

Rinehart Wealth Management

Third Quarter 2011 Economic Overview

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Positive Market Indications

- **Significant Cash is on the Sidelines**

- ✓ Repatriation of foreign cash could serve as a catalyst



Overweight Large Cap, Multinational Equities

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

- **Valuations are Attractive**

- ✓ At 12.4x trailing earnings, the PE Multiple on the S&P 500 is approaching the average multiple in the '80s
- ✓ Patient equity investors could experience nice returns from current levels



Maintain sufficient exposure to Equities

- ✓ Equities should outperform fixed income over a long-term investment horizon

- **Commodity Costs are Falling, Consumer Balance Sheet is Improving**

- ✓ Gas prices have fallen by nearly 24 cents in just four weeks and are at their lowest level since the end of February (*Source: Nomura Global Economics Research, Oct. 4th, 2011*)



Overweight Equities

- ✓ Lower costs and improving consumer balance sheets could provide tailwind for spending in 4Q

Negative Market Indications

- **Interest Rates are Abnormally Low**

- ✓ Short-term, high-quality debt instruments appear overvalued



Underweight Fixed Income
Overweight Hybrids

- ✓ Expectation that rates will move higher eventually

- **Political Gridlock Hampering Fiscal Policy**

- ✓ Monetary Policy appears increasingly less effective
- ✓ Negative initial reaction to “Operation Twist”



Overweight High-Quality Equities & Hybrids

- ✓ High-quality tends to outperform in times of uncertainty

- **Consumer Data is Mixed; Deleveraging Continues**

- ✓ Government benefits are still a large percentage of personal income



Underweight Risky Assets

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

- **Mature Business Cycle and High Debt Levels**

- ✓ Expect turbulence around Super Committee deadline, November 18th



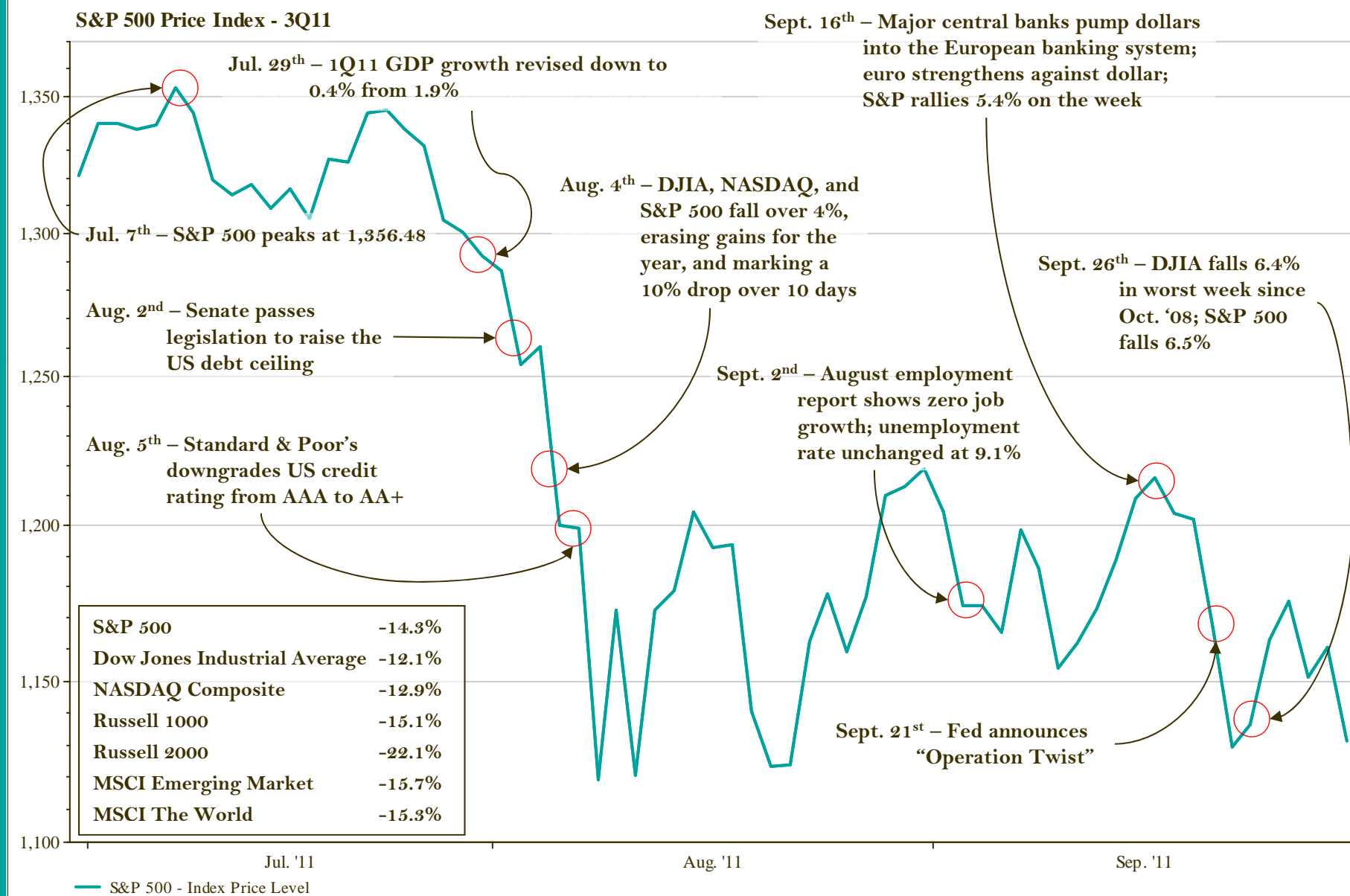
Underweight Risky Assets

- ✓ Too late in the economic cycle for low-quality and high-beta

Equity Market Could Rally in 4Q Given Oversold Conditions and Attractive Valuations

