

INSIGHTS

INVESTMENT OVERVIEW

MUNICIPAL BONDS: RESILIENCE DURING RISING RATES

With interest rate volatility on the rise, proactively presenting our predisposition toward municipal bonds seemed timely. In addition to providing investors with attractive tax-free income, municipal bonds have unique, fundamental characteristics contributing to differentiated performance relative to other sectors of the bond market. While many market commentators and media outlets have been quick to warn against the perils of maintaining any allocation to fixed income during a period of rising rates, it is prudent to analyze all available data in order to understand the variability across the fixed income universe, as not all bonds behave the same. Given current market conditions and our near-term outlook, we believe municipal bonds are attractive for the following reasons: (1) reassuring historical performance during rising rate environments; (2) strong underlying fundamentals across most municipalities; (3) favorable supply and demand dynamic; and, finally, (4) attractive valuation relative to US Treasuries and corporate bonds.

REASSURING PERFORMANCE IN RISING-RATE ENVIRONMENT

Over the past 25 years, there have been three periods of increasing Federal Funds Rates. On the next page, Table I provides a detailed outline of the three most recent rising-rate periods, as defined by the Federal Reserve tightening and rising short-term rates.

Continued on next page

FINANCIAL ADVISORY OVERVIEW

THE COMPLICATED WORLD OF EDUCATION PLANNING

Over the ten years ending in 2013, student loan debt rose by 328 percent from \$241 million to \$1.08 trillion. For many families, the myriad of options available for financing college education is confusing and the amount of debt can quickly become unmanageable. Given this backdrop, families with children planning to attend college have an even greater need for advice to navigate their increasingly complex financing alternatives.

FUNDING A COLLEGE EDUCATION

Most parents will tell you that funding a college education for their children is one of the largest expenditures they will ever make. Fortunately, there are options available today such as the 529 Plan to assist parents with meeting these future expenses. 529 Plans are extremely beneficial due to the fact that they offer income tax benefits. While there is no federal income tax deduction upon contribution to a 529 plan, any investment grows tax-deferred and distributions will come out completely tax-free if used for qualified education expenses. Some states may offer a state income tax deduction for contributions up to certain limits, however, North Carolina eliminated this deduction for contributions beginning January 1, 2014. Other advantages for 529 plans include flexible investment options,

Continued on page 5



INVESTMENT TEAM

Daniele Donahoe, CFA
President & CIO

Elliott Van Ness, CFA
Director of Research & Portfolio Manager

Mary Rinehart, CFP®
CEO, Portfolio Manager

Neal Deaton, MBA
Investment & Operations Manager

Brittany Danahey
Portfolio Manager

FINANCIAL ADVISORY TEAM

Sandy Carlson, CFP®, CPA, CDFATM
Wealth Advisor & Chief Compliance Officer

Andrew Savant, CFP®
Wealth Advisor

Lorri Tomlin, RP®
Senior Client Service Representative

Cynthia Sims, JD
Client Service Associate

SPECIAL POINTS OF INTEREST

- Monthly Index Review
- Around Rinehart

INVESTMENT OVERVIEW

MUNICIPAL BONDS: RESILIENCE DURING RISING RATES

In addition to the characteristics of the prior three rate increases, Table II highlights the performance of short-, intermediate-, and long-term municipal bond indexes across each of the aforementioned periods, illustrating how a rising rate environment does not automatically imply negative fixed income performance. The performance shown reflects the aggregate total return for each index encompassing the six months prior to the initial rate increase, the respective tightening

period, and the six months following the last rate increase. In all three periods, municipal bonds across all maturities and durations (i.e., the measure of price sensitivity to interest rate movements) increased. It is worth noting that, of the three periods, municipal bonds exhibited the best performance during Period 3, which may seem counterintuitive due to the fact that it was the longest in time and largest in magnitude.

