Daniele Donahoe CFA, CIO
Mary Rinehart CFP ®, CEO
Treven Ayers MA, CFS, CFP ®
Michael Elliott Van Ness

Fourth Quarter 2012 Economic Overview

February 1st, 2013

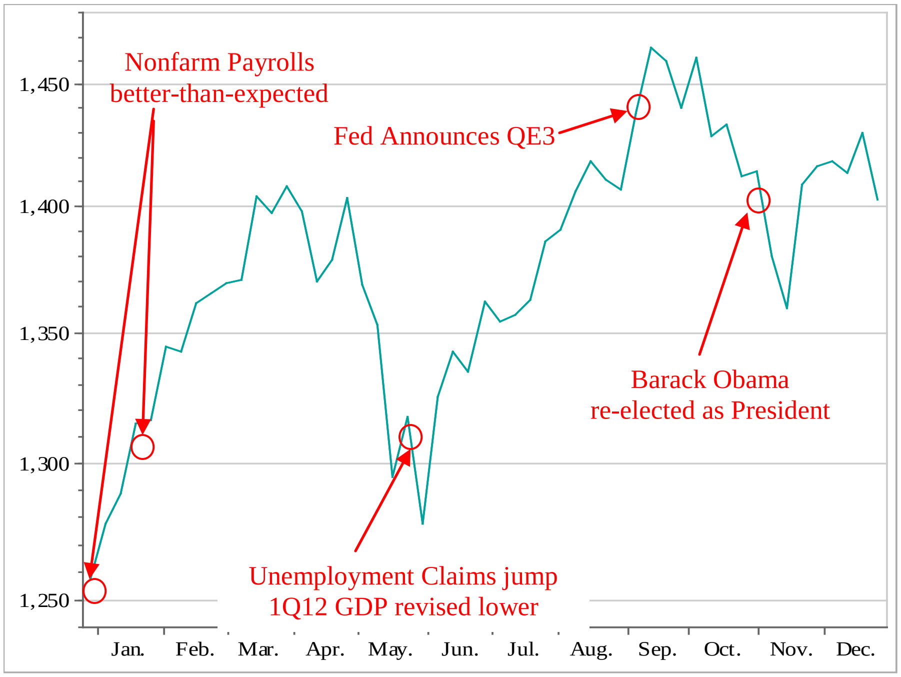
The S&P 500 rounded out a robust 2012, ending the year with an impressive 16% gain. There are reasons to be optimistic that 2013 can continue down the path of modest growth with muted inflation after averting "The Fiscal Cliff."

2012 Total Return Performance:

S&P 500	**16.00%**
Dow Jones Industrials	**10.24%**
NASDAQ Composite	**17.45%**
Russell 1000	**16.42%**
Russell 2000	**16.35%**
MSCI Emerging Markets	**17.39%**
MSCI EAFE	**17.89%**

There are still reasons to be vigilant, but the reality of the situation is that given the considerable amount of debt saddling our Federal government and our consumer, this is what a recovery feels like. We anticipate sustained, modest GDP growth and a slow creep in interest rates and inflation over the next few years. Given this backdrop, we are optimistic but selective relative to equities and struggling to find opportunities in high-quality fixed income, where yield is minimal and rising rates could serve as a headwind. The economy is recovering, but unconventional monetary policy and a looming debt ceiling make it difficult to navigate. Now more than ever, portfolio construction and composition are essential.

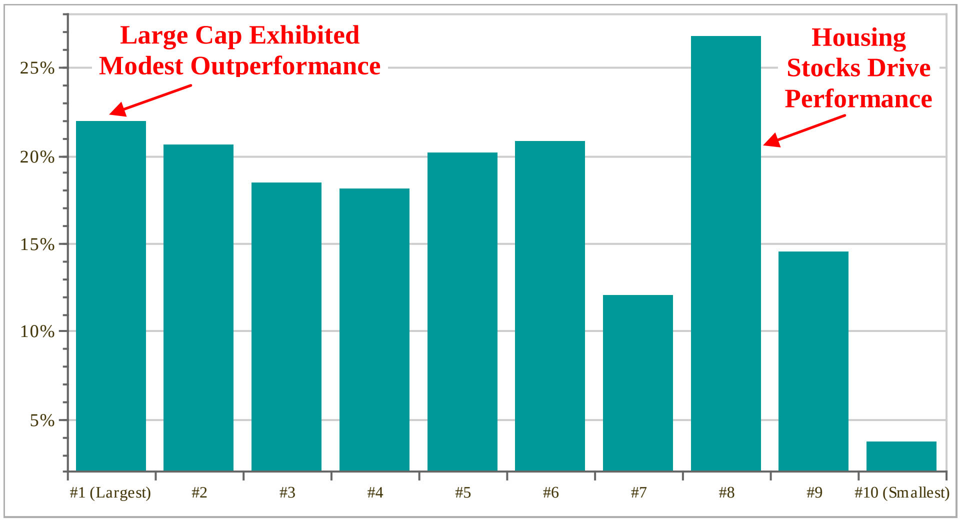
Chart I: S&P 500 Performance



Source: FactSet Research Systems – Rinehart Wealth Management

We had anticipated Large Capitalization stocks to outperform in 2012 and that was indeed the case. Of interest, a number of housing stocks drove selective outperformance at the lower end of the market cap spectrum shown in the chart to the right of the performance of the S&P 500 according to size. Overall, smaller capitalization stocks have underperformed large cap, introducing an opportunity to add more small cap exposure.