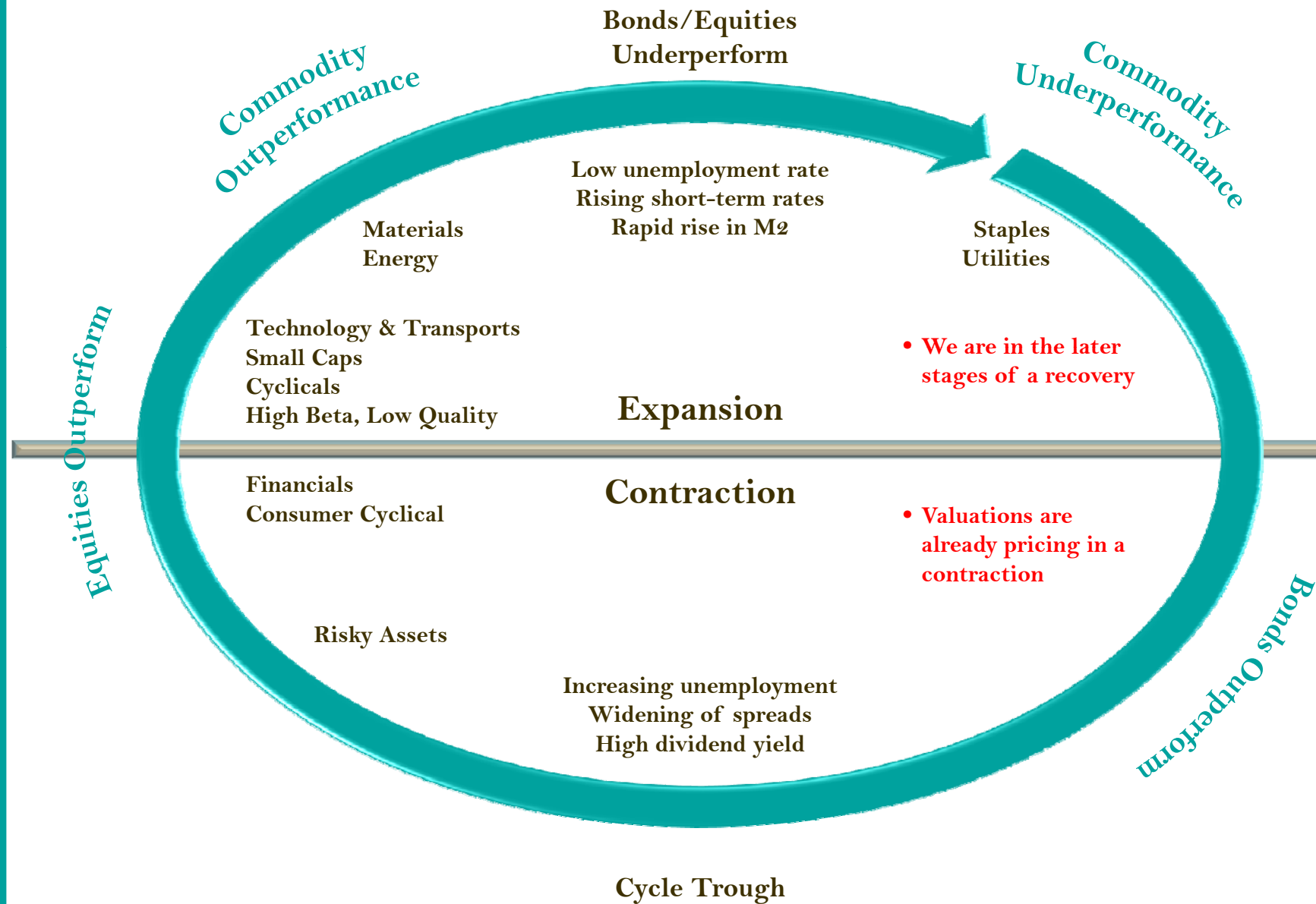
<u>Asset Class</u>	<u>Investment Opinion</u>
Cash	Underweight: We recommend a small cash balance for distributions, fees, and opportunistic buying. Cash yields are negligible, we recommend keeping cash at a low level.
Fixed Income	Underweight: We recommend a core weighting in Fixed Income to dampen volatility; 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. Although a rate hike is not on the near-term horizon, longer-term rates should move up.
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 and offset portfolio exposure to interest rate fluctuations.
Domestic Equity	Overweight: Within Domestic Equity, we are overweight Large Cap stocks with the potential to increase dividend payouts. Equity valuations are very attractive.
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. The Emerging Market asset class has sold off dramatically. Given the solid balance sheets, attractive valuations, and superior growth, Emerging Markets should recover. We currently suggest 30-40% of a portfolio's international exposure be dedicated to Emerging Markets. We like certain high-quality Japanese equities.

