

## INSIGHTS

### INVESTMENT OVERVIEW

#### ECONOMIC OVERVIEW: ENERGY EFFECTS

##### ENERGY & EQUITIES

Negative sentiment continues to plague the Energy sector as evidenced by the **60%** decline in the price of oil since June. The price of Brent Crude Oil peaked at \$115.06 per barrel on June 23<sup>rd</sup>, with the S&P 500 Energy Index hitting a new ten-year high, only to decline **24%** as a result of the aforementioned plummeting price of oil. The Energy equity index managed to stabilize recently despite continued weakness in the price of Brent Crude Oil, suggesting there might be another leg down in energy stocks if oil prices fail to normalize.

The drastic decline in the price of oil has conflicting implications for global economic growth: on the one hand, retailers should benefit from increased consumer discretionary spending afforded by lower fuel prices; on the other hand, corporate profits and earnings of companies in the Energy sector and commodity-related industries are hurt by lower commodity prices. Further substantiating the recent weakness and estimated drag on GDP growth is the projected **19.2%** decline in earnings for the Energy sector in 2015, making the Energy sector, which comprises over 8% of the S&P 500, the only sector predicted to report an annual decline in revenue and earnings in 2015 (*Source: FactSet Research Systems*). Companies within the Exploration & Production ("E&P") and Oil & Gas Drilling sub-sectors should suffer the worst decline in year-over-year earnings growth at **37%** and **25%, respectively**, due to their direct exposure to energy capital expenditures, which tend to evaporate when oil prices drop to unprofitable levels. As a result, the index comprised of E&P companies in the S&P 500 is down **31%**, considerably outpacing the decline

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### FINANCIAL ADVISORY OVERVIEW

#### FIDUCIARY VS. SUITABILITY

There is an intense debate raging in the financial services industry over the standard of care that financial service professionals provide to their clients. Registered Investment Advisors (RIA), such as Rinehart, are held to the fiduciary standard of care, while Broker Dealers (BD), traditional stock brokers, are merely held to the suitability standard of care. Below we outline the difference and why it matters to clients.

##### SUITABILITY

Under the suitability standard of care, a BD is only required to have a reasonable basis for believing a recommendation, product, or investment is suitable for the client. A conflict of interest arises when a BD representative is faced with the decision to recommend a product or investment that results in a higher commission or financial incentive to themselves, as opposed to a similar product with lower or no financial incentive which might be in the best interest of the client. Under the Suitability Principal, higher commissioned products can be recommended

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#### INVESTMENT TEAM

Daniele Donahoe, CFA  
*President & CIO*  
Elliott Van Ness, CFA  
*Director of Research & Portfolio Manager*  
Mary Rinehart, CFP®  
*CEO*  
Neal Deaton, MBA  
*Investment & Operations Manager*

#### FINANCIAL ADVISORY TEAM

Sandy Carlson, CFP®, CPA, CDFATM  
*Financial Advisor & Chief Compliance Officer*  
Andrew Savant, CFP®  
*Financial Advisor*  
Lorri Tomlin, RP®  
*Senior Client Service Representative*  
Cynthia Sims  
*Client Service Associate*

