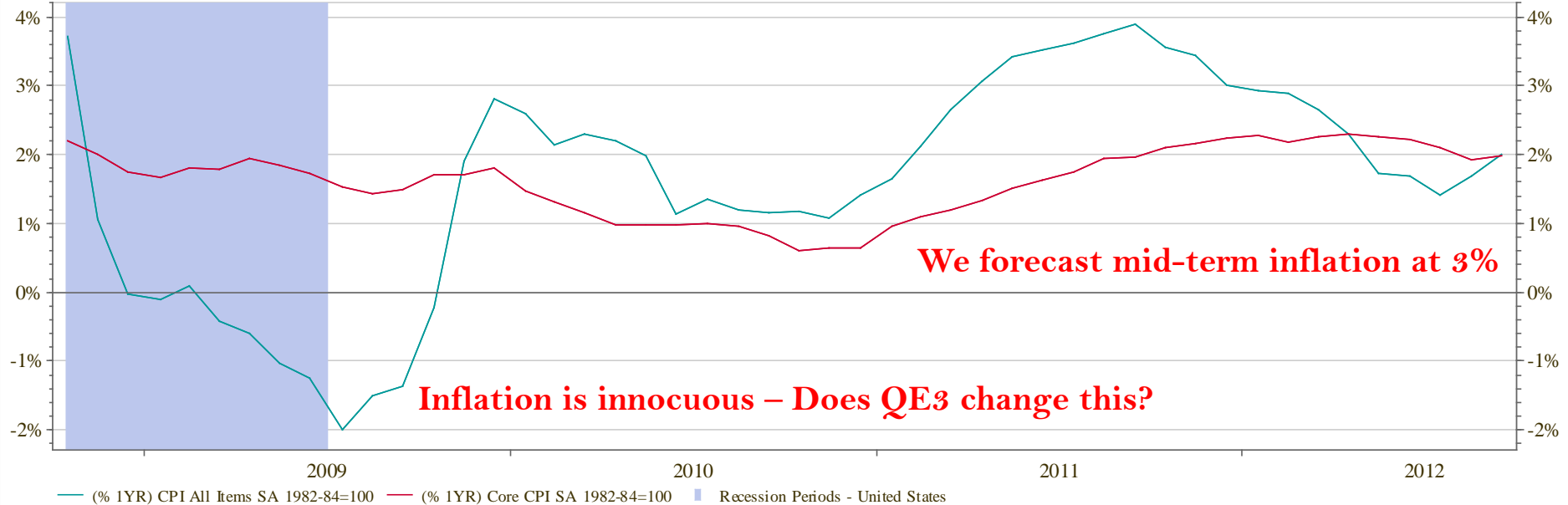


Unemployment & Inflation

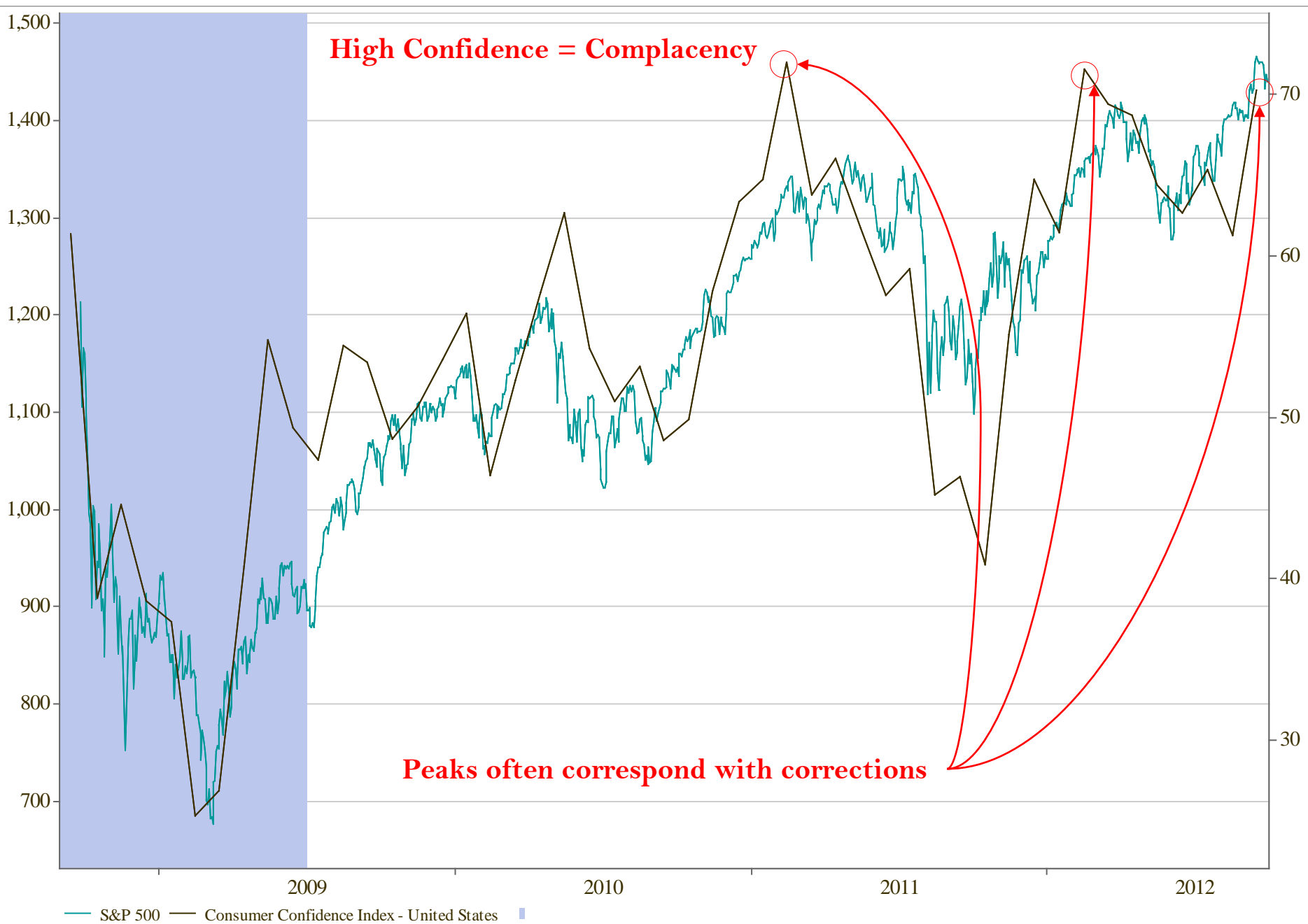
US Monthly Change in Non-Farm Employment & Unemployment Rate