If history serves as any indication, the majority of the volatility in the bond market occurs six months prior to the rate hike and reacting to short-term tremors in the market does not payoff in the long-term. In Period 3, investors who were spooked by the 1.26% drop in long-term municipal

TABLE I: PERIODS OF INCREASING FEDERAL FUNDS RATES

	PERIOD 1 (2/4/94 - 2/1/95)	PERIOD 2 (6/30/99 - 5/16/00)	PERIOD 3 (6/30/04 - 6/29/06)
Starting Rate Level	3.00%	4.75%	1.00%
Number of Hikes	7	6	17
Duration	12 Months	10 Months	24 Months
Ending Rate Level	6.00%	6.50%	5.25%
Magnitude	300 basis points	175 basis points	425 basis points

Source: Nuveen Asset Management

TABLE II: MUNICIPAL BOND INDEX PERFORMANCE DURING PERIODS OF RISING RATES

	PERIOD 1 (2/4/94 - 2/1/95)	PERIOD 2 (6/30/99 - 5/16/00)	PERIOD 3 (6/30/04 - 6/29/06)
Short-Term (1-Year)	+8.50%	+7.63%	+5.85%
Intermediate (10-Year)	+11.19%	+6.87%	+12.05%
Long-Term (+22-Year)	+8.40%	+4.95%	+21.53%

Source: Nuveen Asset Management

bonds during the six months prior to the initial rate increase missed the +20.27% rally over the subsequent two and a half year period. While we remain encouraged by historical performance of municipal bonds, the economic conditions and fundamentals during each of the aforementioned periods of rising rates are important and should be taken into careful consideration when evaluating performance over the respective timeframes.

STRONG UNDERLYING FUNDAMENTALS

The underlying fundamentals of most municipalities across the United States have steadily improved since the Great Recession and are currently strong, despite isolated, high-profile defaults

Continued on next page

MONTHLY INDEX REVIEW

Data as of May 31 st , 2015	May 2015	2015 (YTD)	2014
S&P 500	+1.29%	+3.23%	13.69%
Dow Jones Industrials	+1.35%	+2.14%	10.04%
NASDAQ Composite	+2.76%	+7.57%	14.75%
Russell 2000	+2.28%	+3.98%	4.89%
MSCI Emerging Markets	-3.99%	+5.78%	-1.82%
MSCI EAFE	-0.40%	+8.93%	-4.48%
Barclays US Aggregate	-0.24%	+1.00%	+5.97%

INVESTMENT OVERVIEW

MUNICIPAL BONDS: RESILIENCE DURING RISING RATES

(e.g., Harrisburg, PA and Detroit, MI) and the well-publicized struggle to avoid default in Puerto Rico. State tax revenue grew by 5.7% in the fourth quarter of 2014, with inflation-adjusted real state tax revenue growing by 3.5% on a two-quarter moving average basis (*Source: The Nelson A. Rockefeller Institute of Government, State Revenue Report, May 2015*). As municipalities have benefited from increased tax revenues, they have also taken advantage of lower interest rates, refinancing a significant portion of their outstanding debt obligations. With lower anticipated interest

In periods of tight supply, the demand for municipal bonds can remain relatively consistent given a fairly stable investor base, creating a floor for the market. When the issuance of municipal bonds slows due to a reluctance on the part of the issuers (i.e., the municipalities) to issue debt at higher interest rates, an insufficient supply of a scarce product faced with steady demand can actually cause municipal bond prices to increase despite a higher interest rate environment or the underlying fundamentals of other areas of the fixed income market. We anticipate this supply and demand dynamic

“One of the funny things about the stock market is that every time one person buys, another sells, and both think they are astute.”

William Feather

expense and increasing tax revenues, many municipalities have pristine fiscal positioning, creating an appealing risk-reward opportunity within municipal bonds relative to other sectors of the fixed income market. Moreover, with the maximum Federal tax rate currently at 39.6%, investors are increasingly incentivized to find sources of tax-free income, which we believe will provide a steady tailwind, counteracting headwinds associated with the Federal Reserve increasing interest rates.