#### SPECIAL POINTS OF INTEREST

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

## INVESTMENT OVERVIEW

## ECONOMIC OVERVIEW: ENERGY EFFECTS

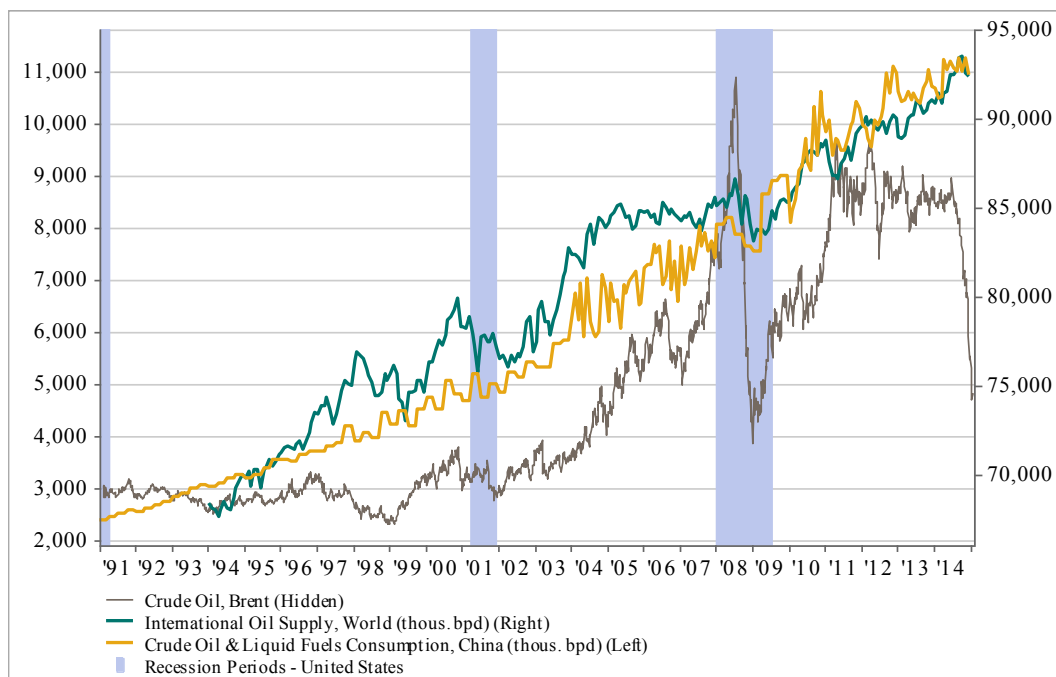
in the broader energy equity complex. Not only was it beneficial to avoid excessive energy exposure in 2014, but selecting the type of energy equities was also critical. For example, since June 23<sup>rd</sup>, Exxon Mobil Corp. ("XOM") is only down 16%, while Apache Corp. ("APA") is down over 38%.

The effects of declining energy prices are being felt through the entirety of the equity market, with an increasing number of non-Energy sector companies with high exposure to energy-sensitive industries failing to meet Wall Street earnings expectations. For example, industrial bellwether Caterpillar, Inc. ("CAT") cited prolonged weakness in oil prices as a source of underperformance in energy-related business segments and resulted in a downward revision in revenue projections, sending the stock down 7% to a 52-week low.

## THE ECONOMICS OF ENERGY

The proclaimed thirty-year bull market in oil, spurred by accelerating global demand from emerging market economies, may be coming to an end as the law of supply and demand catches up with oil markets. Chinese consumption, as illustrated by the yellow line in Chart I above, has grown at an annual pace of approximately 6.7%

CHART I: CHINESE OIL DEMAND DRIVES PRICE



Source: FactSet Research Systems

from 2.4 million barrels per day to approximately 10.9 million barrels per day over the past 23 years. Chart I illustrates how this accelerated consumption growth occurred while the price (brown line) and supply (teal line) of oil steadily rose as the Organization of Petroleum Exporting Countries ("OPEC") coordinated a self-serving market of production management to mitigate supply and demand volatility.

While supply and demand continued to trend upward despite the Great Recession, recent concerns regarding the pace of global economic growth cast doubt on the sustainability of this trend. In particular, year-over-year economic growth in China decelerated

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## MONTHLY INDEX REVIEW

Data as of January 31<sup>st</sup>, 2015

	January 2015	2014	2013
S&P 500	-3.00%	13.69%	32.39%
Dow Jones Industrials	-3.58%	10.04%	29.65%
NASDAQ Composite	-2.08%	14.75%	40.12%
Russell 2000	-3.22%	4.89%	38.82%
MSCI Emerging Markets	0.61%	-1.82%	-2.27%
MSCI EAFE	0.50%	-4.48%	23.29%
Barclays US Aggregate	2.10%	5.97%	-2.02%