3rd Quarter Performance – Dramatic Sell Off Reminiscent of 3Q08

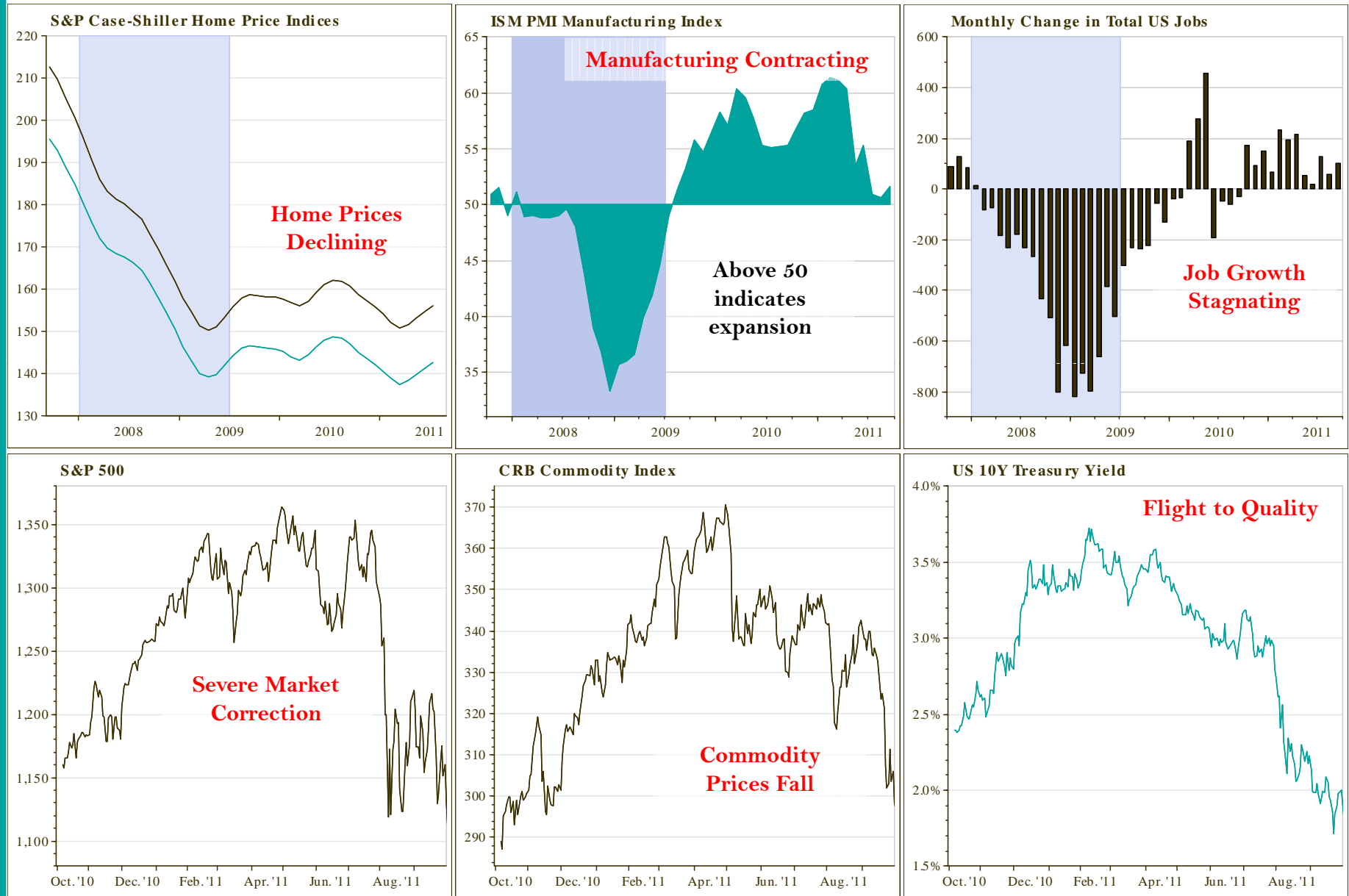


Source: FactSet Research Systems, Inc. – Rinehart Wealth Management

Positioning Portfolios for the Business Cycle – Underweight Risky Assets



Data Points Highlight a Troubled Economy in 3Q11



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

Market Looks Ready to Bounce

S&P 500 - Price Index

Year	1Q	2Q	3Q	4Q	Annual
2011	5.42%	-0.39%	-14.33%		
2010	4.87%	-11.86%	10.72%	10.20%	12.78%
2009	-11.67%	15.22%	14.98%	5.49%	23.45%
2008	-9.92%	-3.23%	-8.88%	-22.56%	-38.49%
2007	0.18%	5.81%	1.56%	-3.82%	3.53%
2006	3.73%	-1.90%	5.17%	6.17%	13.62%
2005	-2.58%	0.91%	3.15%	1.59%	3.00%
2004	1.29%	1.30%	-2.30%	8.73%	8.99%
2003	-3.60%	14.89%	2.20%	11.64%	26.38%
2002	-0.06%	-13.73%	-17.63%	7.92%	-23.37%
2001	-12.11%	5.52%	-14.99%	10.29%	-13.04%
2000	2.00%	-2.93%	-1.24%	-8.09%	-10.14%
1999	4.65%	6.71%	-6.56%	14.54%	19.53%
1998	13.53%	2.91%	-10.30%	20.87%	26.67%
1997	2.21%	16.91%	7.02%	2.44%	31.01%
1996	4.80%	3.89%	2.49%	7.77%	20.26%
1995	9.02%	8.80%	7.28%	5.39%	34.11%
1994	-4.43%	-0.34%	4.15%	-0.74%	-1.54%
1993	3.66%	-0.25%	1.86%	1.64%	7.06%
1992	-3.21%	1.10%	2.37%	4.29%	4.46%
1991	13.63%	-1.08%	4.50%	7.54%	26.31%
1990	-3.81%	5.32%	-14.52%	7.90%	-6.56%
1989	6.18%	7.84%	9.80%	1.22%	27.25%
1988	4.78%	5.64%	-0.58%	2.14%	12.40%
1987	20.45%	4.22%	5.87%	-23.23%	2.03%
1986	13.07%	5.00%	-7.78%	4.69%	14.62%
1985	8.02%	6.19%	-5.09%	16.04%	26.33%
1984	-3.49%	-3.77%	8.43%	0.69%	1.40%
1983	8.76%	9.90%	-1.21%	-0.69%	17.27%
1982	-8.64%	-2.10%	9.86%	16.79%	14.76%
1981	0.18%	-3.52%	-11.45%	5.48%	-9.73%
1980	-5.42%	11.90%	9.82%	8.21%	25.77%
1979	5.61%	1.39%	6.23%	-1.26%	12.31%
1978	-6.19%	7.08%	7.34%	-6.27%	1.06%
1977	-8.41%	2.09%	-3.93%	-1.48%	-11.50%
1976	13.95%	1.47%	0.92%	2.11%	19.15%
1975	21.59%	14.19%	-11.89%	7.54%	31.55%
1974	-3.66%	-8.49%	-26.12%	7.90%	-29.72%
1973	-5.53%	-6.51%	4.00%	-10.03%	-17.37%
1972	5.15%	-0.06%	3.18%	6.78%	15.79%
1971	9.03%	-0.61%	-1.36%	3.67%	10.82%
1970	-2.64%	-18.87%	15.80%	9.25%	-0.07%
Average	2.07%	2.12%	0.07%	3.63%	8.10%

S&P 500 - Price Index					
Year	1Q	2Q	3Q	4Q	Annual
Average	2.07%	2.12%	0.07%	3.63%	8.10%



- 76% of the time the market was down in 3Q, it was followed by a positive 4Q
- Since 1979, the last quarter of the year has been the strongest, with November and December typically up the most with gains of 3.4% and 2.7%, respectively (Source: J.P. Morgan)
- The historical probabilities of closing up for these months have been among the highest at 66% for November and 78% for December (Source: J.P. Morgan)