FAVORABLE SUPPLY & DEMAND DYNAMIC

In addition to investors facing high and increasing Federal tax rates, the unique supply and demand dynamic present in the municipal bond market should further support performance. The market for municipal bonds tends to be illiquid compared to government and corporate bond markets, meaning that bonds trade less frequently and are often more difficult to buy and sell. The demand for municipal bonds can outpace the supply of municipal bonds, wherein supply is measured by new issuance.

to favor tax-sensitive, fixed income portfolios with sufficient exposure to municipal bonds over the long term.

ATTRACTIVE RELATIVE TO FIXED INCOME ALTERNATIVES

We remain of the opinion that high-quality municipal bonds appear attractively priced as compared to both US Treasuries and corporate bonds when considering the yield ratio: a quick and simple equation comparing the valuation of one fixed income instrument relative to another.

$$\text{Yield Ratio} = (\text{Bond Yield}_1)/(\text{Bond Yield}_2)$$

As can be seen in Chart I on page 4, the 10-year municipal bond index currently possesses a yield advantage over the 10-year Treasury bond, which is extremely attractive to conservative, income-oriented investors in a low-yield environment. With a yield ratio of 1.04, the yield on the tax-free municipal bond index exceeding that of the US 10-year Treasury, we believe this represents an attractive discount.

To further illustrate the attractive valuation

ABOUT RINEHART

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

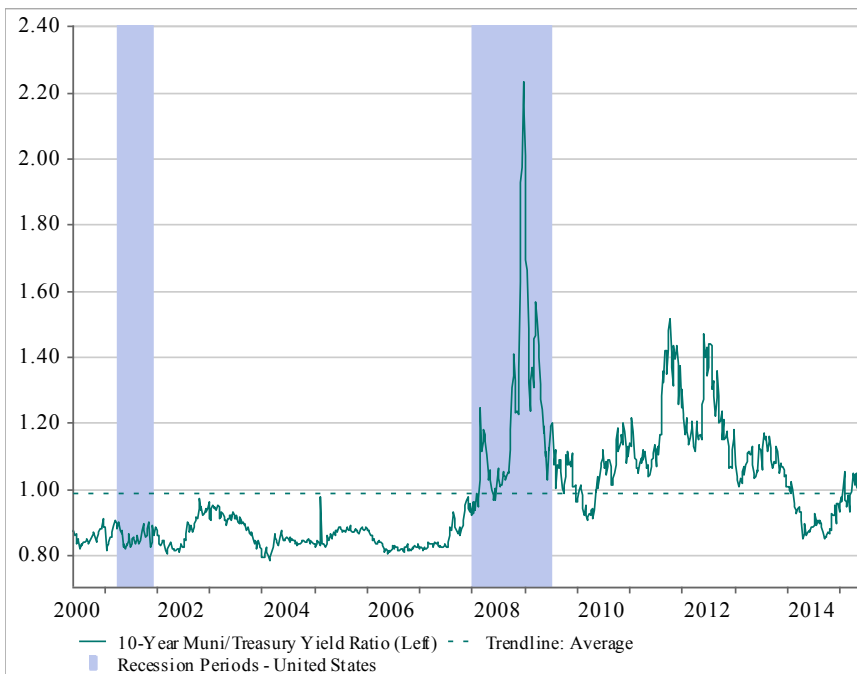
MUNICIPAL BONDS: RESILIENCE DURING RISING RATES

of municipal fixed income, we have provided the yield ratio of high-yield municipal bonds to high-yield corporate bonds. As can be seen in Chart II, the current yield ratio of 1.08 reflects a degree of negative sentiment and headline risk surrounding Puerto Rico and the recent downgrades of the city of Chicago by all three major rating agencies; we would note, however, that default rates of high-yield municipal bonds remain low, as the cumulative ten-year default rate for Baa-rated municipal bonds is only 0.32% as compared to 4.61% for Baa-rated corporate bonds (*Source: Nuveen Asset Management*). We believe that previous periods of negative sentiment have often proved to be attractive buying opportunities within high-yield municipal bonds because of the above-average price discount being afforded to the sector. With a yield ratio of 1.08, the tax-protected high-yield municipal bonds currently have a higher yield than taxable, high-yield corporate bonds.