Chart II: S&P 500 Performance by Market Cap

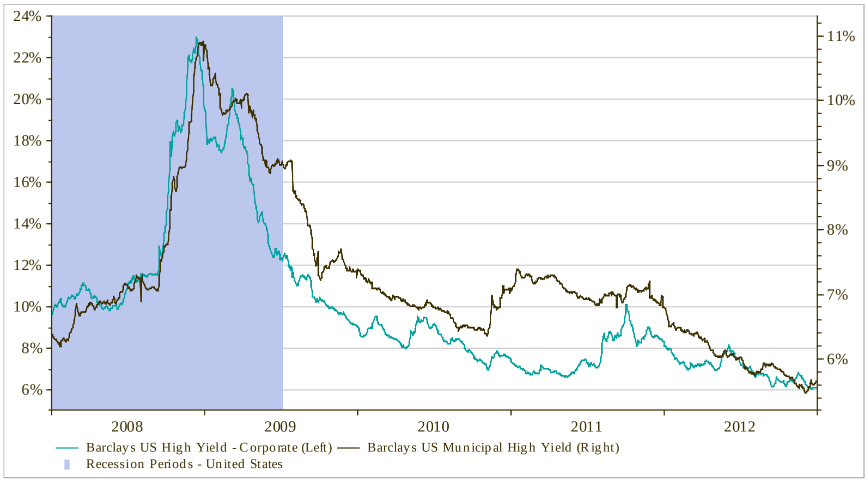


Source: FactSet Research Systems – Rinehart Wealth Management

Please join us online for our quarterly webinar on February 6th, at 10:00am as we review 2012 and discuss the driving factors of the economy in 2013.

The Quest for Yield Continues

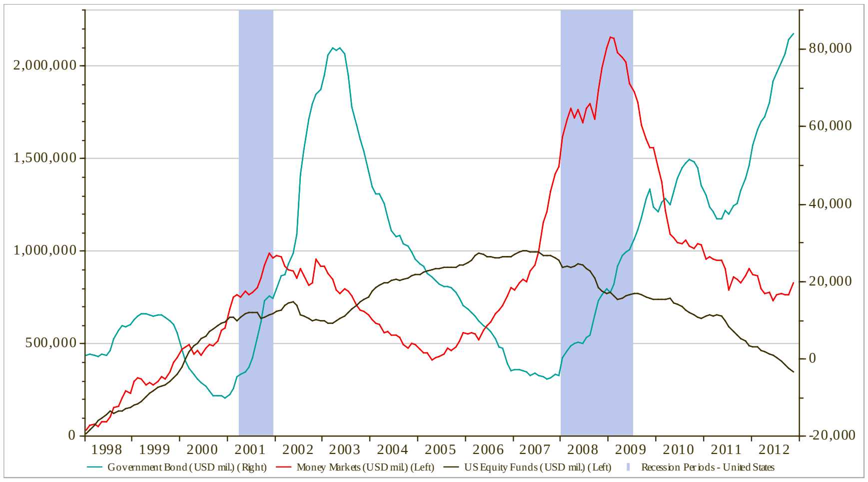
Chart III: High-Yield Bond Yields



Source: FactSet Research Systems – Rinehart Wealth Management

Given the insatiable demand for yield, investors have flocked to higher-yielding, lower quality bonds. Junk Bond issuance hit a record $350 billion in 2012 *(Source: Wall Street Journal)*, while high-yield corporate bond rates are at the lowest level we've seen in ten years.

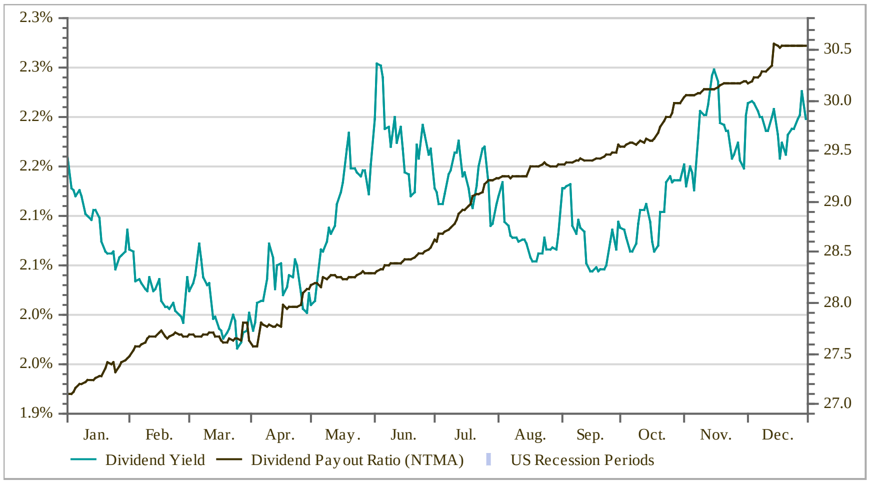
Chart IV: Fund Flows – Cumulative Net New Cash Flow



Source: FactSet Research Systems – Rinehart Wealth Management

Flows into Fixed Income Funds are approaching peak levels.

Chart V: S&P 500 Dividend Yield vs. Dividend Payout Ratio (NTMA)



Source: FactSet Research Systems – Rinehart Wealth Management

Payout ratios continue to move up from depressed levels driven by shareholder demand for yield and cash rich corporate balance sheets.