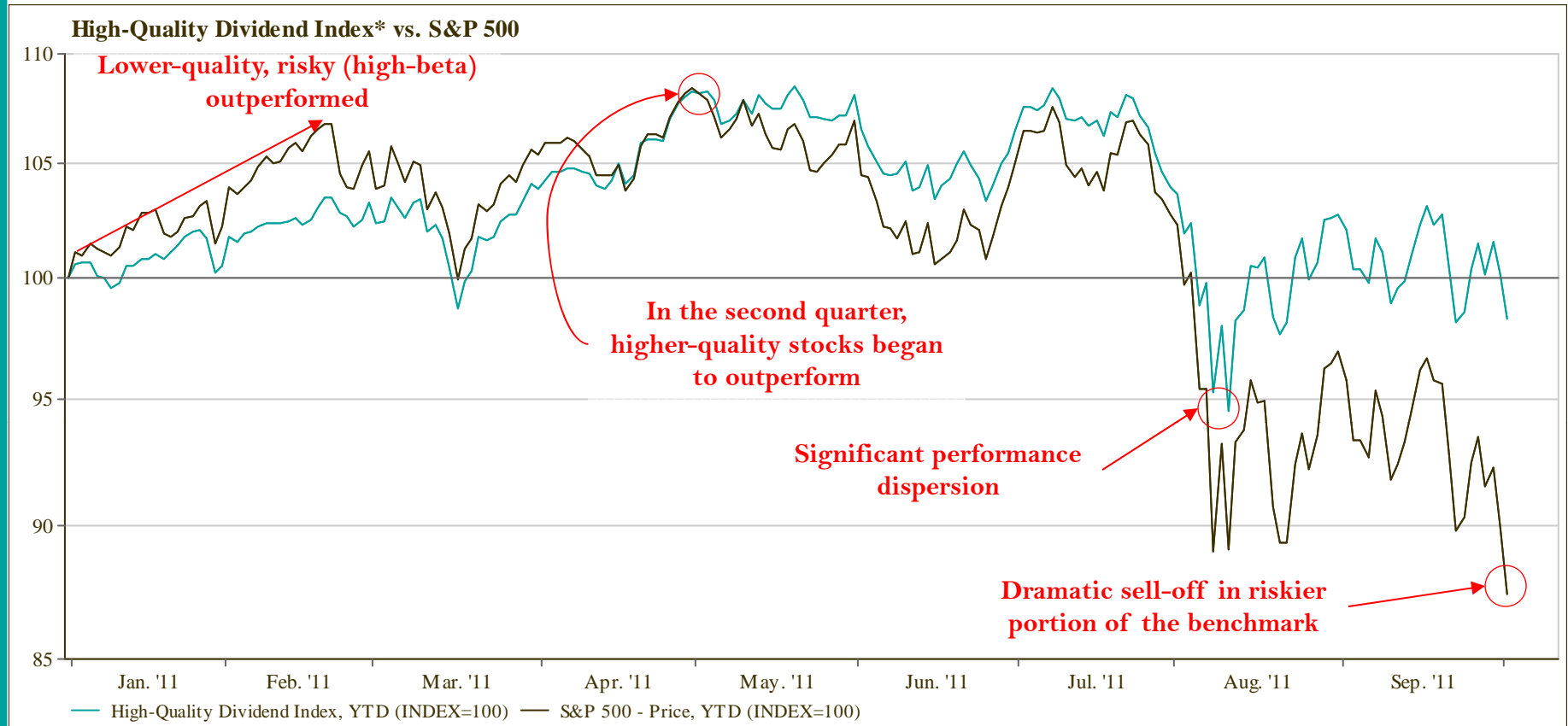
Source: FactSet Research Systems, Inc. - Rinehart Wealth Management

Defensive Assets Dramatically Outperform – Our Positioning Has Helped Buffer Portfolios

S&P Sector Annualized Returns						S&P Sector Trailing 3-Month Relative Performance									
Sectors	2007	2008	2009	2010	YTD	1/30/2011	2/28/2011	3/30/2011	4/30/2011	5/30/2011	6/30/2011	7/30/2011	8/30/2011	9/30/2011	
Defensives											Utilities Continue to Outperform				
Utilities	15.81%	-31.55%	6.80%	0.86%	7.17%	-7.62%	-7.40%	-3.69%	-2.34%	4.81%	5.28%	5.25%	8.91%	14.76%	
Telecom	8.45%	-33.62%	2.63%	12.30%	-5.22%	-5.93%	-6.61%	-1.73%	1.68%	7.61%	1.37%	-1.30%	1.75%	5.15%	
Health Care	5.39%	-24.48%	17.07%	0.71%	0.81%	-6.99%	-5.11%	-0.69%	4.62%	9.40%	7.83%	2.07%	1.91%	3.81%	
Staples	11.60%	-17.65%	11.20%	10.67%	1.03%	-6.75%	-7.93%	-3.60%	1.66%	7.37%	4.82%	3.04%	5.36%	9.39%	
Near Cyclicals															
Energy	32.38%	-35.93%	11.29%	17.86%	-12.62%	11.93%	13.50%	11.05%	5.93%	-3.06%	-4.82%	-0.62%	-1.99%	-6.53%	
Financials	-20.84%	-56.95%	14.80%	10.83%	-25.94%	3.61%	5.06%	-2.16%	-5.95%	-7.36%	-6.11%	-4.43%	-6.93%	-8.79%	
Cyclicals											We have been underweight Financials				
Technology	15.54%	-43.68%	59.92%	9.13%	-6.52%	-0.94%	-2.20%	-2.31%	-4.21%	-3.85%	-1.29%	2.33%	3.06%	6.37%	
Discretionary	-14.32%	-34.73%	38.76%	25.72%	-6.77%	-2.32%	-3.31%	-1.09%	2.46%	1.89%	3.25%	2.99%	1.78%	1.00%	
Industrials	9.83%	-41.52%	17.27%	23.92%	-16.11%	4.21%	2.40%	2.33%	0.74%	0.01%	-0.28%	-5.32%	-4.91%	-7.18%	
Materials	19.99%	-47.05%	45.23%	19.92%	-22.98%	2.41%	1.69%	-1.87%	1.22%	-0.11%	-0.39%	-1.41%	-0.86%	-10.63%	
S&P 500	3.53%	-38.49%	23.45%	12.78%	-10.04%	7.82%	11.59%	5.60%	6.84%	0.85%	-0.57%	-5.23%	-8.88%	-14.33%	

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

High-Quality Dividend Paying Stocks Have Dramatically Outperformed



*Index Parameters: S&P 500, Stock Price >\$10, Dividend Yield >2%, Beta <1.0, Return-on-Equity (ROE) >10%, Debt-to-Capital <75%