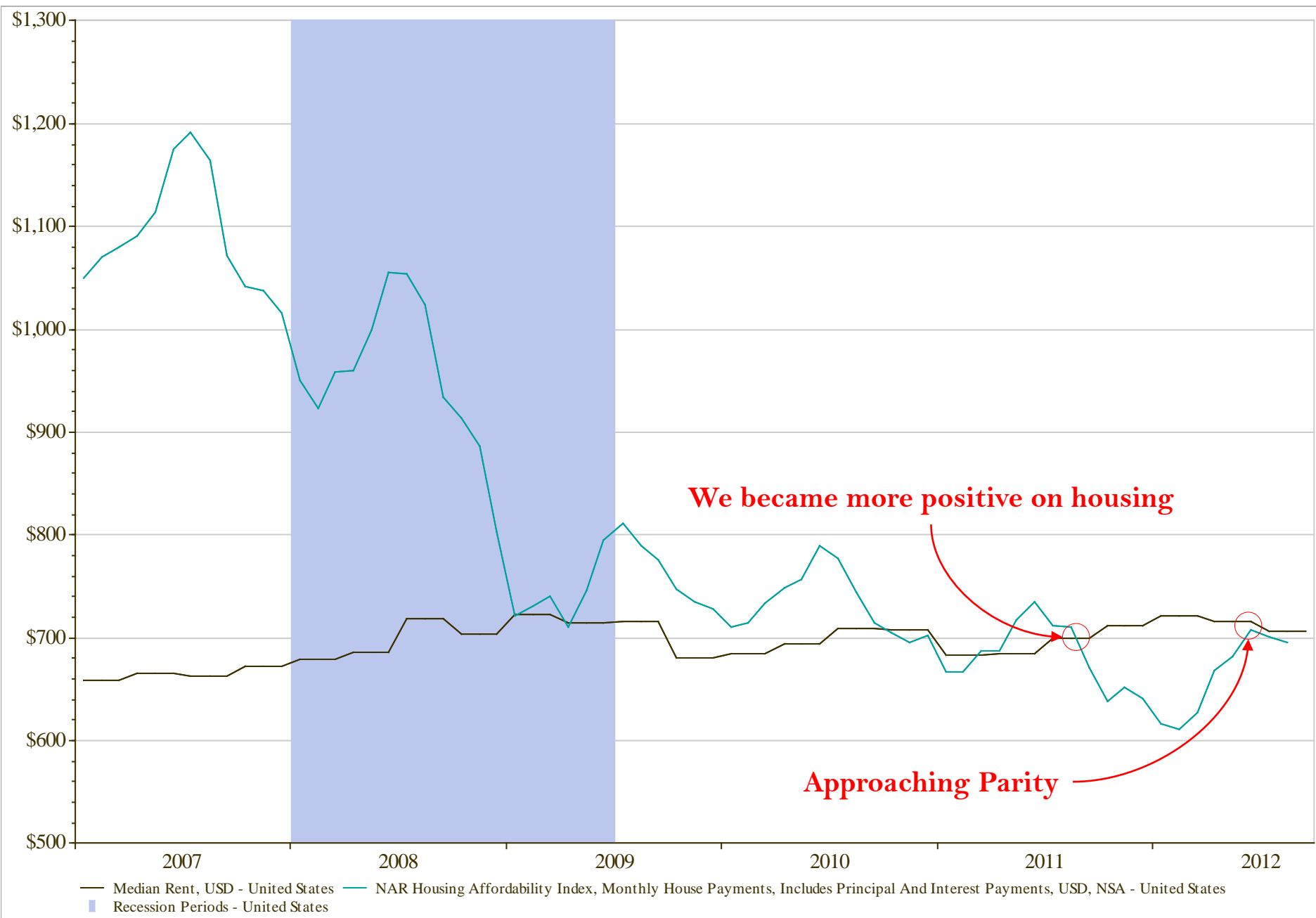
US Consumer Price Inflation



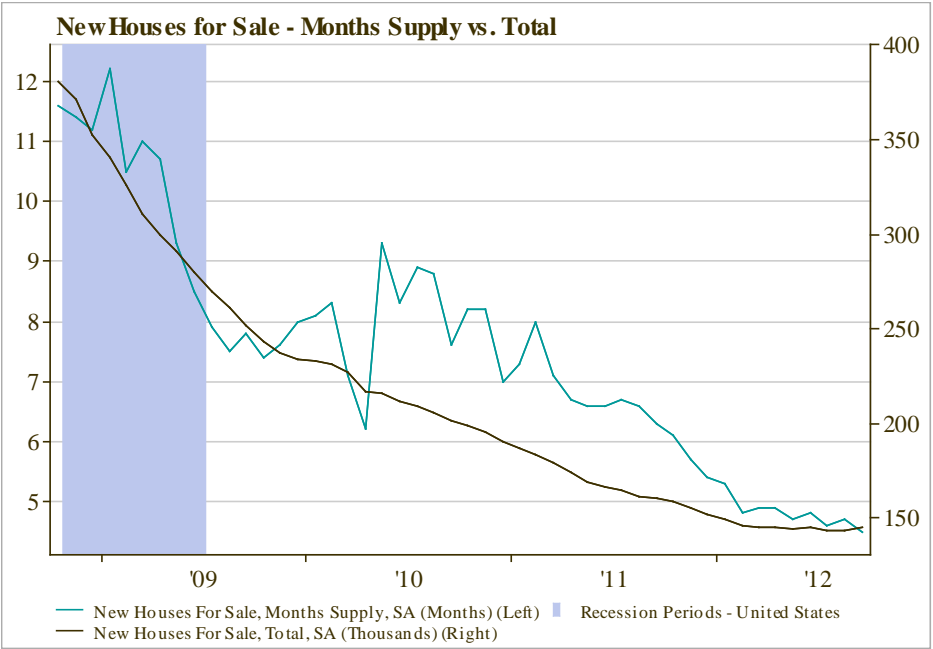
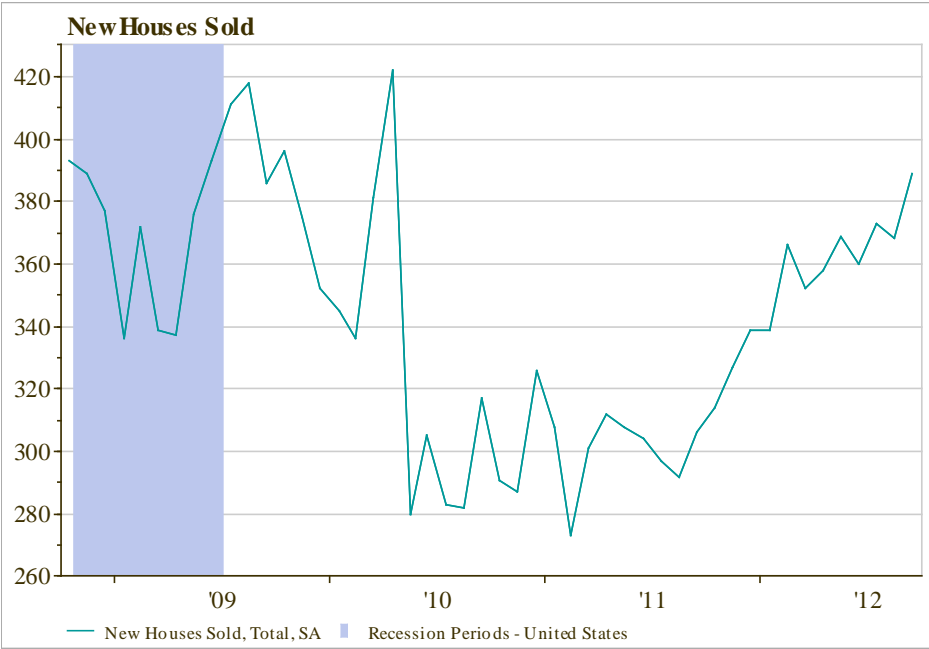
