

INSIGHTS

INVESTMENT OVERVIEW

COMPLACENCY & CONSENSUS: CAUSE FOR CONCERN?

Volatility is inherent in financial markets, and the excess or lack of this key component is often a popular topic of discussion. Market deviations enable astute investors to generate positive risk-adjusted returns by identifying mispriced assets and investing appropriately in order to capitalize on those opportunities. Often, excessive volatility increases investors' risk aversion by decreasing their willingness to accept additional risk precisely when market valuations are most attractive. Insufficient volatility produces a notably disparate effect: investors exhibit *decreased* risk aversion by seeking additional investment portfolio returns without considering the potential downside associated with assuming incremental risk within their portfolios. After a recent speech, William Dudley, president of the Federal Reserve Bank of New York, voiced his concerns regarding the implications of the current low-volatility environment: "I am a little bit nervous that people are taking too much comfort in this low-volatility period. As a consequence, they'll take more risk than really what's appropriate."

Low volatility is a contra-indicator suggesting market complacency, which, at times, can be a disconcerting warning signal. While markets have continued to plod along and appease investors with higher highs and greater gains, prominent market pundits have been quick to cite the lack of perceptible volatility as a cause for increased concern. Their cautionary commentary suggests that this extended period of historically low levels of measured volatility denotes an eerie, ubiquitous complacency, which may represent the proverbial calm before the storm.

In the early 1990s, the Chicago Board of Exchange ("CBOE") introduced the CBOE Volatility Index® ("VIX"®) as a method of measuring expectations for near-term market volatility and investor sentiment as reflected in short-term equity index option pricing activity. The VIX provides a quantifiable variable that can be used to enhance econometric analysis and better understand capital market expectations. Exogenous shocks and geopolitical turmoil can produce sudden, unpredictable, and severe spikes in the VIX, causing investors to engage in panicked, fear-induced selling while ignoring other underlying market fundamentals. While painful and jarring, these isolated spikes in the VIX do not necessarily portend increased risk of a market correction, as they often fail to reflect long-term expectations.

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FINANCIAL ADVISORY OVERVIEW

DOES YOUR ESTATE PLAN NEED TO BE UPDATED? WHEN WAS THE LAST TIME YOU REVIEWED YOUR ESTATE DOCUMENTS AND LEGAL DIRECTIVES?

Having an up-to-date and efficient estate plan that carries out your wishes is a critical piece of your comprehensive financial plan. We recommend that every person have the following minimum documents: Will, Durable Power of Attorney, Health Care Power of Attorney, and Living Will. For some individuals, revocable or irrevocable trusts may also be appropriate. When your situation changes or the estate and tax laws change, like they did at the end of 2012, your estate plan needs to be reviewed to determine whether revisions are necessary. Below are some events that warrant a review of your estate plan by your financial advisor and attorney.

How old is your plan? There have been numerous changes to the estate tax laws (both at the federal and the state level) over the past several years that could make

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SPECIAL POINTS OF INTEREST

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

INVESTMENT OVERVIEW

COMPLACENCY & CONSENSUS: CAUSE FOR CONCERN?

We believe that we are in the later stages of a bull market, and anemic volatility is another data point supporting our thesis. We remain vigilant of the unique market dynamics commensurate with this stage in the economy, as volatility can often remain dormant for extended periods of time before exhibiting incrementally larger, more frequent clusters of volatility spikes, as seen in late 2007 leading up to the Great Recession in 2008-2009. As can be seen in Chart I, the distinct upward trend in the VIX throughout 2007 is punctuated with a sharp and foreboding cluster of spikes in volatility heading into year-end, corresponding with the initial declines in the S&P 500, which persisted and worsened as the economy headed into a recession.

While we do not see these same warning signals or negative indications in the current market environment, we do not underestimate the dangers of acceding a sense of complacency as consensus euphoria often precedes an unexpected rise in volatility. Complacency and broad consensus represent ongoing concerns warranting careful, constant monitoring, which is a component of our process to properly mitigate, monitor, and

Chart I: CBOE Volatility Index® ("VIX"®)



Source: FactSet Research Systems, Inc.

manage risk across investment portfolios.

STOCK & STRATEGY SPOTLIGHT

Company Name:

Molson Coors Brewing Co. Class B

Ticker/Symbol:

TAP

2014 (YTD)

33.70%

Company Description:

Molson Coors Brewing Co. ("TAP") is a domestic producer and distributor of beer, whose broad portfolio of premium and craft brews includes such recognizable brands as Coors Light, Molson Canadian, Blue Moon, and Leinenkugel. TAP also owns a 42% economic interest in MillerCoors, its joint venture with SABMiller PLC ("SAB-GB"). When we initiated our Buy recommendation on TAP in February 2012, it had significantly underperformed the broader market, as well as its sector peer group, after several quarters of sluggish sales growth and disappointing earnings results following the Great Recession. This created an extremely attractive buying opportunity due to the discounted valuation multiples, robust balance sheet, financial positioning, and enticing dividend yield, while we believed that the fundamental business remained strong, despite suffering temporary effects of the business cycle. We included TAP in our RWM Core 20 Tracker Model as it epitomized our proprietary research process: investing in stable businesses at attractive valuations. To date, it is the top-performing security and represents the realization of our investment process.

