

INSIGHTS

INVESTMENT OVERVIEW

MIDYEAR CHECK-UP

At Rinehart it is our belief that projecting an exact number for the major indices is not as effective as conducting research to anticipate the direction and underlying shift in the market based on the economic cycle. Consequently, at the beginning of the year, we laid out our directional expectations for 2014 that drove subtle adjustments to our portfolio positioning. Given that we have crossed the halfway point in 2014, we thought it might be helpful to base this quarter's Economic Overview on the manifestation of our initial expectations, as well as review the data supporting our thesis that we have entered the late stage of this bull market based on the shifts appearing in the economic cycle.

EXPECTATION 1: “We anticipate sector rotation away from discretionary stocks.”

As of the end of June, the Consumer Discretionary sector was up only 60 bps (0.6%) year-to-date, lagging the 7.14% appreciation of the S&P 500. Companies are citing disappointing consumer spending, and earnings momentum has lagged.

EXPECTATION 2: “Corporations shift capital deployment away from share buybacks and dividend increases to accelerating merger and acquisition (M&A) activity and growth investment capital.”

After climbing steadily since we began tracking it in 2012, the S&P 500 payout ratio appears to have peaked after the first quarter of 2014, stabilizing around 32.5%. This suggests corporations have slowed the rate at which they are growing dividends and instead are reinvesting in the business or making strategic acquisitions. According to FactSet, Capital Expenditures jumped over 6% in the first quarter and are projected to grow 6.7% in 2014 after not experiencing a growth rate in excess of 1.5% for the past four quarters.

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FINANCIAL ADVISORY OVERVIEW

INCOME TAX PLANNING—NO LONGER ONE SIZE FITS ALL

As income tax returns were filed this spring, the impact of the American Taxpayer Relief Act became reality in the form of increased tax liabilities for many taxpayers. It has become evident that we are in a time when income tax planning is a critical aspect of our clients' overall personal financial plan. A time where traditional rules of thumb, such as instinctive tax deferrals, are no longer relevant, thus, we believe a more individualized approach is needed to tailor advice specifically to each client's unique situation.

Proactive tax planning relies on understanding the effects regarding various tax strategies and what is most beneficial for the long term. For example, should you make pre-tax or Roth contributions to your retirement plan? The key difference is that with pre-tax contributions, the tax is deferred until the distribution of the contributions and earnings from the retirement plan, while Roth

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INVESTMENT TEAM

Daniele Donahoe, CFA
President & CIO
Michael Elliott Van Ness
Senior Research Associate
Mary Rinehart, CFP®
CEO
Neal Deaton, MBA
Investment & Operations Manager

FINANCIAL ADVISORY TEAM

Sandy Carlson, CFP®, CPA
Financial Advisor
Andrew Savant, CFP®
Financial Advisor
Marilyn Spencer, CFP®, EA
Senior Financial Advisor
Lorri Tomlin, RP®
Senior Client Service Representative

SPECIAL POINTS OF INTEREST

- Stock & Strategy Spotlight
- Monthly Index Review
- Around Rinehart

INVESTMENT OVERVIEW

MIDYEAR CHECK-UP (CONTINUED)

EXPECTATION 3: “We expect a modest but measured increase in inflation.”

Inflation has been mixed. After notching a 2.8% increase over the trailing three months ending in May, June brought a month-to-month growth rate deceleration providing relief from the emerging concern that inflation would force the Fed’s hand toward tightening. We see subtle suggestions that inflation should accelerate although at this point in the year, the data is mixed and conclusions are elusive.

EXPECTATION 4: “We continue to caution against reactively abandoning fixed income”

Fixed Income made a considerable recovery in 2014 with the Barclays US Aggregate appreciating 3.66% after declining 2.02% in 2013. Despite the modest decline in the bond index in 2013, the widely publicized fear that interest rates would rise rapidly created what we felt was an irrational fear that all bonds would experience equity-like declines. Now that rates have retrenched, we feel that the path of least resistance in rates is probably upward; however, high-quality, corporate and municipal bonds will always be an important part of a diversified portfolio.

