

INSIGHTS

INVESTMENT OVERVIEW

SUBMERGING OR EMERGING?

Over the past year, there has been a clear divergence in performance between emerging and developed financial markets, with the S&P 500 up 32.4% and the MSCI Emerging Markets Index tumbling 2.3% in 2013. For years, emerging markets were lauded as the singular solution for investors seeking above-average growth as domestic and European markets experienced depressed growth rates due to the effects of overleveraged balance sheets, maturing economies, and aging demographics. Fundamental factors, such as the realization of the long-anticipated slowdown in China and rising domestic interest rates due to fears of tightened monetary policy are being exacerbated by a rotation out of emerging market assets after years of excessive inflows. Sentiment has come full-circle, and we are now left wondering if emerging markets will weather imported inflation and resume prospering, or will they be submerged in a mire of sluggish growth at the hand of rising interest rates?

For several years, we have diligently reduced our exposure to China given the clear signs of a rampant real estate bubble (i.e., excessive empty infrastructure subsidized by the government), as well as concerns over opaque economic data and a lack of sufficient corporate governance. As China's economic data continue to disappoint, China and the markets serving its once insatiable consumption of commodities are experiencing painful declines in asset values. For example, the MSCI China and the MSCI BRIC (Brazil, Russia, India, and China) Indices are down 4.25% and 5.61%, respectively, year-to-date for 2014.

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FINANCIAL ADVISORY OVERVIEW

EDUCATION PLANNING AND IRA CONTRIBUTIONS

Education Planning

Education is a great equalizer, however, the cost to obtain a college education continues to outpace inflation making the goal of obtaining a college education increasingly difficult. Therefore, saving for college is often an important component of the financial planning process. While there are several ways to save for college, the 529 college savings plan still remains the most widely used vehicle.

A 529 Plan is an education savings plan operated by a state or educational institution designed to help families set aside funds for future college costs. At the end of 2013, there were \$204 billion in 529 plans spread across 10.3 million different accounts. These plans allow the owner to contribute money on behalf of a beneficiary. These contributions grow tax-deferred and withdrawals will be completely tax-free as long as they are used to pay for "qualified higher education expenses." These expenses include tuition, room and board, books, supplies and other necessary expenses for most post high school education.

Individuals can contribute up to the annual gift tax exclusion

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SPECIAL POINTS OF INTEREST

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

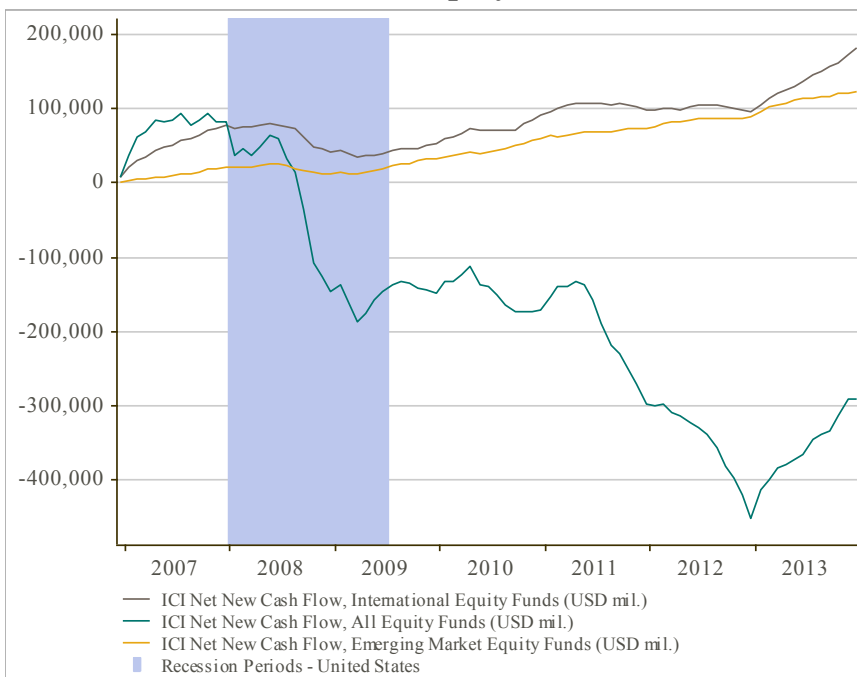
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We have actively avoided these areas over the past three years, and we remain cautious in our positioning.