## INVESTMENT OVERVIEW

## ABOUT RINEHART

## ECONOMIC OVERVIEW: ENERGY EFFECTS

from a post-recession high growth rate of 12.1% in 1Q10 to 7.3% in 4Q14. With China's demand for crude oil moderating, oil markets are digesting the effect of lower demand expectations during a period of rapidly rising supply brought on by the booming US oil market.

stability. We believe this dynamic led to OPEC's decision to hold production in key oil exporting countries, allowing a rapid decline in oil prices and driving higher-cost US suppliers out of the market, hence the aforementioned extreme price decline in shares of small, domestic E&P companies.

*"Formula for success: rise early, work hard, strike oil." – J. Paul Getty*

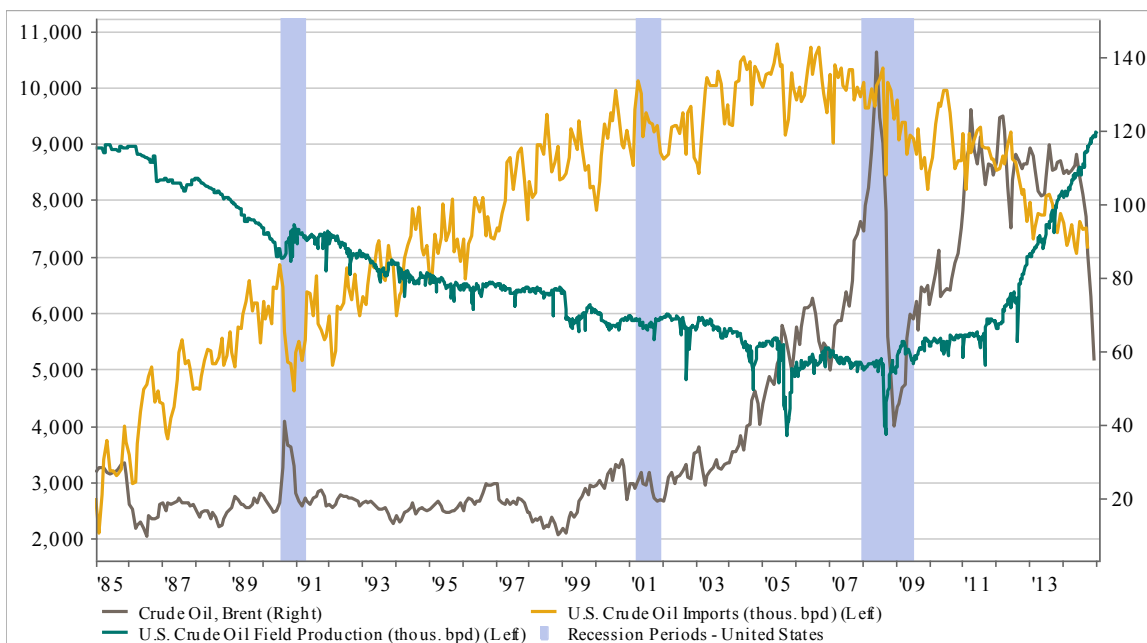
The real dilemma is the convergence of the lower future expected demand and a dramatic increase in domestic crude oil supply in the United States. The proliferation of natural gas and shale development led to a recent, sharp increase in US crude oil production, as depicted by the rapid ascent of the teal line in Chart II below. The sudden onset of supply led to a relatively rapid decline in the volume of US crude oil imports (gold line in Chart II) over that same timeframe. The US quickly moved toward the coveted goal of energy independence at the expense of short-term global oil price

## OUTLOOK FOR OIL

Looking ahead, and taking into consideration OPEC's standing policy on maintaining current levels of production, domestic E&P companies should eventually suspend the development of new shale projects and additional oil fields in order to adjust capital expenditures to the new, lower price paradigm. In fact, given the latest macro data confirming earlier suspicions of elevated inventories and supply levels, many are predicting an extended, inexpensive oil environment. Given this backdrop, domestic production should begin to withhold additional capital

CHART II: US OIL PRODUCTION

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Source: FactSet Research Systems

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.