EXPECTATION 5: “We should be joyously toasting 2014 and reveling in the prospects of sustained GDP growth above the elusive 4% barrier.”

Despite a dismal start to 2014 with GDP declining due to an isolated weather-related slowdown, the 2nd quarter GDP print of 4% growth exceeded most analyst expectations. It is our belief that the momentum in GDP growth needs to continue to surprise to the upside and remain above 4% for the rest of the year in order for the market to justify current valuations. Hopefully, the first quarter decline was an anomaly while the second quarter surprise was the beginning of a trend.

Please join us for our quarterly Economic Overview where we will expand on our expectations and provide an in-depth overview of the economic data and implications for portfolio positioning.

Economic Overview Webinar Details

When? Thursday, August 7th at 11:00 am

How? Register using the link in the original email or see any of our registration reminder emails that will go out prior to the webinar. A recording will be available after August 8th in the Webinar Archive on our website.

STOCK & STRATEGY SPOTLIGHT

Mutual Fund/Strategy Name:

Berwyn Income Fund/Absolute Return

Ticker/Symbol:

BERIX

2014 (YTD)

3.54%

Company Description:

As tried and true deep-value, contrarian investors, the portfolio management team of the Berwyn Income Fund (“BERIX” or “the Fund”) has achieved an impressive performance history and track record since the fund’s inception in September 1987. Their investment philosophy and processes are driven by uncovering and discovering out-of-favor companies within their investment universe (market capitalization greater than \$125 million, dividend yield greater than 1.0%), which is then systematically and thoroughly reviewed using relative and absolute valuation metrics to produce an appropriate selection. The results of this process attempt to capture companies where the underlying circumstances of a business are improving, but where those changes have not yet been realized or appropriately valued in the market. Their independent, in-house research and analysis process focuses on conducting in-depth, bottom-up fundamental due-diligence of the quantitative and qualitative variables that identify an investment catalyst.

MONTHLY INDEX REVIEW

Data as of July 31 st , 2014	July 2014	2014 (YTD)	2013
S&P 500	-1.38%	5.66%	32.39%
Dow Jones Industrials	-1.44%	1.20%	29.65%
NASDAQ Composite	-0.82%	5.31%	40.12%
Russell 2000	-6.05%	-3.06%	38.82%
MSCI Emerging Markets	2.02%	8.46%	-2.27%
MSCI EAFE	-1.96%	3.08%	23.29%
Barclays US Aggregate	-0.25%	3.66%	-2.02%

FINANCIAL ADVISORY OVERVIEW

ABOUT RINEHART

INCOME TAX PLANNING—NO LONGER ONE SIZE FITS ALL (CONTINUED)

monies are taxed at the time of contribution, resulting in potentially tax free distribution of those contributions and any growth. The conventional approach to making the pre-tax versus Roth decision is to compare your current tax bracket with what you think it will be in retirement, which will depend on your taxable income and the tax rates in place at that time. However, the reality is that additional increases in income can trigger taxation far beyond just the tax bracket itself, including the impact of income on deduction thresholds (e.g., medical expenses and miscellaneous itemized deductions), the reinstated phase-out of itemized deductions and personal exemptions, the phase-out of various tax credits, as well as the two new Medicare taxes (a 3.8% tax on net investment income and a 0.9% tax on earned income).

The same holds true for determining the optimal time to convert a Traditional IRA to a Roth IRA. Roth IRA conversions offer clear benefits, including tax-free compounding and withdrawals for beneficiaries, but only if

can be beneficial for individuals who don't need all of the money in their traditional 401(k) for retirement expenses but want to grow it as an income-tax-free inheritance for their children or grandchildren. A conversion can also work well for someone who is young and in a low tax bracket if the money will be needed in retirement and projections indicate that they will be in a higher bracket position in the future. In this instance, it may make sense to convert now.

Ideally, tax plans should provide multi-year and multi-scenario projections designed to mitigate the impact of the new tax laws. Depending where clients sit relating to the new thresholds, we may suggest a range of strategies. Asset location will be more important than ever to carefully determine which assets to keep in tax deferred versus taxable accounts.