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

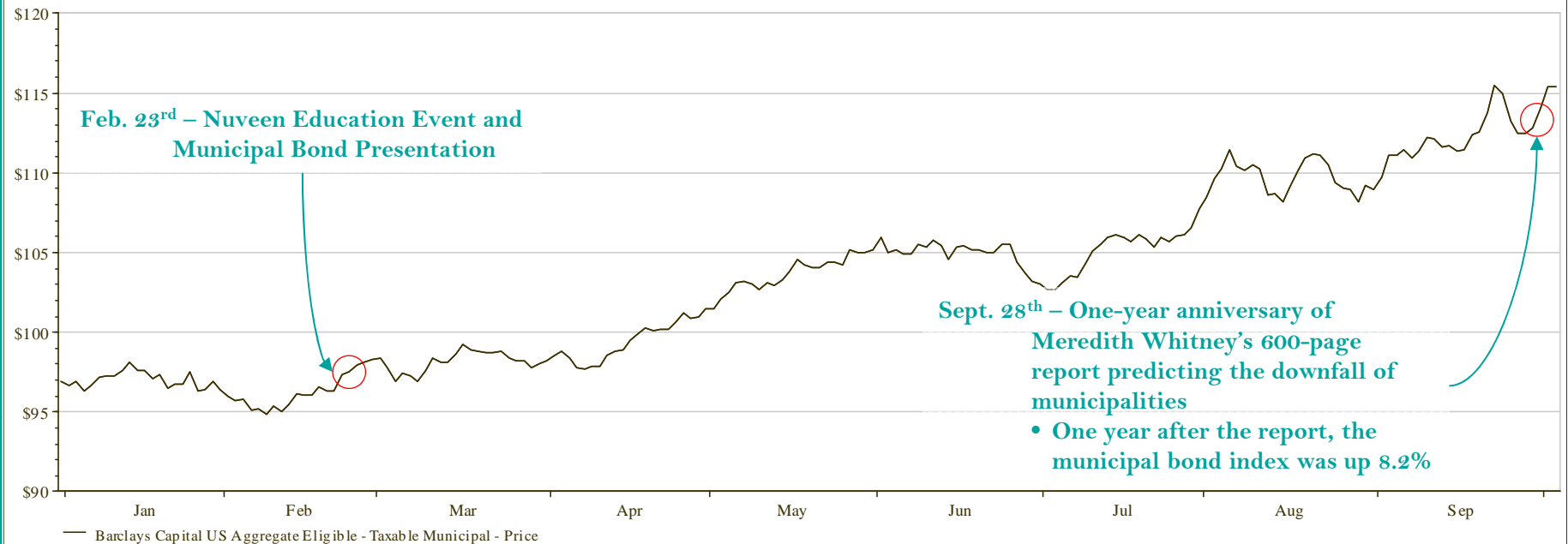
Proprietary basket of high-quality S&P 500 constituents delivered outperformance

The biggest factor contributing to the performance differential was lower beta



Portfolios are underweight beta

After A Rocky Start, Municipal Bond Performance Has Been Solid



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

AAA	Federal Spending as a % of State GDP*	Medicaid as a % of Outlays	% Change in Tax Receipts**	Tax-Backed Debt as a % of State GDP	Funded % of State Pensions	Troubled*** Mortgages	June Unemployment Rate %
Delaware	10.6%	14.0%	4.8%	6.4%	94.0%	7.2%	8.0%
Florida	20.1%	28.0%	4.2%	3.9%	84.0%	19.0%	10.6%
Georgia	18.6%	20.0%	7.5%	2.8%	87.0%	8.1%	9.9%
Indiana	20.7%	23.0%	9.9%	1.9%	67.0%	8.3%	8.3%
Iowa	17.5%	18.0%	8.7%	2.2%	81.0%	4.8%	6.0%
Maryland	28.5%	20.0%	8.0%	3.2%	65.0%	8.3%	7.0%
Minnesota	14.5%	22.0%	10.4%	6.9%	77.0%	5.0%	6.7%
Missouri	25.5%	33.0%	7.2%	2.0%	79.0%	4.9%	8.8%
North Carolina	17.6%	37.0%	2.7%	1.8%	97.0%	5.9%	9.9%
Utah	15.5%	14.0%	8.8%	6.9%	86.0%	6.0%	7.4%
Virginia	29.8%	16.0%	14.7%	2.7%	80.0%	4.4%	6.0%
Wyoming	17.1%	7.0%	14.6%	0.1%	89.0%	2.9%	5.9%

