

## INSIGHTS

### INVESTMENT OVERVIEW

#### EXPECT THE UNEXPECTED

As we enter the 2015 frontier, espousing expectations is expected, and as investment professionals it may appear trite to advise of the unexpected, but that is exactly what we see in 2015. At Rinehart Wealth Management our investment philosophy, albeit more complex than two factors, places considerable weight on the market as a mean-reverting mechanism and the idea that valuations do matter. With that in mind, we do not know exactly where the market will end in 2015, but it is relatively certain it probably will not perform as expected.

Consequently, looking at the underperforming asset classes of 2014 might provide some insight into potential areas of outperformance in 2015. If this sounds counterintuitive, consider the drop in interest rates and oil prices with a simultaneous surprise rise in domestic GDP growth that completely flummoxed the majority of the investment community in 2014. Heading into 2014 the market was concerned about GDP growth and universally convinced that an inescapable interest rate escalation would decimate high-quality bond portfolios. Neither of these 2013 maxims occurred in 2014.

Entering 2015, the universal truths touted by the media and market soothsayers consist predominately of the deflationary demise of Europe and the insurmountable downward spiral in commodities, predominately oil. Chart I on the following page outlines the performance of various asset classes in 2014, highlighting the dramatic 46% plunge in the price of oil, as well as the notable underperformance of international equities.

Addressing the issues plaguing Europe is far less complex than the media portrays (as is most everything) and centers around two main issues: one cyclical, the other secular. It is our belief that the cyclical impact of the timing of

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### FINANCIAL ADVISORY OVERVIEW

#### TAX UPDATE: 2014 EXTENSIONS AND 2015 LIMITS

After more than a year of debate, Congress approved the tax extenders bill on December 16th. The bill, H.R. 5771, known as the *Tax Increase Prevention Act of 2014*, extends a collection of more than four dozen tax-related deductions and credits set to expire, providing taxpayers a bit of a break through the end of 2014.

#### TAX INCENTIVES FOR INDIVIDUALS INCLUDED IN THE TAX INCREASE PREVENTION ACT OF 2014:

- Sec. 62 – Deduction for certain expenses of elementary and secondary school teachers;
- Sec. 108 – Exclusion from gross income of discharge of qualified principal residence indebtedness;

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#### INVESTMENT TEAM

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#### SPECIAL POINTS OF INTEREST

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

## INVESTMENT OVERVIEW

## EXPECT THE UNEXPECTED

Europe's recession relative to the US and delayed EU stimulus simply has Europe trailing the US recovery. We believe this trumps the secular dilemma surrounding the European Union's failed attempt at uniting dissimilar cultures and countries behind a singular currency.

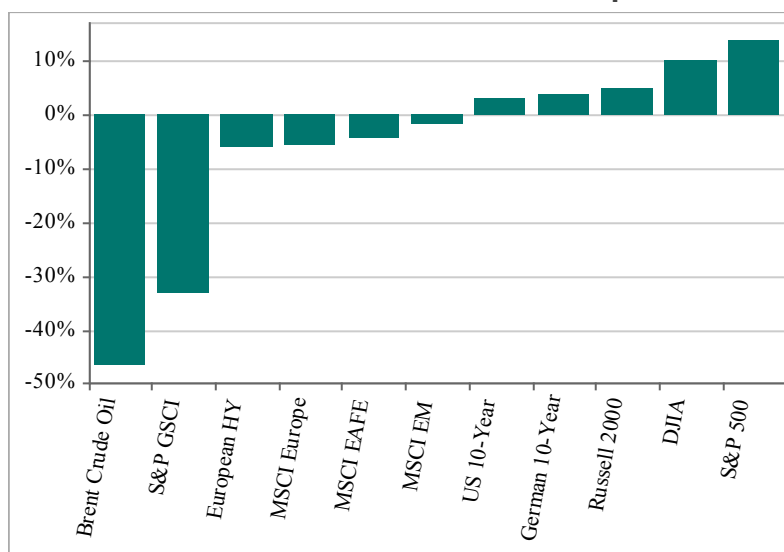
Concurrently, the startling dip in the price of oil, although uncomfortable for those investors long both the commodity and its cohorts, manifests quite simply as a tremendous Christmas gift to the US consumer, and given the entire global economy basically hinges on the whim of the US consumer's consumption cycle, this seems like a positive stimulus.

Given the extreme difficulty and the proven lack of success associated with predicting the exact performance of the S&P 500 in a given year, our advice entering 2015 is to insure portfolios against the unexpected and question the expense of positioning for the expected.