Consumer



Housing



Housing Recovery



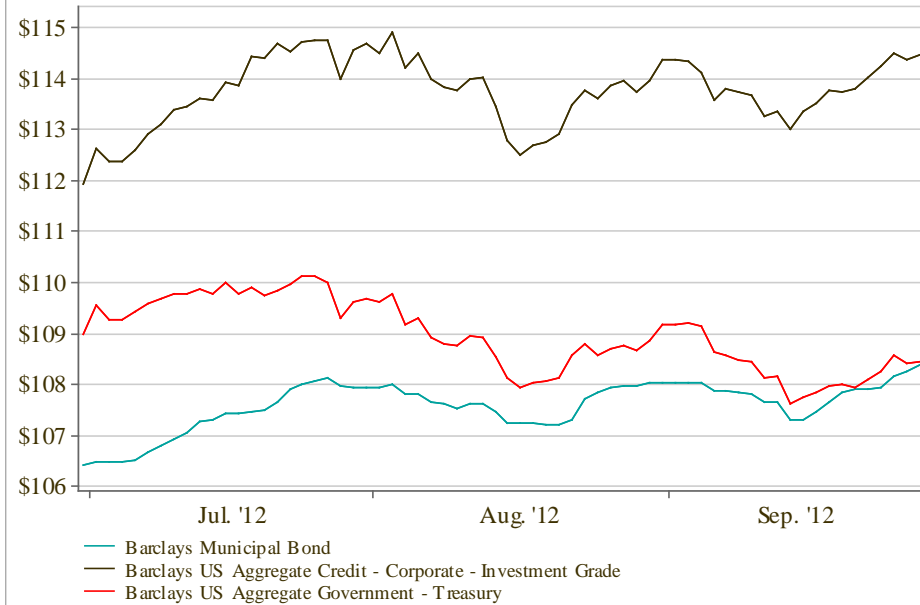
Prices are
Rising

Fixed Income = Risk On!