* FY 2008

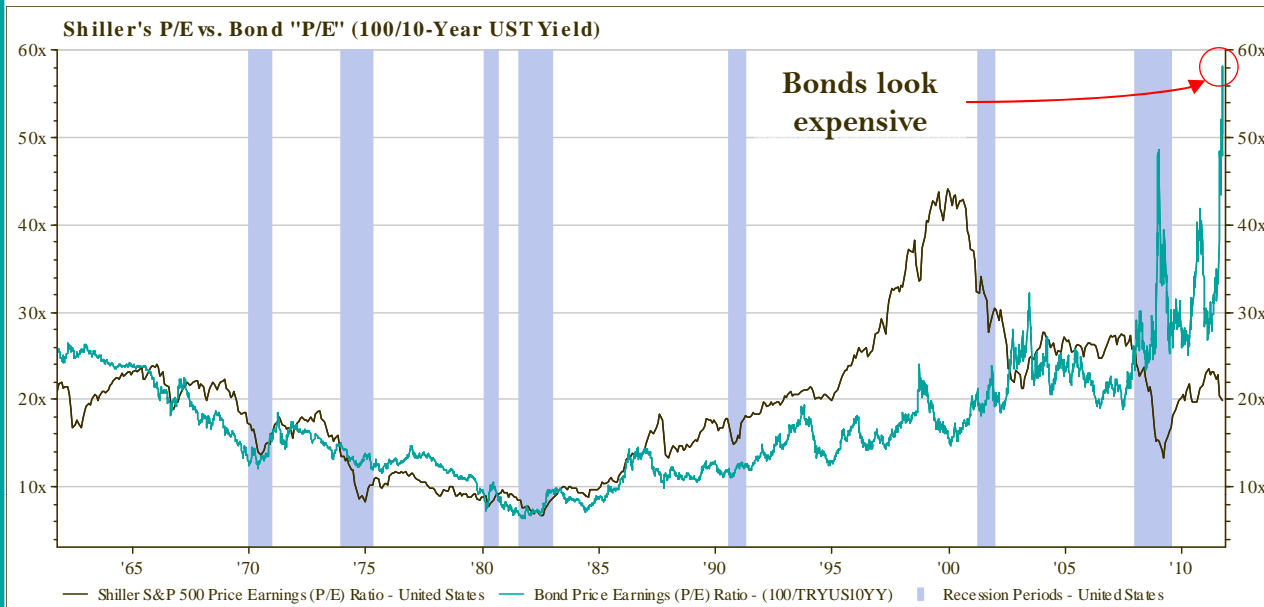
** YoY, as of 1Q11

*** Includes Foreclosed & "Seriously Delinquent"

Source: Barron's - Janney Capital Markets; Evercore; U.S. Census Bureau

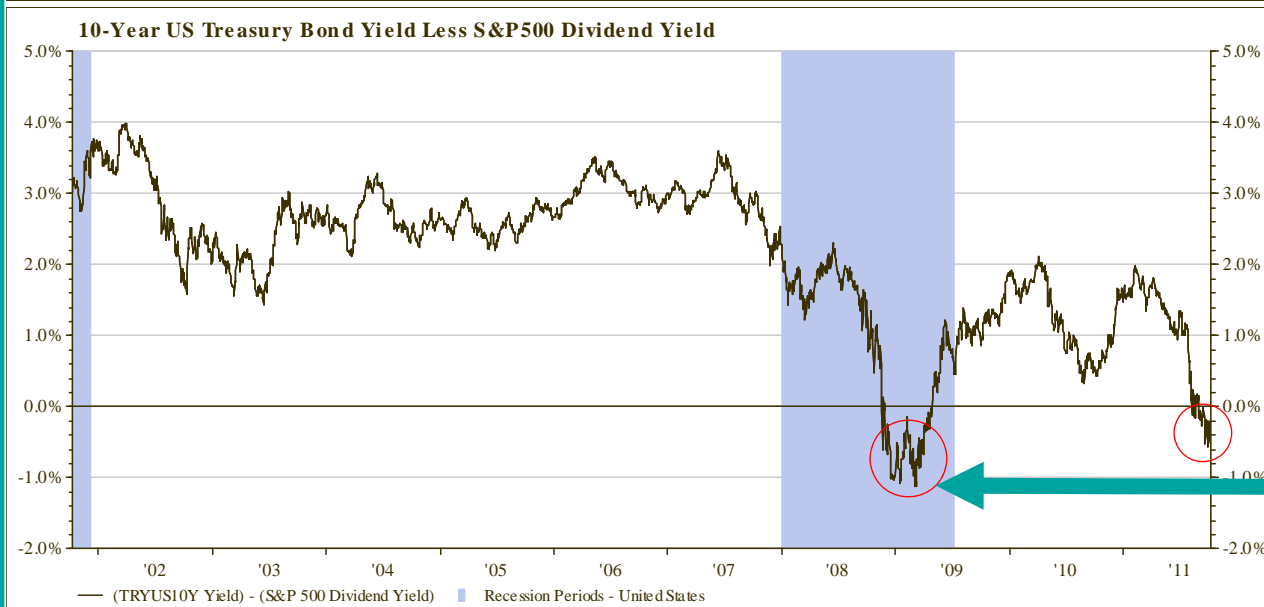
North Carolina ranks as one of the most attractive

Equity Valuations are Attractive Relative to Treasuries



Fear-based selling of equities and aggressive treasury purchases have bonds looking extremely **OVERVALUED**

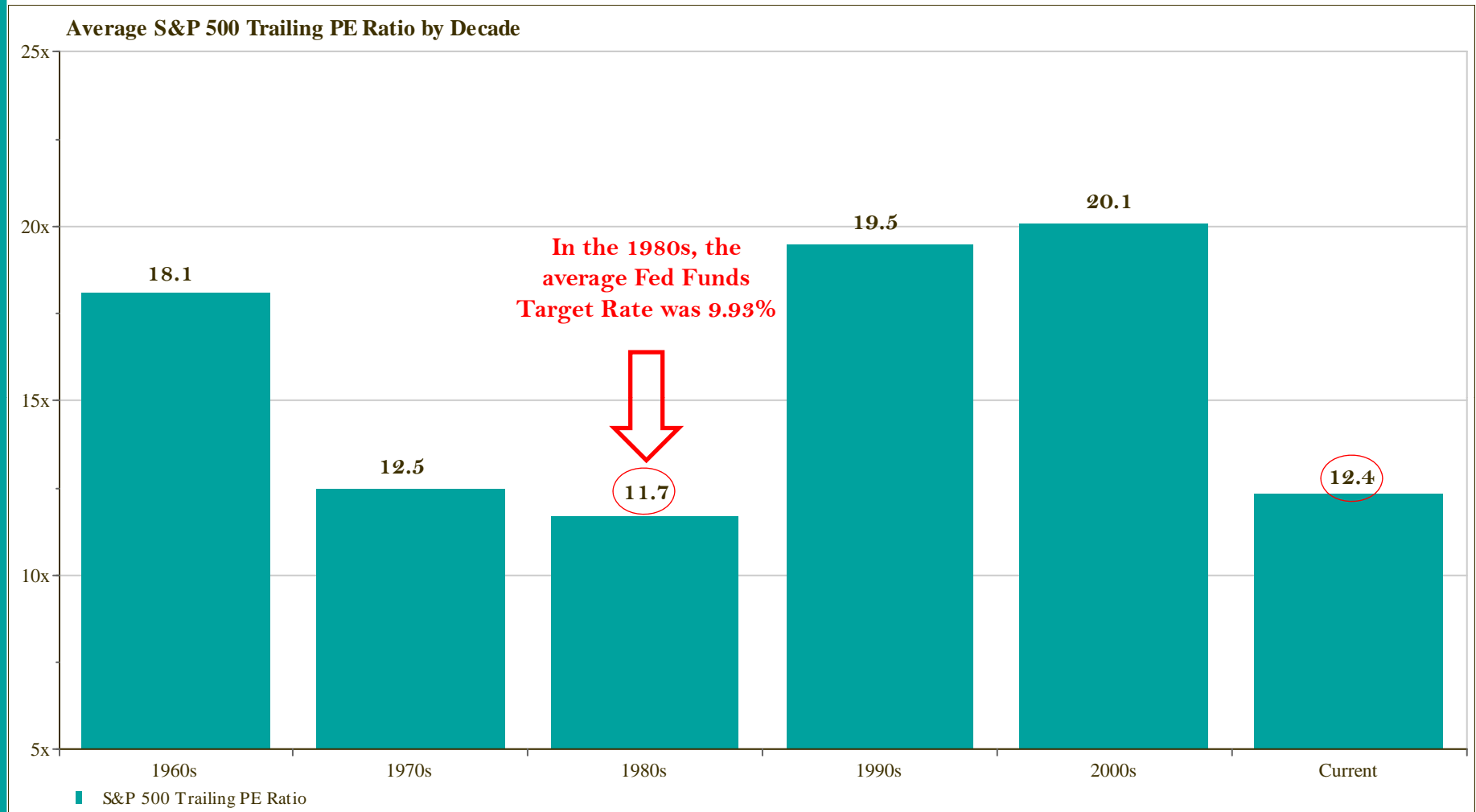
Bonds are overpriced relative to dividend-yielding equities



The last time this was negative was during the recession

Source: Strategas Research Partners, LLC & FactSet Research Systems, Inc. – Rinehart Wealth Management