Since the US taper turmoil began in mid-2013, emerging markets have experienced the brunt of the Federal Reserve's monetary policy adjustment. For several years, yield-starved investors sought more attractive opportunities in emerging market equities and debt with considerably higher yields than those readily available in the domestic markets. This is visible in Chart I, where the gold line represents the steady flow of money into emerging market equity mutual funds at the expense of developed market equity funds. This symbiotic relationship came to an abrupt end as fears of a strengthening US dollar and rising rates wreaked havoc on the currencies and economies of emerging markets. As emerging market currencies

Chart I: Net New Cash Flow – Equity Mutual Funds



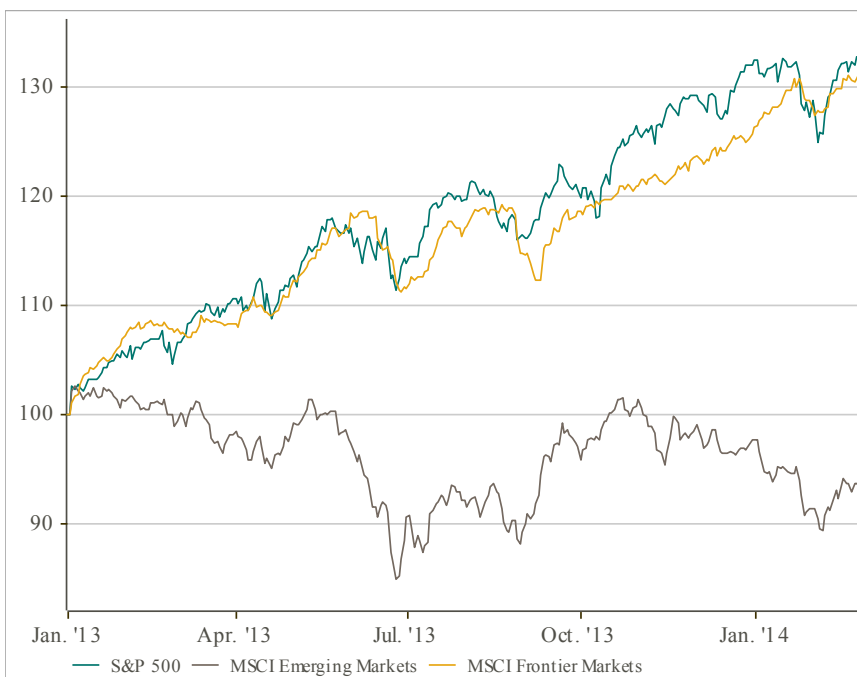
Source: FactSet Research Systems, Inc.

“Long-term flows into international equities, away from domestic equities, suggest there could be additional international equity weakness” – Second Quarter 2012 Economic Overview

crater, foreign sovereigns are forced to raise rates in an attempt to support depreciating currencies and combat rampant inflation. This monetary action, however, has the unintended consequence of stifling growth at a time when it is critical for the continuity of emerging market economies. As fear of declining emerging market values spooked retail investors, they redeemed over \$10 billion in emerging market equity ETF shares in 2013 (Source: FactSet Research & ICI). The resulting effects can be seen in Chart II, which shows the drastic underperformance of the MSCI Emerging Market Index relative to the S&P 500, and the MSCI Frontier Market Index.

We have been concerned about emerging market exposure in our client portfolios due to the aforementioned excessive fund flows

Chart II: Total Return Performance



Source: FactSet Research Systems, Inc.

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SUBMERGING OR EMERGING?

into emerging markets without the necessary appreciation for the incremental risk inherent to the region. The quote on the previous page from our early 2012 Economic Overview outlined our concern, and we subsequently adjusted the portfolios to safeguard against a dramatic correction in the emerging market equity and debt markets. The actions that we took mitigated direct exposure to the decline. We reduced direct Chinese and Brazilian equity exposure, while remaining void of ANY emerging market debt. Additionally we sold out of VWO (Emerging Market ETF) and reduced other ETF exposure while simultaneously moving into the Frontier Markets (the gold line on Chart II).

Over the past two years, we have continued to allocate a portion of our emerging market exposure to frontier markets, which, as the name suggests, are less developed economically than emerging markets, making them currently less susceptible to the aforementioned issues plaguing emerging markets. Our thesis is that much like emerging markets twenty years ago, frontier markets

offer increasingly attractive risk-reward benefits due to their lower correlation with both developed and emerging market economies. The increased diversification benefit, however, comes with the inherent risks of investing in economies with rudimentary infrastructure and political instability.

It is our fundamental belief that active management within emerging and frontier markets provides the most significant value-added opportunity due to the ability of successful, dedicated managers to effectively capitalize on inherent inefficiencies and navigate through market turbulence.

Despite the recent volatility, we believe that over the long-term, emerging markets will stabilize and experience higher growth than domestic markets. That said, this market correction highlights the risk associated with investing in young, growing economies susceptible to currency fluctuation and extreme bouts of inflation and sovereign discord.

STOCK & STRATEGY SPOTLIGHT

Stock/Company Name:

International Business Machines Corp.