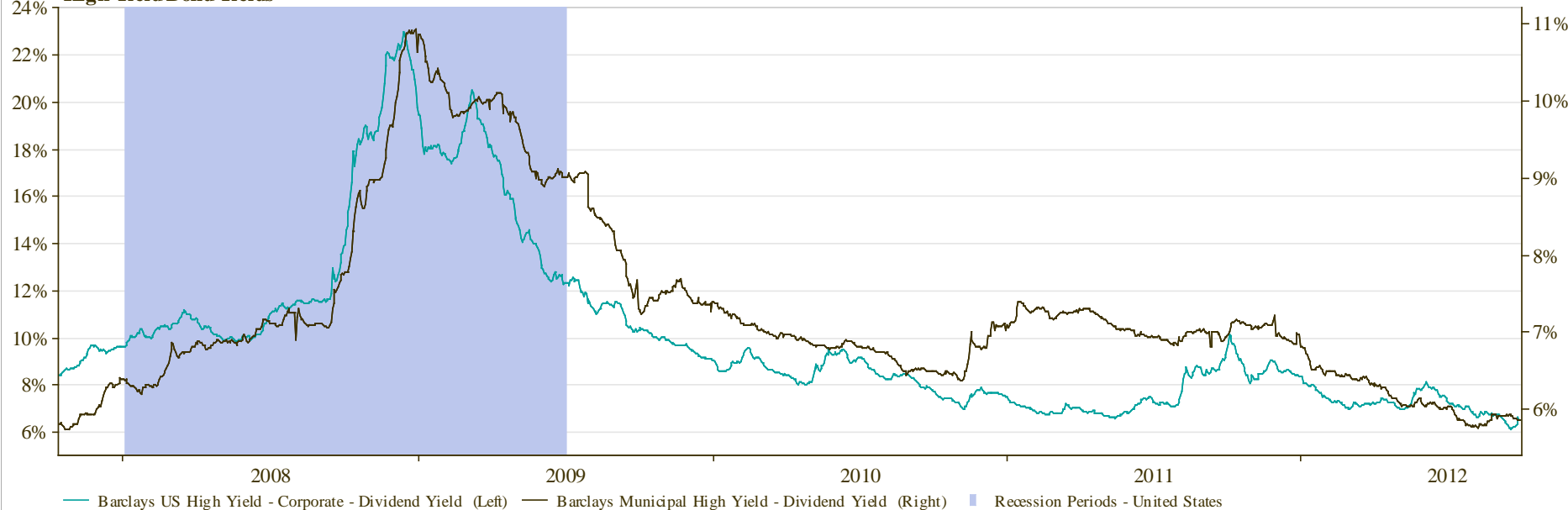
Bond Prices - Emerging Market Bond vs. US Aggregate Treasury