CONCLUSION

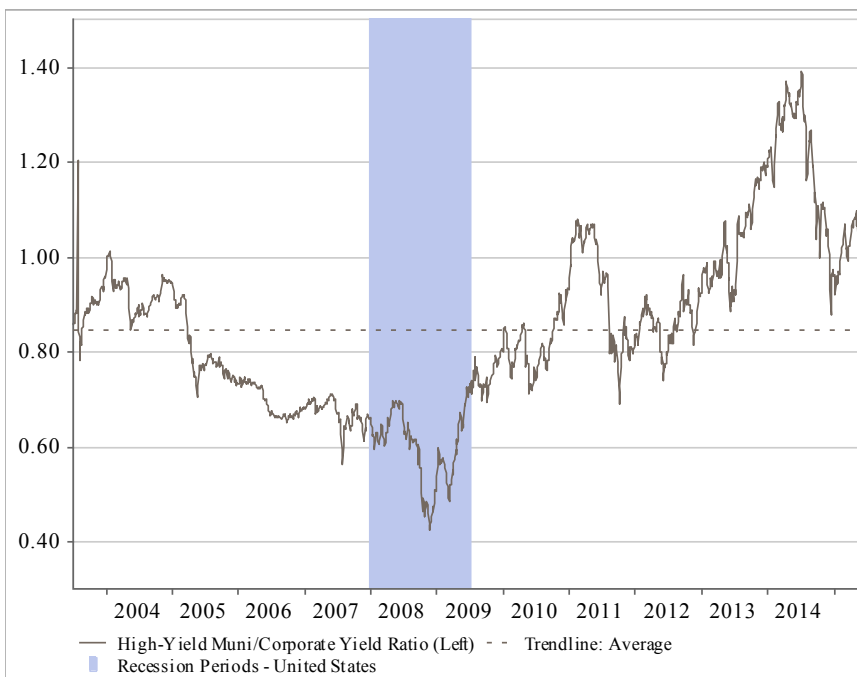
When appropriate, we have positioned portfolios according to our favorable long-term outlook for municipal bonds, believing this investment theme will perform relatively well over the next 12-24 months when compared to the aforementioned fixed income alternatives. Not only have municipal bonds exhibited strong performance during prior periods of rising interest rates, but a recovering economic backdrop has contributed to improved fundamentals, which should assuage bondholders in the event of fixed income market volatility. In addition to favorable fundamentals, municipal bonds should continue to benefit from increased investor demand for tax-protected income, which is currently available at attractive valuations. We believe discounted valuations reflect uncertainty surrounding interest rates moving higher and isolated instances of default or distress but we remain constructive on

CHART I: 10-YEAR MUNICIPAL/TREASURY YIELD RATIO



Source: FactSet Research Systems

CHART II: HIGH-YIELD MUNICIPAL/CORPORATE YIELD RATIO



Source: FactSet Research Systems

municipal bonds' ability to deliver attractive long-term risk-adjusted returns.

FINANCIAL ADVISORY OVERVIEW

THE COMPLICATED WORLD OF EDUCATION PLANNING

as well as the ability to make substantial deposits without any income limitations (Note: gift taxes may be applicable so be sure to consult your CPA or Wealth Advisor prior to making a contribution greater than the annual exclusion amount).

OPTIONS FOR FUNDING

In addition to saving for college, we encourage students and families to supplement their savings by exploring grants, scholarships, as well as federal and state financial aid. Grants and scholarships are forms of financial aid that do not have to be repaid. Grants are often need-based, while scholarships are usually merit-based. In addition to grants and scholarships, there are a multitude of financial aid options.

WHAT IS FINANCIAL AID?

Financial aid is money borrowed from the U.S. Department of Education to assist with paying for college expenses. Aid can come from the U.S. federal government, the state where you live, the college you attend, or a nonprofit or private organization. You must meet certain eligibility requirements in order to obtain some form of aid, including demonstrating financial need. To apply for financial aid, you need to complete the Free Application for Federal Student Aid (FAFSA). Completing FAFSA can be accomplished online and will provide access to the largest source of financial aid.

Applications should be completed as soon as possible after January 1 of the year in which the student will begin fall classes.