Current PE Ratio Below 4 of Past 5 Decade Averages



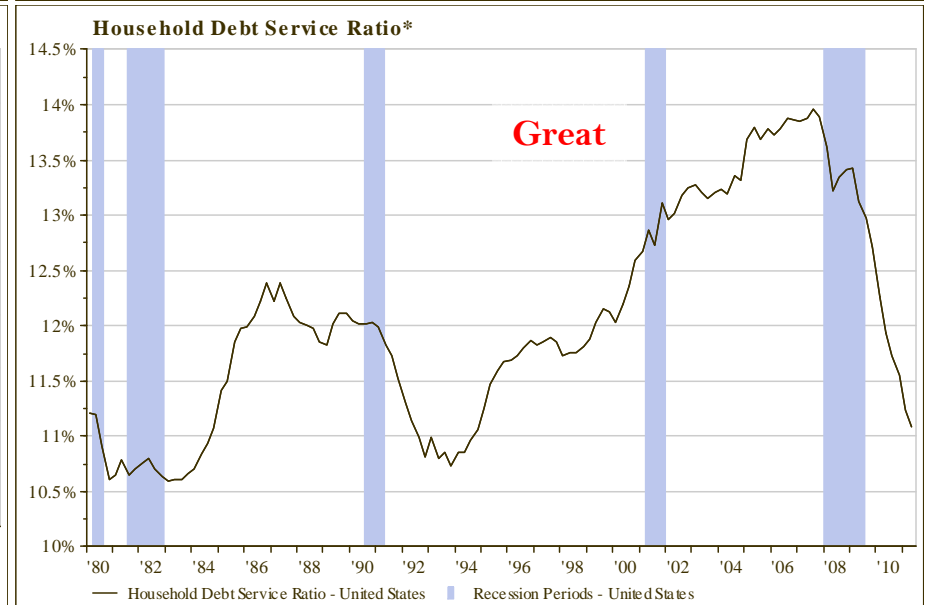
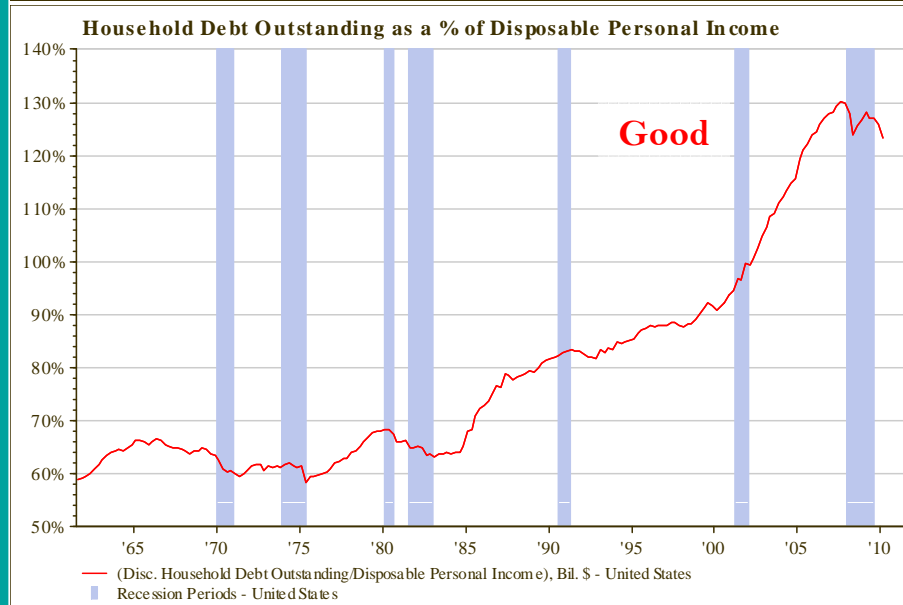
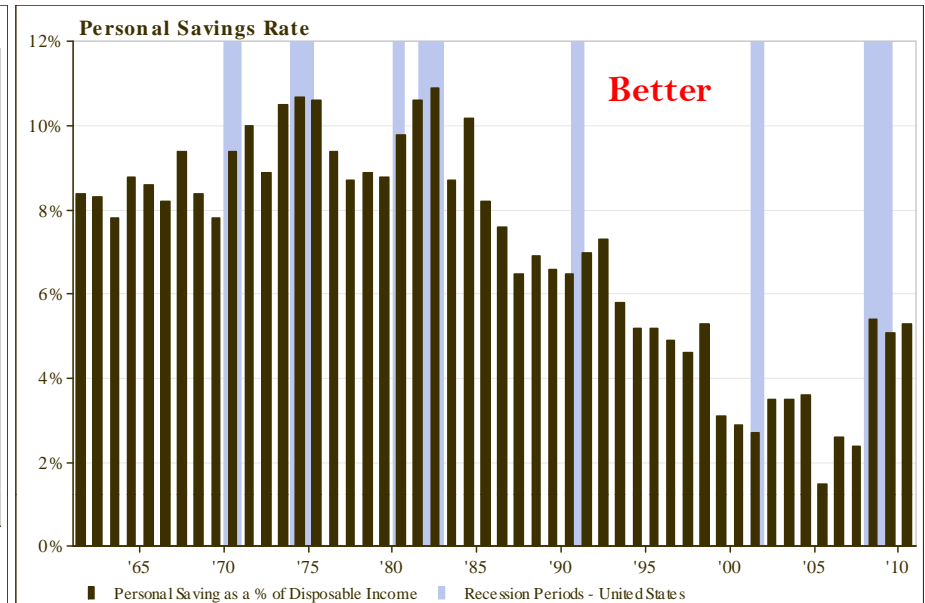
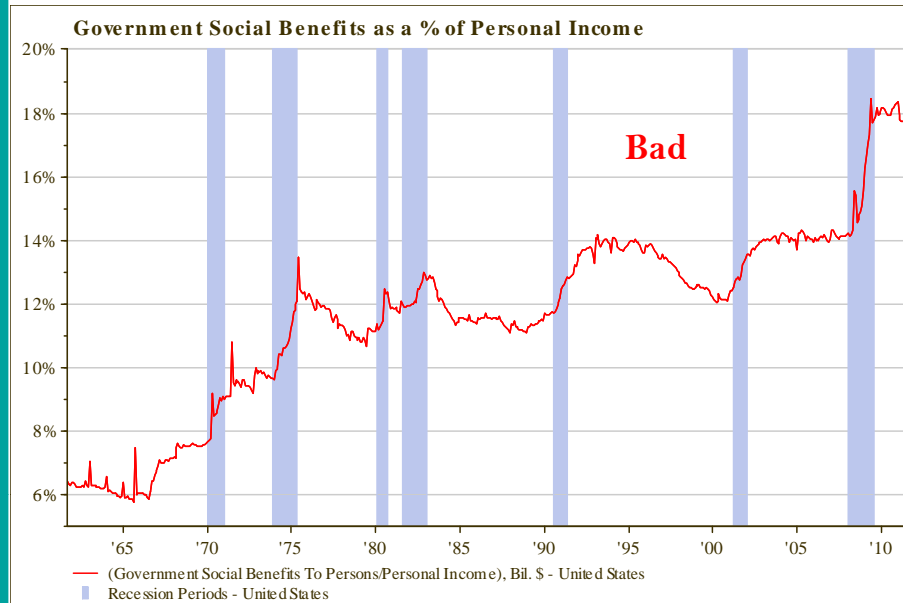
Source: Strategas Research Partners, LLC