Domestic Bond Prices



High Yield Bond Yields

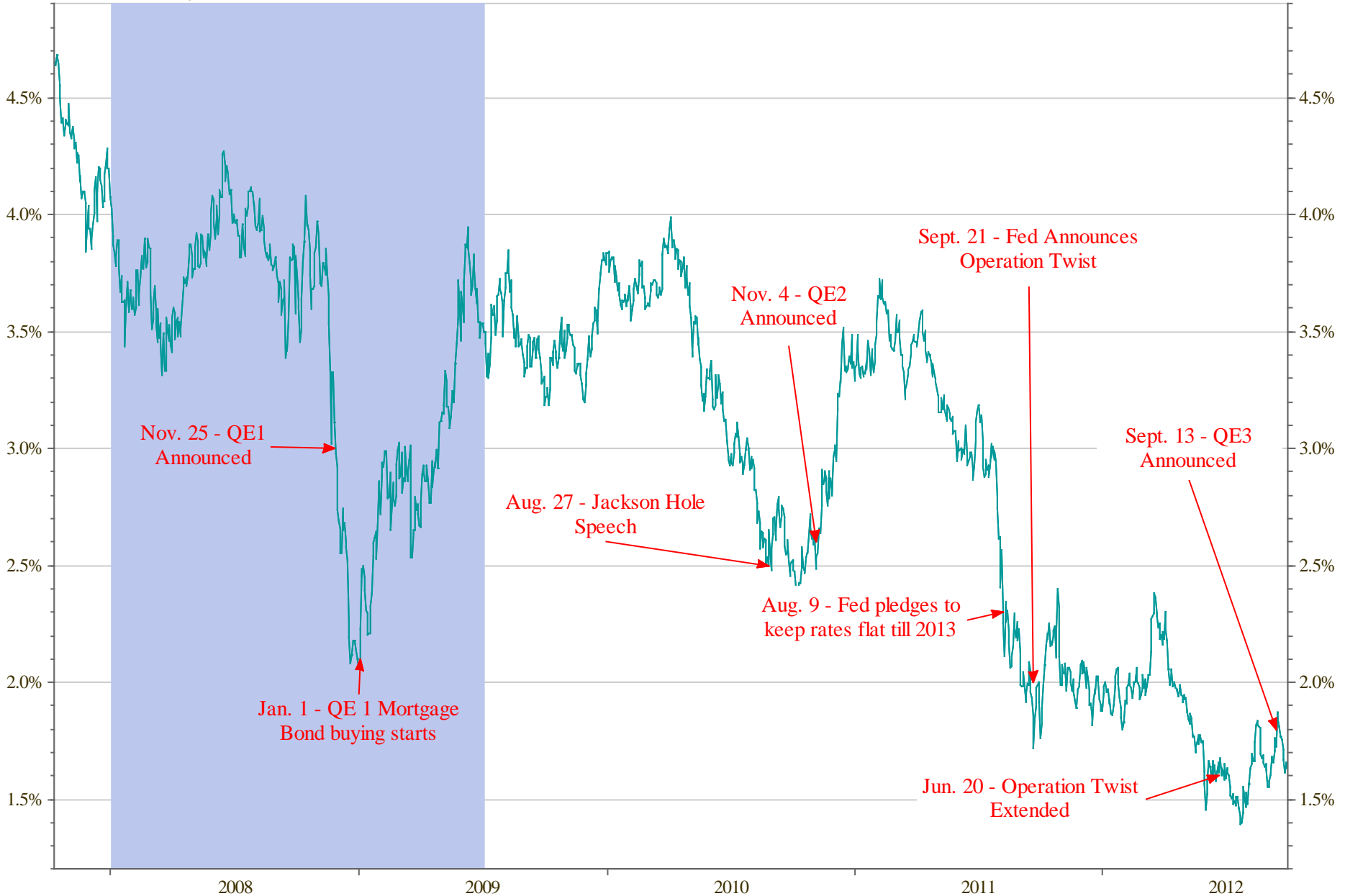


Monetary Policy



Monetary Policy

US 10Y Treasury Yield



Market Not Satisfied with “Status Quo”

Complaining about Complacency but Little Change in Composition

✓ **Democrats Retain Executive Branch**

✓ **Democrats Retain Senate**

✓ **Republicans Retain House**

Implications – More of the Same

Healthcare

Affordable Care Act
+ Hospitals, Medicaid, HMOs, IT
– Medical Devices

Negative Industry Implications

- Defense
- Energy (Coal)
- Financials
- Rails
- Mining
- Telecom
- Utilities

Taxes

- +3.8% Tax on Investment Income
- Higher Taxes on Upper Income