**KINDER MORGAN ENERGY PARTNERS, L.P. ("KMP")**

On December 3<sup>rd</sup>, Kinder Morgan, Inc. ("KMI") effectively completed the acquisitions of the outstanding equity of KMP, Kinder Morgan Management, LLC ("KMR"), and El Paso Pipeline Partners ("EPB"). Those taxable portfolios holding KMP received both cash and stock in exchange for

CHART I: TOTAL RETURN PERFORMANCE – 2014 YTD



Source: FactSet Research Systems

their shares of KMP, which resulted in an unavoidable taxable event. The terms of the "KMP Mixed Consideration" included 2.1931 in shares of KMI and \$10.77 in cash for each share of KMP. To better illustrate the separate components of the cash and stock merger, we have provided an example of the "KMP Mixed Consideration" transactions in the table below. If you notice this activity in your portfolio, please feel free to call us with any questions, comments, or concerns.

TABLE I: KMP MIXED CONSIDERATION – CASH &amp; STOCK MERGER TRANSACTIONS

Date	KMP Shares Original	Transaction Description	KMI Shares Issued/Received	Cost Basis	Transaction Value	Realized Gain/(Loss)	Unrealized Gain/(Loss)
12/3/2014	600.00	KMI Share Issuance	1,315.00	\$ 29,968.64	\$ 54,618.34	\$ 24,685.61	\$ 0.00
12/3/2014		Cash Payment			\$ 6,462.00	\$ 6,462.00	
12/5/2014		Cash In-Lieu Fractional Shares	0.86	\$ 35.72	\$35.91	\$ 0.19	
Beginning Position	Ending Position	Short-Term Realized Gain/(Loss)		Long-Term Realized Gain/(Loss)		Total Realized Gain/(Loss)	
600 Shares KMP	1,315 Shares KMI	\$ 0.19		\$ 31,147.61		\$ 31,147.80	

## MONTHLY INDEX REVIEW

Data as of December 31 <sup>st</sup> , 2014	December 2014	2014	2013
S&P 500	-0.25%	13.69%	32.39%
Dow Jones Industrials	0.12%	10.04%	29.65%
NASDAQ Composite	-1.09%	14.75%	40.12%
Russell 2000	2.85%	4.89%	38.82%
MSCI Emerging Markets	-4.56%	-1.82%	-2.27%
MSCI EAFE	-3.44%	-4.48%	23.29%
Barclays US Aggregate	0.09%	5.97%	-2.02%

## FINANCIAL ADVISORY OVERVIEW

## ABOUT RINEHART

## TAX UPDATE: 2014 EXTENSIONS AND 2015 LIMITS

- Sec. 132 – Provision providing parity between employer-provided mass transit and parking benefits;
- Sec. 163 – Treatment of mortgage insurance premiums as qualified residence interest;
- Sec. 164 – Deduction for state and local general sales taxes;
- Sec. 170 – Special rule for contributions of capital gain real property made for conservation purposes;
- Sec. 222 – Above-the-line deduction for qualified tuition and related expenses; and
- Sec. 408 – Provision allowing tax-free distributions from individual retirement plans for charitable purposes.

Below is additional detail on the most widely applicable sections of the bill.

purchase of PMI as a condition to obtain the mortgage, this expense is generally not deductible for tax purposes. In 2014, those who qualify and itemize may now claim a tax deduction for the cost of paying PMI for their homes – including their vacation homes.

#### *Sec. 164 – Deduction for State & Local General Sales Taxes*

A handful of states (e.g., Alaska, Florida, Nevada, South Dakota, Texas, and Washington) have no state income tax, and a number of others have a relatively low state income tax rate. Therefore, if there's no income tax, there's no deduction. To ease the pain of the lost deduction, Congress gave residents in those states a temporary break.

*“To expect the unexpected shows a thoroughly modern intellect.” – Oscar Wilde*

#### *Sec. 108 – Mortgage Debt Forgiveness*

When a mortgage lender writes off all or any part of a forgiven debt, the amount that is forgiven is passed back to the borrower as taxable for federal income tax purposes. The rule applies to all debt, including home mortgages. However, in 2007, in the midst of the housing crisis, Congress pushed through the Mortgage Forgiveness Debt Relief Act, which allowed for an exemption.

Under the rule, qualifying homeowners who have either lost their homes to foreclosure or qualified for some kind of repayment adjustment do not have to pick up the forgiven debt as income on their tax returns. This temporary rule has been renewed three times, the most recent being this one-year extension through the end of 2015(?).