Ticker/Symbol:

IBM

2013

-0.15%

Strategy Description:

IBM's most recent earnings announcement continued to disappoint analysts and investors alike by failing to expectations. We believe this most recent pullback, along with the increasingly negative sentiment surrounding IBM, offers an attractive entry point into a high-quality name with a historically strong balance sheet and cash flow metrics. IBM is a legacy technology company with defensive characteristics, low beta (five-year beta of 0.63 relative to S&P 500), a generous dividend yield, and a track record of returning cash to shareholders. Recent divestitures of non-core business lines will enhance IBM's current working capital position, and the anniversary of the hardware cycle should provide for easier comps going forward, allowing for positive earnings surprises over the next twelve to twenty-four months.

MONTHLY INDEX REVIEW

Data as of Feb. 28 th , 2014	February 2014	2014 (YTD)	2013
S&P 500	4.57%	0.96%	32.39%
Dow Jones Industrials	4.34%	-1.07%	29.65%
NASDAQ Composite	5.15%	3.36%	40.12%
Russell 2000	4.71%	1.81%	38.82%
MSCI Emerging Markets	3.33%	-3.35%	-2.27%
MSCI EAFE	5.59%	1.34%	23.29%
Barclays US Aggregate	0.53%	2.02%	-2.02%

FINANCIAL ADVISORY OVERVIEW

ABOUT RINEHART

EDUCATION PLANNING AND IRA CONTRIBUTIONS

amount of \$14,000 per person without having to file a gift tax return. However, a lump sum gift can also be made up to \$70,000 in a single year without incurring a gift tax. A gift tax return would need to be filed when a lump sum gift is made in order to make an election to spread this gift over a five year period. There are also maximum contribution limits that are different for each state. North Carolina has a total maximum contribution limit of \$410,000 per beneficiary; while South Carolina's limit is \$370,000.

Most states offer a state income tax deduction for contributions made to their state sponsored 529 plans. You usually have to have earned income in the state to which you made a contribution in order to deduct the contribution on your state income tax

to college or they receive a scholarship? The beneficiary status can be transferred to siblings, parents, and even cousins of the beneficiary. The only restriction is that you can only change the account beneficiary once every 12 months.

529 plans are a great vehicle for estate planning purposes. Any money gifted into a 529 plan will not be included in the account owner's gross estate.

IRA Contribution Deadline

You can make a contribution to your IRA or Roth IRA for the 2013 tax year until the deadline on April 15th, 2014. The contribution limit is \$5,500 per individual with an additional \$1,000 catch-up contribution for those over age 50. Please make sure that you send your contributions

"Someone's sitting in the shade today because someone planted a tree a long time ago." – Warren Buffet

return. Effective in 2014, North Carolina no longer offers a tax deduction for contributions to a 529 plan, however, South Carolina has an unlimited state income tax deduction for 529 contributions.

When establishing 529 plans for a beneficiary, it is important to consider who the owner of the account should be, as this may impact financial aid eligibility. For example, if a parent owns a 529 plan for their child, the value of the account will be included in the calculation for financial aid. However, if the grandparent of the beneficiary is the account owner, the 529 plan value is not included in the parent's calculation and will not impact their ability to qualify for financial aid. We often recommend to our clients who want to contribute to 529 plans for their grandchildren, that they become the account owner instead of the grandchildren's parents.

What happens if the beneficiary does not go

to Rinehart Wealth Management or your Financial Advisor by April 1st to allow ample time for processing and deposit.

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

Performance Reporting Work Continues

As mentioned in the past editions of INSIGHTS, the Rinehart Wealth Management team has been hard at work implementing our new performance reporting suite, Tamarac AdvisorView. We have slowly been rolling out and showcasing some of the new features and capabilities the software offers and if you have not seen one of the new reports, fear not, as it will be coming your way soon.

Extra! Extra! Read All About It!

Daniele Donahoe continues Rinehart Wealth Management's string of quotes in prestigious publications when this past month she was featured in two articles. The first was with the Wall Street Journal's article "Advisers Cautiously Bullish on Some African Markets" and the second can be found in the Charlotte Observer's "What Should You Do With Your Money Now?" We hope to continue this trend well into the rest of 2014. To read the articles, please visit our website.

Happenings

Last month we had our much anticipated healthcare panel presentation at Del Frisco's. The event was a great success and we thank all of you who were able to attend. We welcome any feedback and are looking forward to planning our next event soon. If you were unable to attend, we invite you to read our whitepaper "Healthcare

Reform: 2014 - A Key Implementation Year" which can be found on the News & Information page of our website.

Just for Fun

Freedom Park turned into a winter wonderland this month when schools closed and the city of Charlotte virtually shut down due to the unprecedented snowfall and ice of snowstorm Pax. The firm's strategic move to more cloud-based software applications, including Tamarac AdvisorView, enabled the team to continue working for our clients offsite. The snow storm highlights one of the benefits of all the technology upgrades we have made during the last 12-18 months.

The photo below, taken by Daniele Donahoe, shows the park in all of its wintry glory. We are all ready for warmer weather, sunshine and spring!



Rinehart Wealth Management

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

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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