

Third Quarter Economic Overview Newsletter

October 21, 2011

Heading into the end of the year, we are optimistic that the market can recover some of the losses incurred during the third quarter. Over the last 41 years the S&P 500 has been up 31 times in the fourth quarter, or 75% of the time indicating that the fourth quarter is on average the strongest quarter of the year. Furthermore, the third quarter is historically the worst quarter of the year. Not to minimize the severity of the third quarter market sell-off, but it appears to have been exacerbated by seasonal factors. The existence of this phenomenon, in conjunction with many market data points signally an oversold condition, leads us to believe the fourth quarter could end on a more positive note.

S&P 500	-14.3%
Dow Jones Industrial	-12.1%
NASDAQ Composite	-12.9%
Russell 1000	-15.1%
Russell 2000	-22.1%
MSCI Emerging Market	-15.7%
MSCI The World	-15.3%

Dramatic Sell-Off Reminiscent of 3rd Quarter 2008

In 3Q11, the market exhibited extreme volatility, with the CBOE VIX up 175%! By the beginning of August, many of the major indexes had erased gains for the year. Risky assets uniformly underperformed as markets became increasingly concerned about the sovereign debt crisis in Europe, the sluggish growth domestically and the political gridlock hampering fiscal reform across the developed world. This is highlighted by the 22% decline in the traditionally riskier small cap asset class. It is important to note that we were underweight this asset class as we had concerns regarding the extreme valuation discrepancy between larger cap and small cap present at the beginning of the year.

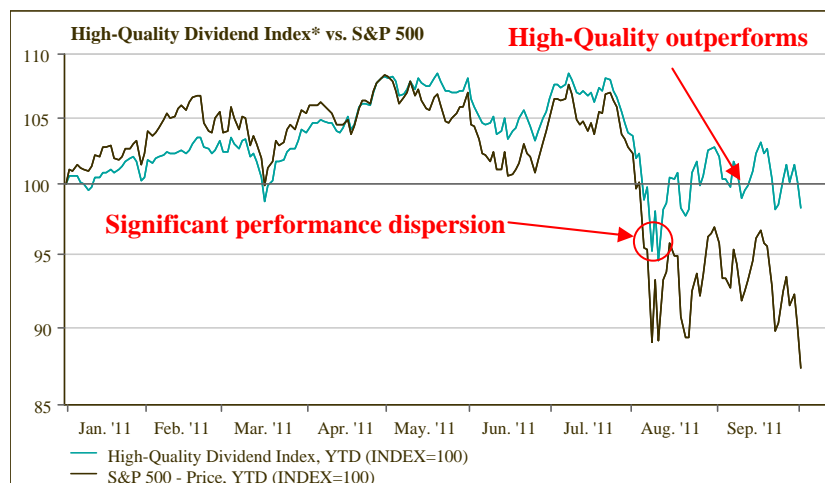


Source: FactSet Research Systems, Inc. – Rinehart Wealth Management

The quarter ended with a “twist” as the Fed implemented a new stimulus strategy coined “Operation Twist” that investors viewed as lacking. Both QE1 and QE2 were received with positive returns in the S&P 500 and an associated uptick in commodities. The twist had the opposite effect.

High Quality and High Dividends Pay Off

Defensive sectors dramatically outperformed the higher-risk, more cyclical sectors. At quarter-end, the utility sector had appreciated 7.2% year-to-date, while financials were down 25.9%, proving the importance of diversification across sectors. We have highlighted our preference for defensive sectors since the beginning