+ Munis
– Smaller Caps

Congress Divided
FISCAL CLIFF

Fiscal Cliff

Potentially Reach
Debt Ceiling

Election Nov. 6th

Jan. 1st, 2013

Kick it or Kill it?

GDP Growth 1-2%

Tax Cuts
Expire

Spending Cuts & New Health Care Taxes Take Effect

Fiscal Drag in Pipeline

Bush Tax Cuts - \$320B

Payroll Tax Expiration - \$115B

Unemployment Benefits - \$50B

Investment Incentives - \$40B

Sequestration - \$95B

Affordable Health Care Act - \$25B

Doc Fix on Medicare - \$20B

Total - \$665B

QE3 serves as a backstop, but how much weight can it support?

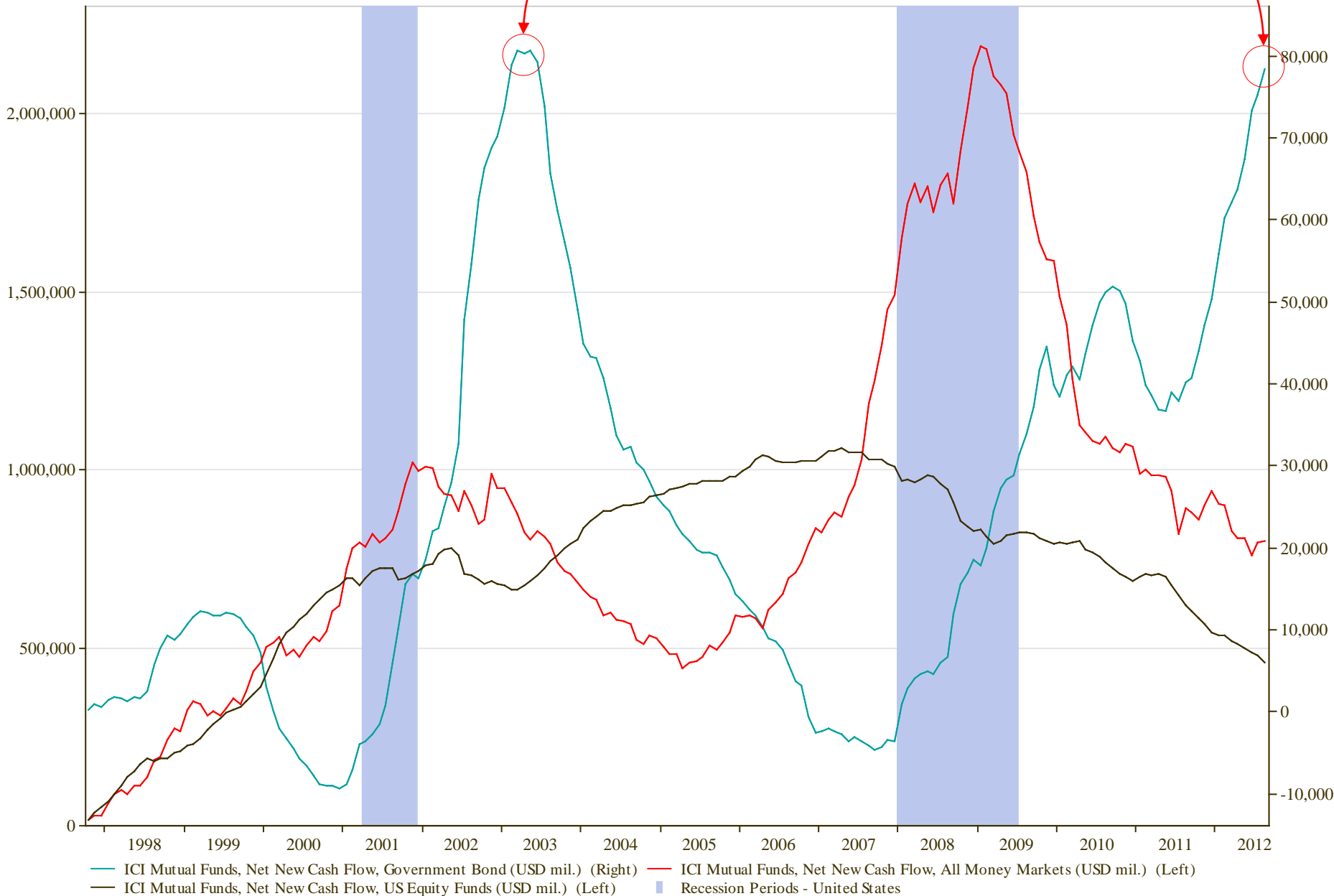
GDP Growth **-3.6%**
(Source: Goldman Sachs)