The U.S. Department of Education has two federal student loan programs: the Federal Direct Loan Program ("FDLP") and the Federal Perkins Loan Program ("FPLP"). Under the FDLP, there are three types of Direct Loans available: Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans. Both the Direct Subsidized and Unsubsidized Loans are available only to students, while the Direct PLUS loans include the ability for

parents of dependent undergraduate students to borrow to help pay for education expenses not covered by other financial aid. The FPLP is a school-based loan program for students with exceptional financial need. Under this program, the school is the lender.

PREPARE NOW

Cost can be one of the most important factors in choosing potential colleges, and can vary significantly from school to school. It is important to make sure that the cost is reasonable compared to your future earning potential. You want to make sure that you can earn enough money to cover any student loan payments you may need to make, along with living expenses, after you graduate.

The greatest asset that a parent has is time. The earlier you have an education plan in place and start saving for your child's college education, the more time you will have for your savings to grow. A plan can assist with helping you understand how much college will cost, how much you will need to save either in a lump sum or on an annual basis to meet your education savings goals, as well as what options are best suited for your individual situation.



ABOUT RINEHART

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

MAKE A WISH AMBASSADOR

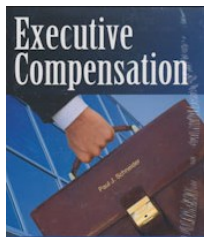
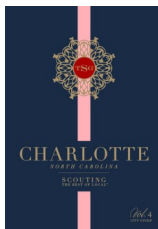


Rinehart's Daniele Donahoe has joined an elite selection of local women chosen for their inspiring professional and philanthropic accomplishments in the community. Utilizing her talents, compassion and leadership qualities, Daniele has committed to raise \$10,000

to help grant the wishes of local children with life-threatening medical conditions. Stay tuned for some "fun"draising events around town to help make this happen including a summer car wash and bake sale! For more information and to view Daniele's personal story including why she took on this role, [click here](#).

SCOUT IS OUT

The latest Charlotte SCOUT guide containing a curated collection of excellent independently owned local businesses has arrived! The Rinehart Team had a fun-filled photo shoot for this exclusive publication. [Click here](#) to browse through the online edition or grab one the next time you are in our office.



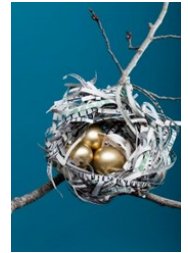
NEW IN TOWN: DILWORTH LIFE MAGAZINE

Sandy Carlson's *Financial Fitness* series has been such a hit in the community that she was recently asked to be a monthly contributing writer for a new publication for Dilworth residents. [Click here](#) to read Sandy's article on executive

compensation planning for the June editions of Dilworth, SouthPark & Myers Park Life magazines.

WEALTH & WELL BEING ENRICHMENT SERIES

RWM's Sandy Carlson, CFP®, CPA, CDFA™ is presenting an exclusive 7 part series of impactful monthly workshops from September 2015 to May 2016 addressing important topics such as cash flow management with the latest technology, flipping the switch to retirement, and the dynamics of relationships in financial decision making. For more info or to attend, please contact Cynthia Sims at csims@rinehartwealthmanagement.com.



WINE WOMEN & WEALTH



RWM will host a wine tasting at Bond Street Wines

providing a friendly atmosphere to enhance discussions about the concepts behind healthy investing and a chance to introduce Brittany Danahey, our newest team member. To attend, please contact csims@rinehartwealthmanagement.com.

NEW LOOK FOR PORTFOLIO REVIEWS



As a result of numerous meetings, revisions and lively debate, we are pleased to offer you a new and improved portfolio overview with incremental information at a glance as well as all the detail you've come to expect from us. Look for these at your

next annual meeting!

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

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.

CIRCULAR 230 NOTICE: To comply with requirements imposed by the United States Treasury Department, any information regarding any U.S. federal tax matters contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, as advice for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

This newsletter is for discussion purposes only and represents the opinions of Rinehart Wealth Management.

Rinehart Wealth Management is a Registered Investment Advisor.