#### *Sec. 163 – Deduction for Mortgage Insurance Premiums*

Buyers who finance homes are often required to purchase private mortgage insurance (“PMI”) to protect the lender in the event of a default. Even though the lender required the

In 2014, taxpayers may deduct state and local general sales taxes paid rather than state and local income taxes.

#### *Sec. 408 – IRA Charitable Rollover Provision*

This provision extends the ability of individuals to make tax-free distributions from an individual retirement account (IRA) to eligible charities. Individuals who have reached age 70 ½ are allowed to make a distribution of up to \$100,000 from an IRA to an eligible nonprofit organization and exclude the distribution amount from gross income. Most distributions to public charities will qualify for the IRA charitable rollover; however, distributions made to Donor Advised Funds or Supporting Organizations will not qualify.

Earlier proposals to permanently extend some expired provisions or extend all provisions two years through 2015 were not adopted. Unless they are extended again, these tax breaks expire on December 31<sup>st</sup>, 2014. (cont.)

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.

## FINANCIAL ADVISORY OVERVIEW

### TAX UPDATE: 2014 EXTENSIONS AND 2015 LIMITS

#### NOTEABLE NEW LIMITS IN 2015

The New Year also brings new IRS limits relating to retirement plan contributions, tax phaseouts, and tax brackets. Below are a few of the key changes for 2015.

- 401(k), 403(b), 457, and SARSEPs contribution limit is now \$18,000 plus an additional \$6,000 catch-up contribution if over age 50;
- IRA or Roth IRA contribution limit is still \$5,500 plus an additional \$1,000 catch-up contribution if over age 50;
- Health Saving Account (HSA) contribution limit is now \$3,350 per person or \$6,650 per family plus an additional catch-up contribution of \$1,000 if over age 55;
- Personal exemption and itemized deduction phaseouts begin at \$258,250 filing single or \$309,900 married filing jointly;
- Estate tax exemption has increased to \$5,430,000 from \$5,340,000.

Please make the necessary changes to insure that you are contributing the maximum to your retirement plan. If you have any questions regarding the recent extensions or changes, please contact your RWM Wealth Advisor.



**READING WITH RINEHART**

At Rinehart we place considerable value on continuing education, process improvement and team building. To foster these values we are launching the first-ever RWM book club. Our first book, “The Speed

of Trust” by Stephen Covey addresses the importance of trust with clients and employees and its impact on a successful organization. Grab a copy and read along with us and stay tuned for more of our RWM Book Club Picks!

**RWM’S ANNUAL CHRISTMAS PARTY**

Daniele Donahoe hosted a night to remember for RWM’s annual holiday party. She enlisted the help of Chef Charles to create an intimate gluten-free six-course menu paired with fabulous wine tastings provided by Bond Street Wines. Local pianist Marc Hoffman, a regular at the Ritz Carlton, rounded out the festivities playing holiday favorites on the baby grand. The night was made even more special by Daniele’s husband Josh Hall who dusted off his violin and surprised the crowd with his secret talent. Much fun was had by all after closing a record year at Rinehart.

**RWM MAKES A DIFFERENCE**

RWM shares 10% of its profits annually with various local charitable organizations as well as giving gifts in our clients’ honor to Heifer International and Crisis Assistance Ministry. Thank you for providing help and hope to the

recipients for the above charities. Together we make a wonderful difference.

**HAPPY BIRTHDAY RWM**

RWM is turning 30 and will host a Gala at the Charlotte Country Club this February. The event will celebrate founder and CEO Mary Rinehart and President and CIO Daniele Donahoe with a tribute to the first 30 years and an exciting look ahead toward the next 30 years.

**FINANCIAL FITNESS****FINANCIAL FITNESS**

In 2015, RWM will team up with Myers Park Life” and “South Park Life” magazines with a monthly designated

page entitled “Financial Fitness”. RWM will provide valuable information on critical issues that financially impact individuals. We are honored to be invited to share our expertise with the residents of these communities. Look for our first article in the February editions of these magazines.

**2015 FINANCIAL RESOLUTIONS**

Another fresh new year is here. Did you make your New Year’s Financial Resolutions? Our team at RWM looks forward to helping you review your financial scorecard for 2014 and outline goals for your financial future. Contact your RWM Wealth Advisor to discuss strategies and investment solutions to maintain the financial health of you and your loved ones in 2015!

**Rinehart Wealth Management**

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

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