Fiscal Cliff
<\$600 billion

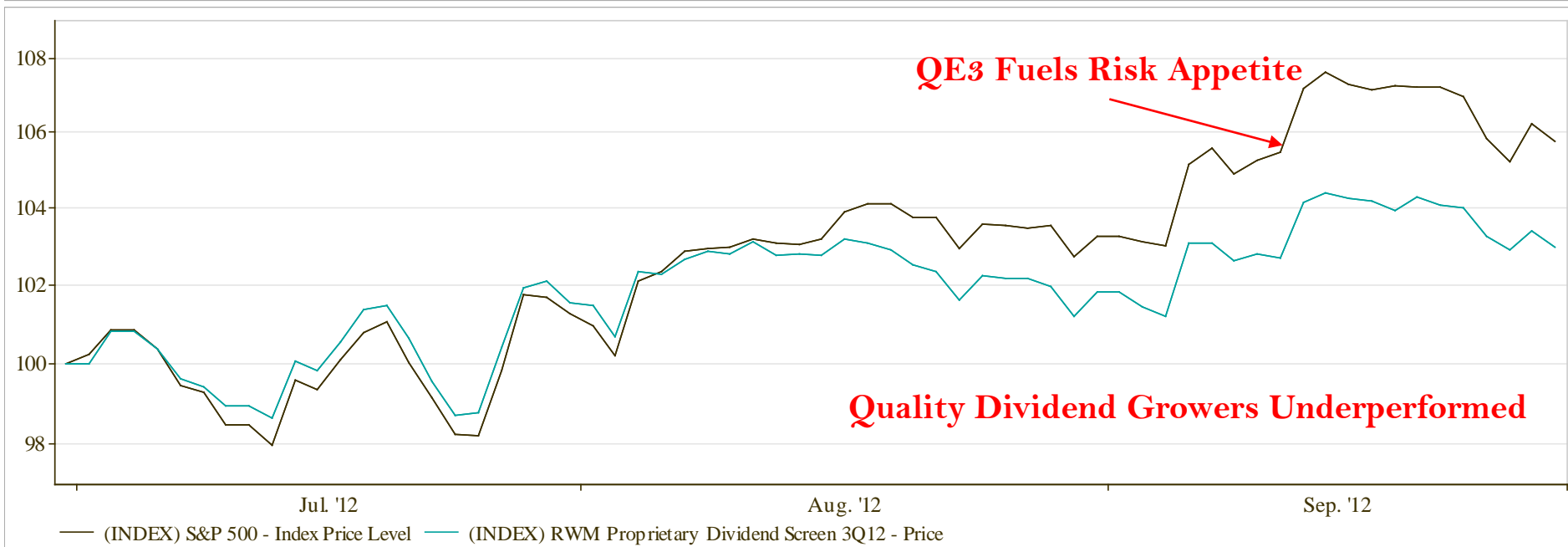
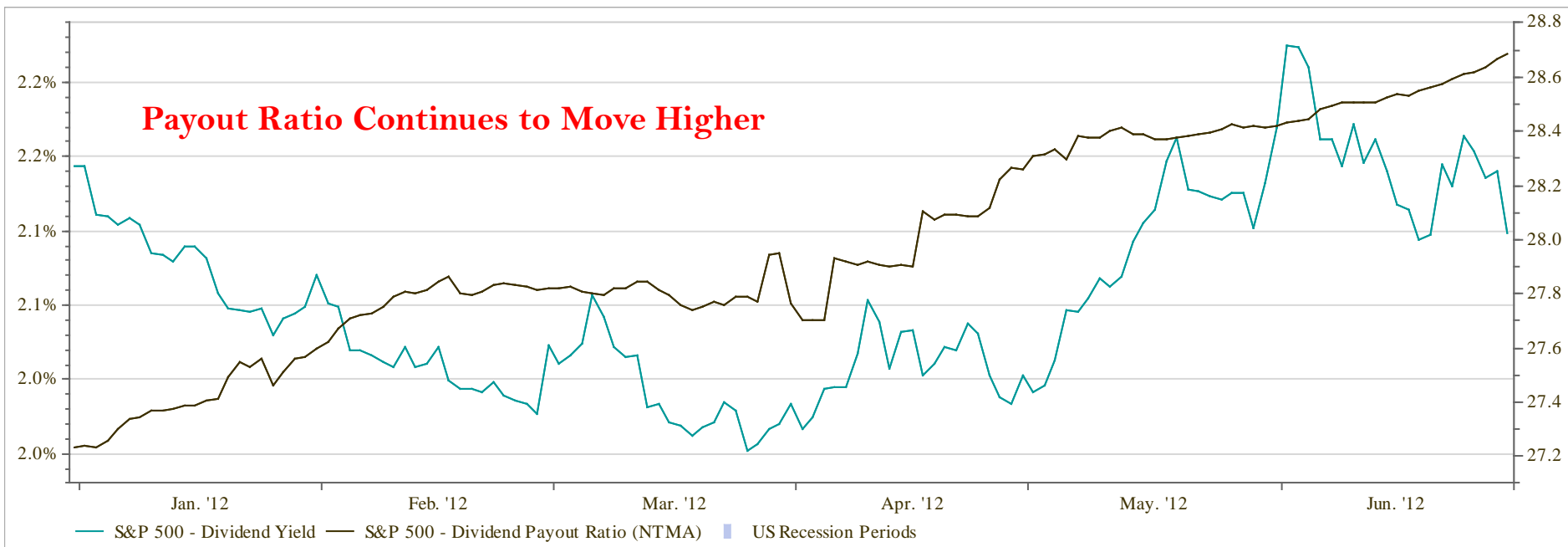
Fund Flows