At Rinehart, we realize that each client situation is unique and adopt a more individualized tax planning approach that

"Memory is deceptive because it is colored by today's events." — Albert Einstein."

current tax rates are not driven up too far. When considering Roth IRA conversions, we examine the tax rate differentials between conversion and withdrawal years, the use of outside funds to pay the tax liability, the need for IRA funds to meet a client's annual living expenses, as well as the client's time horizon. There are a number of reasons to recommend a Roth IRA conversion. They can be beneficial for taxpayers who have favorable tax attributes, including charitable deduction carry forwards, investment tax credits, or net operating losses. The elimination of the minimum distribution rules at age 70 1/2, the ability to pay the income tax on the IRA from non-IRA funds, and the reduction of potential estate tax exposure give the Roth IRA holder a real advantage.

Under previous law, taxpayers had to be at least 59 1/2 or leave their employer to convert a traditional 401(k) to a Roth 401(k), but recent tax law changes removed these restrictions. The in-plan conversion strategy

custom tailors solutions to your specific situation. Please contact your Financial Advisor with any questions and let us know if we can be of any assistance.

Rinehart Wealth Management is an experienced, boutique Registered Investment Advisor dedicated to independent, comprehensive wealth management. Founded in 1985 by Mary Rinehart, the firm, from its inception, has had a singular focus: to provide highly customized investment management and financial planning solutions to clients.

Boutique Firm:

Being a boutique wealth management firm allows us the flexibility to provide more personalized service and offer unique investment solutions to clients in a Fee-Only environment.

Team Approach:

Because each client's situation is different, the team of advisors is hand-selected to ensure areas of expertise are appropriately aligned with the client's specific needs and interests.

Proprietary Investment Research:

The differentiating factor of our portfolio management process is the proprietary investment research driving the portfolio construction. All investment research and analysis is done entirely in-house by our Investment Team.

AROUND RINEHART

Rinehart in Paris

Paris breathes culinary excellence at every corner: the ideal location to learn about gastronomy. Founded in 1895, Le Cordon Bleu Paris is considered by many to be the world's premier culinary arts institute with over 120 years of teaching experience. It attracts students from all over the world, and in June, Rinehart's very own Sandy Carlson made the trek to the famed institution to take a two day course on sauces. In this class, students learn how to make various stocks, and from these stocks, some of the best sauces in the world! Le Cordon Bleu offers a wide range of courses in various disciplines. All courses are taught in French and translated into English. "It was an amazing experience. What was a bucket list item is now a lifelong passion".



"Wealth, Wine, & Women" Foray into Lake Norman

After numerous successful "The Sweet Life—Wealth, Wine, & Women" events held in Charlotte, the event made its inaugural foray into Lake Norman on July 31st and was held at the Lake

Norman Cottage. As with the events held at the Myers Park venue, the purpose of these events is to educate women on financial and investment management in a relaxed setting.

Stay tuned for the next Wealth, Wine, & Women event at Petit Philippe in the Fall. If you are interested in attending one of these events, please let us know.

Milestone Birthdays

Andrew Savant's twin boys, Warren and Dean (below left), recently celebrated their 1st birthday. This is a big milestone as they were born 13 weeks early and weighed just over 2 lbs and spent the first 3 months of their lives in the hospital. Today Warren and Dean are healthy and weigh 15 lbs and 14 lbs respectively. Andrew and his wife Meghan love watching their boys learn daily and feel so blessed to have such healthy, handsome little boys.

Parker Deaton (Neal and Carey's son; below right) also celebrated a big birthday during the month of July, turning two years old on July 5th. Parker's favorite birthday gift was the adult bike equipped with a child-seat—so don't be surprised if you see them out on the "Booty Loop" or greenway one evening.



Rinehart Wealth Management

Wealth management is our only business;
therefore, our attention is undivided and our
intentions are transparent.

521 East Morehead Street
Suite 580
Charlotte, NC 28205

Phone: 704-374-0646
Fax: 704-377-0746
Email:
rinehart@rinehartwealthmanagement.com

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