**INVESTMENT OVERVIEW****ECONOMIC OVERVIEW: ENERGY EFFECTS**

investments due to the deteriorating economics at sub-\$50 oil. Until supply shows signs of reaching a “normalized” level, oil prices should remain depressed over an extended period.

We look forward to discussing the effect of energy prices on the economy and other factors impacting the market in our economic overview.

We have included the date and registration instructions for your review. Please contact Cynthia Sims at 704-374-0646 or [csims@rinehartwealthmanagement.com](mailto:csims@rinehartwealthmanagement.com) if you have any questions.

**2014 ECONOMIC OVERVIEW WEBINAR**

**Date:** Thursday, February 12<sup>th</sup>

**Time:** 10:00 AM EST

**Registration:**

Please refer to the link included in the original email or look out for additional registration reminders that will be sent out prior to the webinar.

A recording will be available after February 12<sup>th</sup> in the Webinar Archive on our website.

**STOCK & STRATEGY SPOTLIGHT****Exchange-Traded Fund (“ETF”) Name:**

Vanguard Energy ETF

**Ticker/Symbol:**

VDE

**Total ETF Assets:**

\$3.28 bil.

**ETF Strategy Description:**

The Vanguard Energy ETF (“VDE”) provides inexpensive broad exposure to the energy sector by holding a diversified basket of domestic energy stocks. The underlying holdings track the MSCI US Investable Market Energy Index, a free-float, market-cap-weighted benchmark comprised of large, mid, and small cap domestic equities that are classified in the Energy sector according to the Global Industry Classification Standard (GICS®).

The index itself has 167 constituents, the top ten of which represent approximately 60% of the index; the top two holdings being integrated oil and gas giants Exxon Mobil Corp. (“XOM”) and Chevron Corp. (“CVX”) at 22.7% and 12.3%, respectively. Other notable names within the top-ten holdings include oilfield services company Schlumberger NV (“SLB”), E&P company ConocoPhillips (“COP”), and pipeline giant Kinder Morgan, Inc. (“KMI”). VDE has been a long-term holding across our investment portfolios with the objective of efficiently capturing the market risk (i.e., beta) of the Energy sector given the high correlation with the price of oil. Historically, we felt it prudent to avoid company-specific risk in energy companies given most performance is driven by oil price. In 2014, the benefits of holding a diversified basket of energy equities proved essential in mitigating downside risk, as Brent Crude Oil prices fell 48.62%, while VDE itself only dropped 11.71%.

## FINANCIAL ADVISORY OVERVIEW

### FIDUCIARY VS. SUITABILITY

(cont. from page 1)

over lower commission products as long as they are deemed suitable for the client. This is true even if the lower commission product is actually the best option as suitability can be vague. This can adversely impact the client with the payment of excessive fees, substandard performance, or exposure to risky products that may be deemed suitable but are clearly not in the investors' best interest.

#### **FIDUCIARY**

The fiduciary standard of care requires financial advisors to act in the best interest of the client first, no exceptions. This clearly defined standard of care assures the client they are being offered the best recommendation or advice for their specific situation. There was recently a bill presented in the House of Representatives (H.R. 1627) called the Investment Advisors Examination Improvement Act that seeks to hold all financial services professionals to the same level of fiduciary duty.

#### **WHY DOES THIS MATTER?**

In the financial services industry, financial professionals offer a wide variety of services, products, and advice; understanding the standard of care that your financial professional is being held to is extremely important when evaluating their recommendations or advice. For example, if your financial advisor recommends that you purchase a particular product (life insurance, annuities, mutual fund), it is important that you ask "why are they recommending this product?" as there might be more suitable products available for the client's particular situation. Understanding which standard of care a financial services professional must adhere to is extremely important to the success of your financial situation.