Fixed Income Flows Approaching Peak Levels

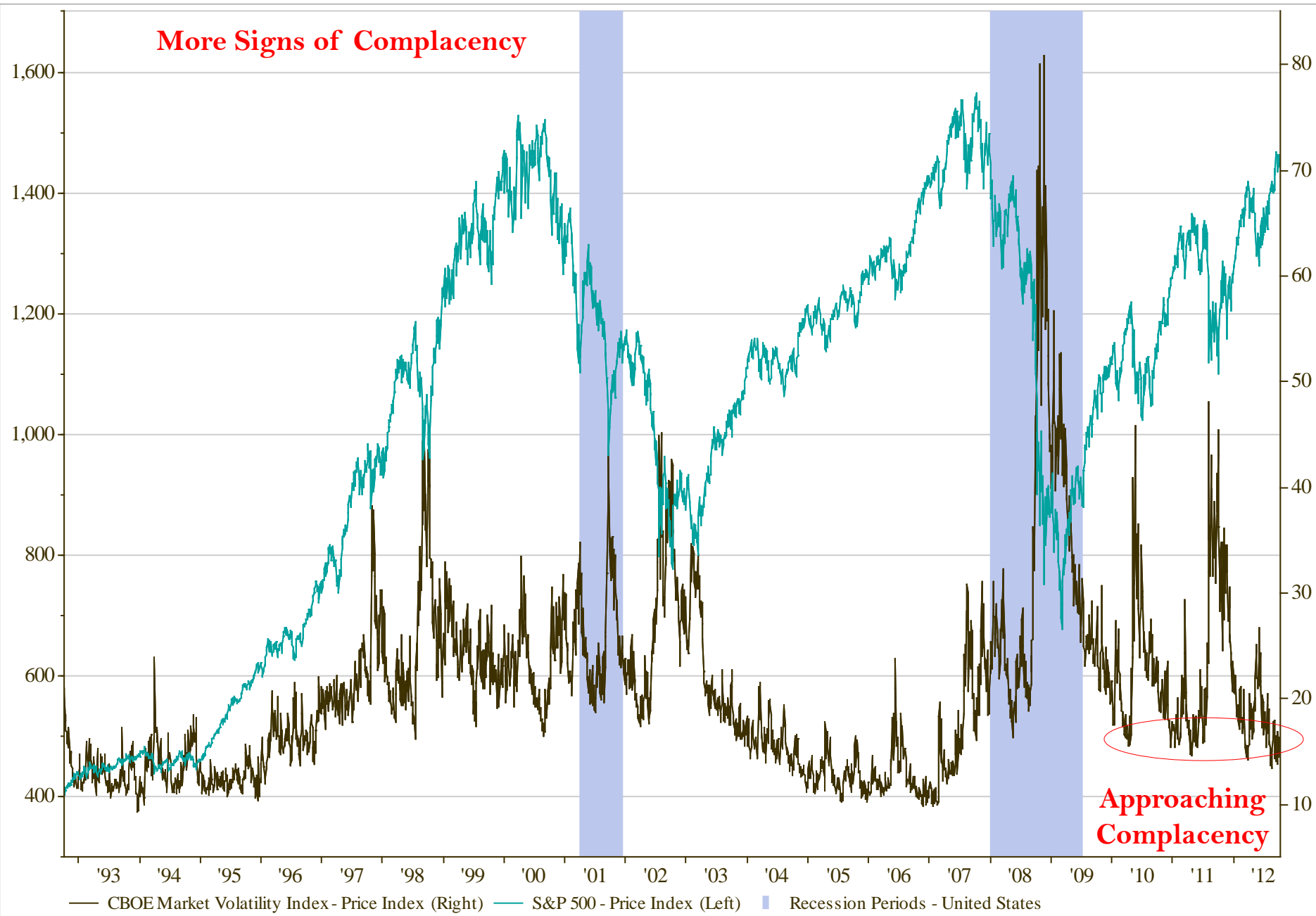
Cumulative Net New Cash Flows



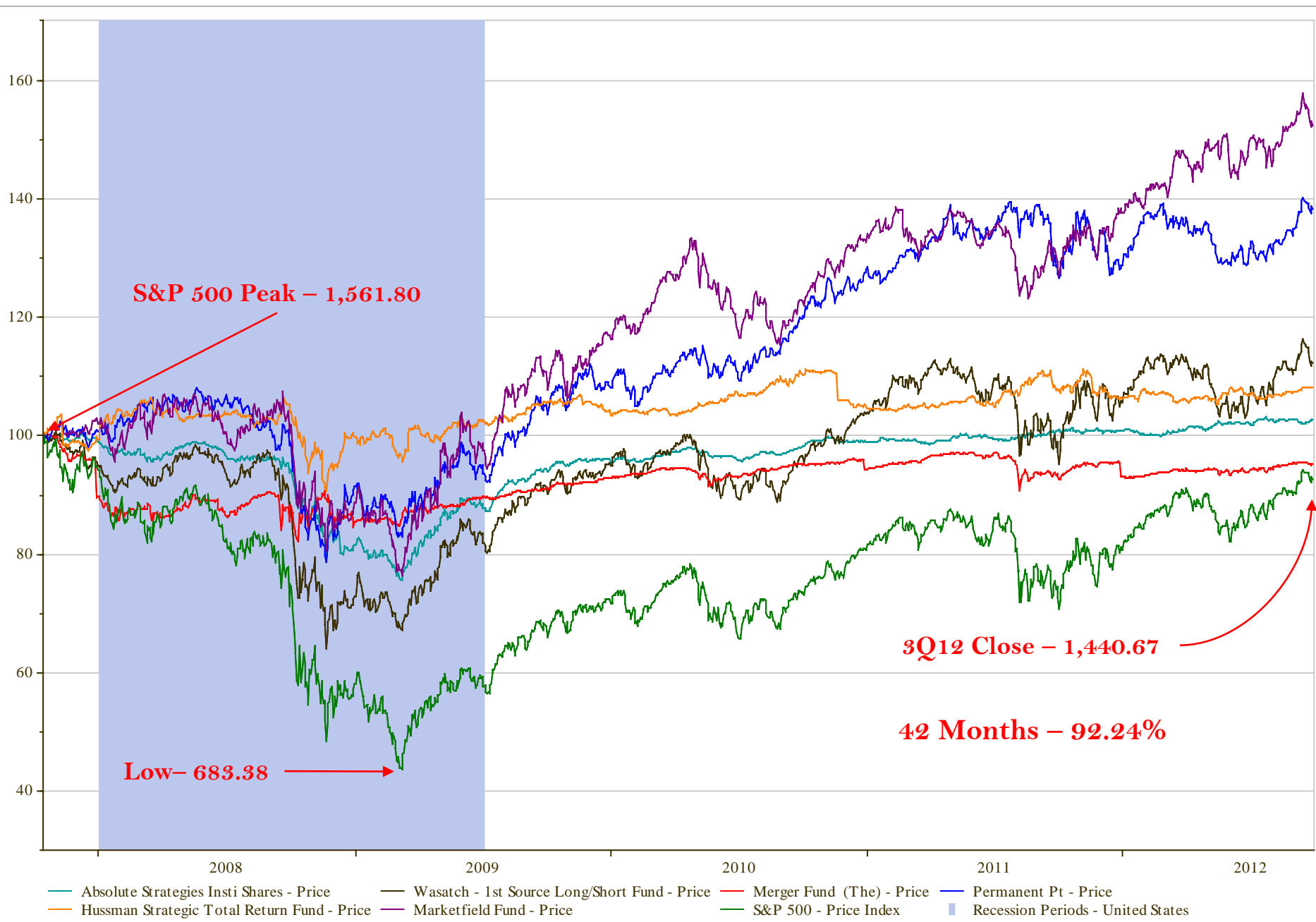
Dividends



Volatility



Hybrids – “Portfolio Insurance”



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

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

Positive
(5% to 15%)

- ✓ Underweight Treasuries
- ✓ Add back to Small Cap
- ✓ Slight Increase in Commodity & Energy Exposure
- ✓ High Quality Industrials
- ✓ Overweight Technology

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

- Break up of EU
- Housing **Recovery Stalls**
- Political Gridlock and Fiscal Cliff
- **Unemployment Remains High**

- Unemployment trends below 7%
- **QE3**

Cautiously Optimistic



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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