

2011 Economic Overview and 2012 Outlook Newsletter

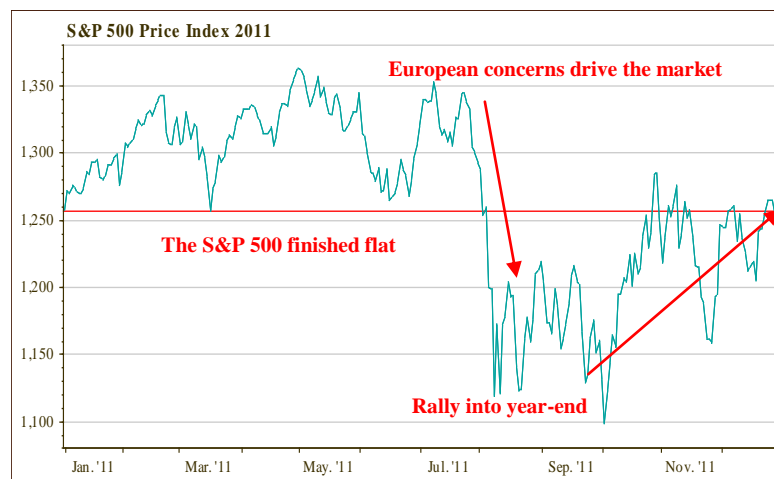
January 27, 2012

Similar to 2011, we start the year with mixed signals. There are signs of hope in both the housing data and the initial unemployment claims, which have been scarce since 2008. On the other hand, Europe remains a time bomb and developed world consumer and sovereign debt levels remain uncomfortably high. Given this conflict, we enter the year cautiously optimistic and have taken a measured approach to investing the portfolios. We continue to favor an overweight in high-quality, dividend yielding large caps and hybrids, while expressing a preference for municipal and corporate bonds within fixed income.

S&P 500	0.0%
Dow Jones Industrial	5.5%
NASDAQ Composite	-1.8%
Russell 1000	-0.5%
Russell 2000	-5.5%
MSCI Emerging Market	-14.9%
MSCI The World	-17.2%

Volatility Typifies 2011 - Expect More of the Same in 2012

This year's market performance took investors on an emotional rollercoaster from euphoria to anguish and ended up right back where it started. During the year, the S&P 500 declined almost 22% from its high to the low reached on October 4th. After a turbulent ride, the S&P 500 finished the year at 1,257.60: only 0.02 points below its open at the beginning of the year. Following an abysmal third quarter marked by a significant retrenchment in the equity indexes, the fourth quarter provided the rally we anticipated.



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

Harrowing gyrations plagued all of the major market indexes, but the most volatility was exhibited abroad. The Euro Stoxx ended down over 11% while the MSCI Emerging Market index lost a staggering 14.9% in 2011. Going into 2012, expectations are for continued volatility and sluggish growth with political outcomes being the biggest wild cards.

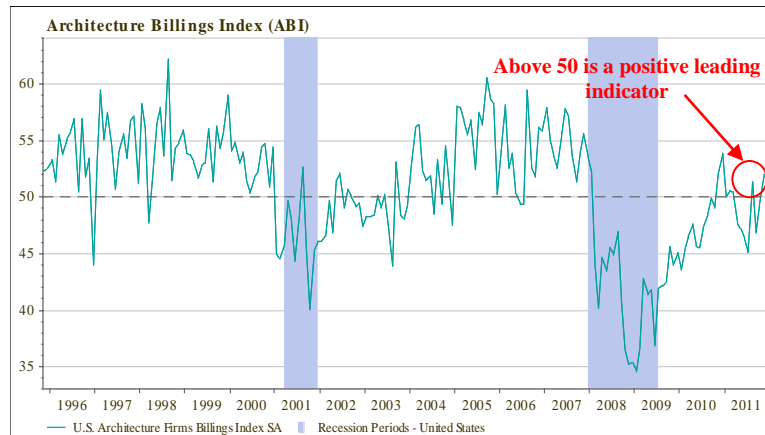
Defensive Sectors Dramatically Outperformed

Defensive sectors dramatically outperformed the higher-risk, more cyclical sectors. On a total return basis, the utility sector appreciated almost 20% over 2011, while financials were down north of 17%, highlighting the importance of diversification across sectors. After experiencing significant losses in the third quarter, the cyclical sectors rebounded strongly in the fourth quarter enabling the S&P 500 to produce a modest return for the year. Early in 2011 we favored defensive sectors as we became concerned with the resolution of QE2 and the brewing crisis in Europe. Given the relative outperformance of these defensives and our expectations for a year-end rally we added modestly to some of the cyclical sectors in the fourth quarter.