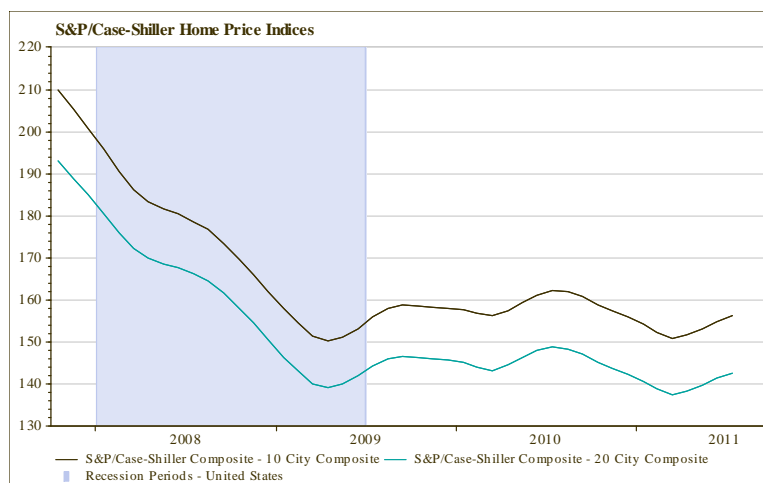


*Index Parameters: S&P 500, Stock Price>\$10, Dividend Yield>2%, Beta<1.0, ROE>10%, Debt-to-Capital<75% Source: FactSet Research Systems, Inc. – Rinehart Wealth Management

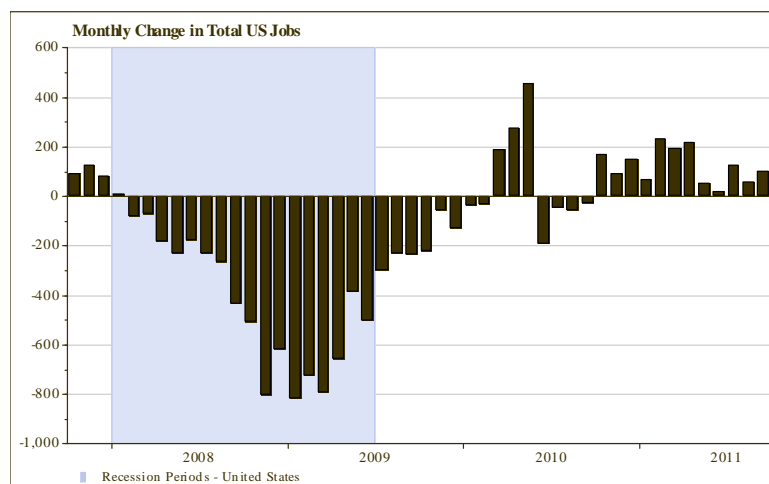
of the year. The majority of the 14.3% decline in the S&P 500 has been concentrated in the financial, industrial and materials sectors where we have been mostly underweight.

Data Points Highlight a Troubled Economy in 3Q11

Home prices continue to languish. Although there appears to be a recent upturn, it is difficult to determine the sustainability.



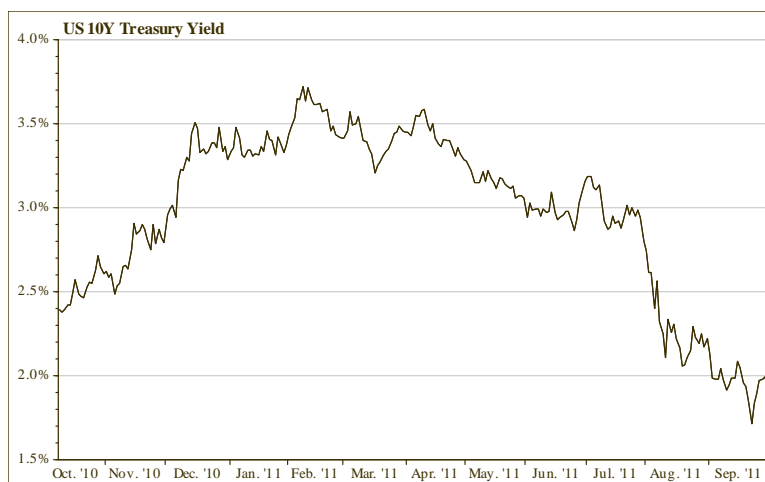
Source: FactSet Research Systems, Inc. – Rinehart Wealth Management



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

Job growth remains sluggish, suggesting we have had a jobless recovery. The unemployment situation could deteriorate further if we fall into another recession.

The dramatic decline in treasury yields highlights the markets extreme risk aversion during the quarter. Surprisingly, treasuries outperformed, despite a downgrade by Standard & Poor's.



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