Much of the negative news is priced in



Patience will reward long-term equity investors

Consumer Data is Mixed But Improving

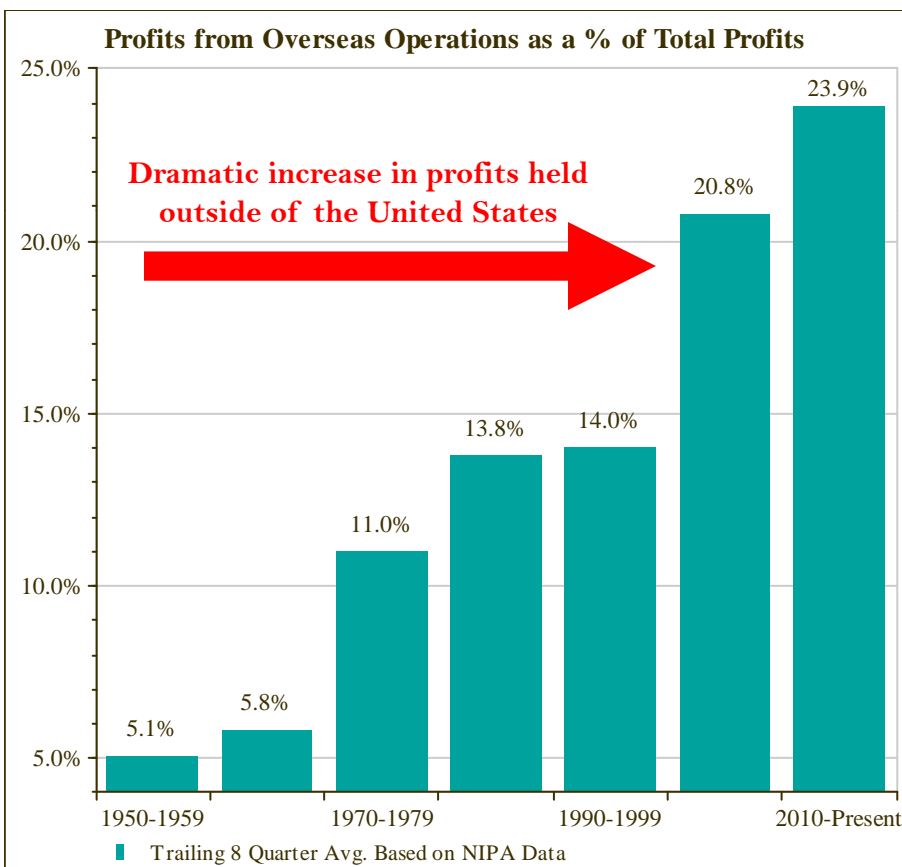
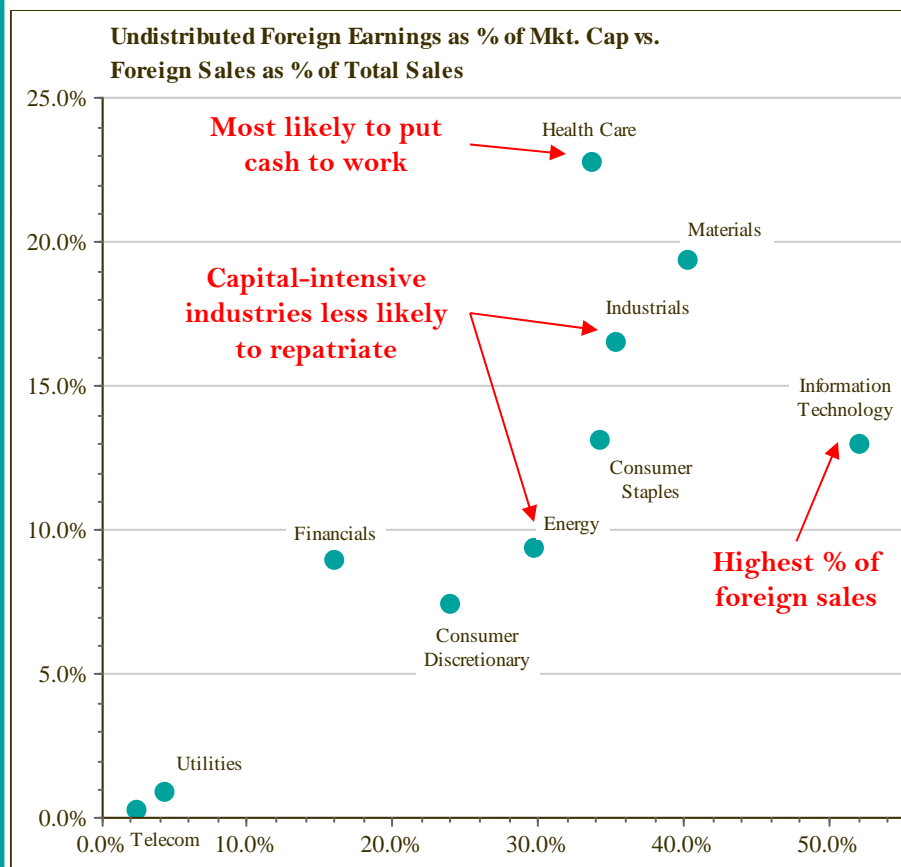


Source: FactSet Research Systems, Inc. - Rinehart Wealth Management

* Household Debt Service Ratio = Debt payments as a % of disposable personal income

Repatriation Could Further Benefit our High-Quality, High Dividend Strategy

- Estimated \$1.4 trillion in foreign, undistributed earnings (*Source: Dane Mott, J.P. Morgan*)
- 5.25% proposed rate vs. 35% current, potentially included in debt ceiling package
- Information Technology & Health Care stocks could increase dividends and consequently outperform



Source: J.P. Morgan, from "Accounting Issues: Undistributed Foreign Earnings..." Dane Mott, 5/24/2001, J.P. Morgan Equity Research, FactSet Research Systems, Inc., and Rinehart Wealth Management

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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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