S&P 500 Sector Total Return Performance					
Sectors	1Q11	2Q11	3Q11	4Q11	2011
Defensives					
Utilities	2.74%	6.14%	1.55%	8.28%	19.91%
Telecom	4.85%	2.11%	-8.01%	7.90%	6.27%
Health Care	5.62%	7.87%	-10.02%	9.96%	12.73%
Staples	2.52%	5.25%	-4.19%	10.26%	13.99%
Near Cyclical					
Energy	16.80%	-4.63%	-20.46%	18.20%	4.72%
Financials	3.04%	-5.92%	-22.80%	10.82%	-17.06%
Cyclicals					
Technology	3.47%	-1.37%	-7.70%	8.72%	2.41%
Discretionary	4.71%	3.45%	-12.98%	12.58%	6.13%
Industrials	8.75%	-0.67%	-21.02%	16.52%	-0.59%
Materials	4.54%	-0.88%	-24.52%	15.39%	-9.75%
S&P 500	5.92%	0.10%	-13.87%	11.82%	2.11%

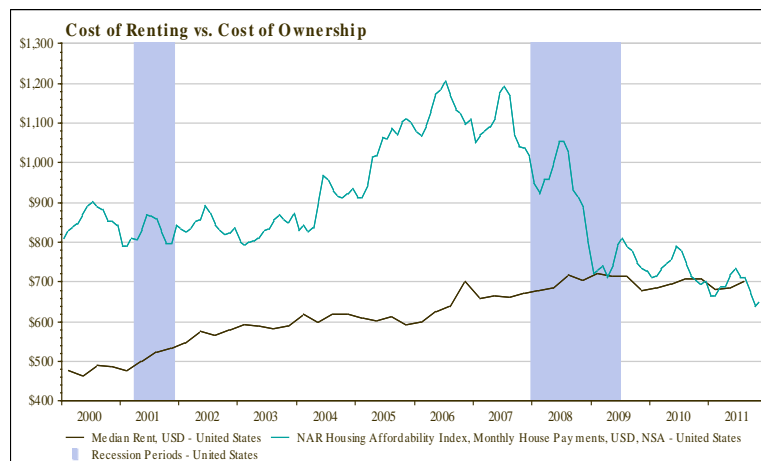
Source: FactSet Research Systems, Inc. – Rinehart Wealth Management

Signs of an Improving Economy in 2012



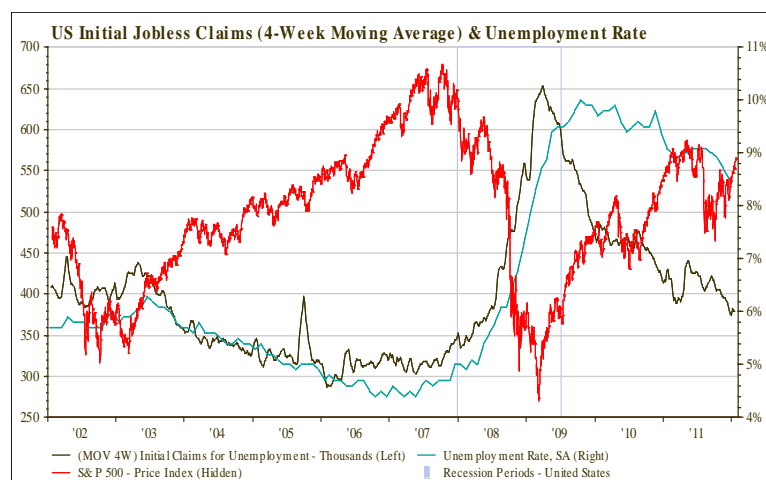
Source: American Institute of Architects – Nomura Holdings, Inc.

A recent spike in the Architecture Billings Index (ABI) could be a leading indication of improvement in commercial real estate. This could have a broad positive impact on everything from employment to regional banking.



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

Home ownership appears more attractive than renting. The housing affordability index recently crossed below the median rent. Once credit loosens, we would anticipate a shift toward owning away from renting, which would help reduce the inventory of unoccupied homes.



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

The unemployment rate and unemployment claims reached post-recession lows. Looking back at the last recovery, we can see that the market made a nice move upward once there was a sustainable improvement in employment.

Please join us for a comprehensive Fourth Quarter 2011 Economic Overview Webinar Presentation by Daniele Donahoe, live on February 2nd at 10am. For those of you who cannot attend the live event, there will be a recording on our website in the News & Information page.