MONTHLY INDEX REVIEW

Data as of June 30 th 2014	June 2014	2014 (YTD)	2013
S&P 500	2.07%	7.14%	32.39%
Dow Jones Industrials	0.75%	2.68%	29.65%
NASDAQ Composite	3.99%	6.18%	40.12%
Russell 2000	5.32%	3.19%	38.82%
MSCI Emerging Markets	2.70%	6.32%	-2.27%
MSCI EAFE	0.99%	5.14%	23.29%
Barclays US Aggregate	0.05%	3.93%	-2.02%

FINANCIAL ADVISORY OVERVIEW

ABOUT RINEHART

ESTATE DOCUMENT REVIEW

your existing plan outdated. Additionally, there have been major revisions to the laws that regulate trusts under the Uniform Trust Code. If you have a revocable trust that was drafted before 2005, we strongly recommend a review of your estate documents.

Have you or your family experienced any major life changes? Do you have recent children or grandchildren that need to be accounted for in your estate planning? Divorce and marriage are the two life changes that require an immediate revision of your estate documents. Unfortunately, we have seen the negative implications of not changing legal directives after both of these events, resulting in undesirable outcomes for intended heirs and family.

Who do you have named in your documents? Are the individuals who are named still appropriate? Your legal directives name specific individuals to make financial and health care decisions on your behalf if you are unable to do so. Your will and trusts appoint an individual(s) to administer your estate and manage trust assets for your named

Maryland only has a \$1 mil estate tax exemption.

Reviewing and updating your legal directives is extremely important to make sure that your wishes are carried out, while also easing the burden on your heirs in the event that you become incapacitated or die. Rinehart Wealth Management recommends that all clients provide us with a copy of their legal directives. We perform an extensive review of your current documents and make recommendations if they need to be reviewed or revised by an estate planning attorney. Please contact your Financial Advisor with any questions and let us know if we can help.

“Never think that lack of variability is stability. Don’t confuse lack of volatility with stability, ever.” – Nassim Nicholas Taleb

beneficiaries. We recommend that you review these named individuals annually to confirm that they still conform with your wishes.

Have you recently moved to a different state? Every state has different laws and regulations that govern the interpretation of legal directives and your existing legal directives may not comply with the state’s current laws. This can cause significant issues in the event of a death or incapacitation.

Have you recently purchased or do you own property in a state that is different from the one in which you reside? The titling of this property is extremely important to facilitate a seamless transfer to heirs and avoid ancillary probate in the nonresident state in the event of death. It is also important to understand if there are any estate taxes in the nonresident state. Each state has different estate tax exemptions and limits. Owning property in another state could cause a large estate tax liability if the individual estate tax limits are not taken into consideration. For instance, North Carolina has no estate tax, but

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

Get Ready to Use Electronic Approvals

We are currently researching various new electronic approval tools to sign forms, authorize wires, as well as deposit checks, both online and/or via mobile devices. These tools will give our clients a quicker, more secure, transparent and paperless experience. Look for more information in the coming months as we begin to ensure that our clients have the requirements in place to take advantage of these new tools.

Reminder Regarding Nuveen Paperwork

As a friendly reminder, be on the lookout for paperwork from Nuveen. As we mentioned in last month's newsletter, Nuveen Investments and its subsidiaries, including Nuveen Asset Management, are being acquired by TIAA-CREF. We have done our due diligence on the transaction, and at this point, feel secure that it will not affect Nuveen Asset Management's service to our clients or the performance of its bond portfolios. The actively managed bond portfolios appear to be insulated from change at this point. As part of the regulatory process relating to the transaction, clients will receive paperwork to sign and return. By signing the letter you are giving consent to the change in control of Nuveen Asset Management up the chain of ownership, but consent will not alter the current relationship, including the terms of the investment advisory agreement. No changes to investment process or key personnel are expected. Again, we are available to answer any questions or assist you in completing the documents.

Happenings

As many of you are aware, Marilyn Spencer, a Senior Financial Advisor with our firm, has been away from the office for several months due to family-related matters. Since Marilyn is such a valued asset, many clients and friends of Rinehart Wealth Management have kindly inquired as to how things are going on Marilyn's home-front, as well as when she will be back at work

full-time. As such, Marilyn wanted to provide an update to clients and interested parties.

Dear Rinehart Clients and Friends,

I wanted to take a moment to update you on my family, since many of you have asked how we are doing. As you know, we adopted Cameron back in September and I have been home with the kids since then. Cam is now 18 months old, and I'm happy to say that he has adjusted beautifully to life as a Spencer! He is walking, talking (well, babbling) and growing very quickly. He is a jolly little guy and has really filled out over the past months. He loves to eat, play with his sister, and get into EVERYTHING. He keeps me very busy, to say the least. Big sister Keeley is doing well, too. She just completed pre-school and will be a kindergartener at Sharon Elementary in the fall.

On February 10th Cameron had his first major surgery, to repair the cleft lip and soft palate and reshape his nose. It was a six hour surgery and the recovery was very rough. The visual results have been amazing, but he still has many surgeries ahead of him. During the next one, which we hope to schedule for early fall, the surgeon will attempt to close the hard palate. We are looking forward to having his palate completely closed, as it will be easier for Cam to eat and keep food out of his airways.

Many of you have asked when I plan to return to the office. At this point I have not set an exact date, but it will most likely be after Cameron has healed from his next surgery. I have treasured the time I've been able to devote to my family over the past few months, and I greatly appreciate your support and patience through this transition. I look forward to talking to you soon!

Kind regards,

Marilyn Spencer, CFP®, EA
A NAPFA Registered Financial Advisor

Rinehart Wealth Management

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

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