In addition to being a Registered Investment Advisor (RIA) under the fiduciary standard of care, Rinehart Wealth Management operates as a fee-only firm and is a member of The National Association of Personal Financial Advisors (NAPFA), the country's leading professional association of Fee-Only financial advisors.

As a fee-only financial advisor we are only compensated through management fees paid by our clients for financial advice and asset management. We do not accept any other commissions or kickbacks, nor do we sell any products. As

a result, our clients understand that when we offer advice or recommend a certain financial product, it is with their best interest in mind.

Many financial service professionals claim to offer financial planning and advice, but the real question to ask is are you working with a fiduciary advisor or a financial representative that is only held to the suitability standard.

If you have any additional questions regarding the fiduciary and suitability standard of care please contact your Rinehart Wealth Advisor.

### IRA CONTRIBUTION DEADLINE

**You can make a contribution to your IRA or Roth IRA for the 2014 tax year until the deadline on April 15th, 2015. The contribution limit is \$5,500.00 per individual with an additional \$1,000.00 catch-up contribution for those over age 50. Please make sure that you send your contributions to Rinehart Wealth Management or your Wealth Advisor by April 1st to allow ample time for processing and deposit.**



## IN THE NEWS



Rinehart's CIO Daniele Donahoe was quoted in the January edition of Investment

News where she weighed in on the risk/reward of investing in the Chinese stock market. To view the article, visit [www.rinehartwealthmanagement.com/news.htm](http://www.rinehartwealthmanagement.com/news.htm).

## CHANGING OF THE GUARD

RWM's Director of Research and Portfolio Manager Elliott Van Ness will be taking

over the North Carolina CFA Society board seat currently held by Daniele Donahoe and will serve as Regional Director for the Charlotte area in 2015. Rinehart recently sponsored the 2015 Annual Forecast Dinner where a group of business associates joined Daniele and Elliott in hearing renowned financial industry experts discuss the prospects for the market in 2015. The event was well attended with over 350 of North Carolina's leading investment professionals and key decision-makers.



## GAME WINNING SPONSOR



RWM is sponsoring this year's Dress For Success 2<sup>nd</sup> Annual Football Finale. The event will feature former NFL players breaking down key moments of the recent

Super Bowl. Eugene Robinson who played in three Super Bowls will serve as The Master of Ceremonies. The event

promises to be a great night with proceeds supporting unemployed and underemployed women in their quest for economic independence. To learn more about Dress For Success, [click here](#) or visit [www.dressforsuccess.org](http://www.dressforsuccess.org).

## RWM MAKES A WISH

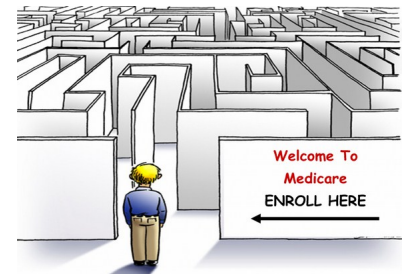


RWM's Daniele Donahoe recently attended an evening of charitable giving to fund the mission of Make-A-

Wish at "The Wish Ball" held at The Westin in uptown Charlotte. As part of this initiative, Daniele will also serve as a 2015 Make-A-Wish Ambassador committing to raise enough money to fund a wish for a child in our community with life-threatening medical conditions providing them with hope, strength and joy. For more information, [click here](#) or email [ddonahoe@rinehartwealthmanagement.com](mailto:ddonahoe@rinehartwealthmanagement.com).

## MEDICARE EXPLAINED

As part of RWM's *Financial Fitness* series, Wealth Advisor Sandy Carlson, CFP®, CPA, CDFA™, helped local residents navigate the myriad of critical and



confusing decisions regarding Medicare. Her recent article "Demystifying Medicare" is featured in this month's Myers Park Life and South Park Life publications. Click here or visit our website to view the [February Issue](#).

## Rinehart Wealth Management

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

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*Information provided in this newsletter should not be considered or interpreted as advice for your particular financial situation. Please consult a professional advisor for advice regarding your specific financial needs.*

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