Rinehart Wealth Management
Greater Trust

March 2015

INSIGHTS

Investment Overview

Analyzing the Active vs. Passive Debate

The current investment environment represents one of the worst periods of relative underperformance by active managers, with less than 20% of US equity fund managers beating their respective benchmarks in 2014, according to data from Morningstar, Inc. Consequently, investors are increasingly questioning whether or not the added cost of active management is justifiable. Given the rapid ascent of the exchange-traded fund ("ETF") industry as an alternative, disruptive, and lower-cost platform to access passive management, investors can readily replace underperforming active managers quite easily.

Active Management Semantics

The term active management is thrown around a lot and having the proper context is critical to understanding the debate. Generally, active management involves a portfolio manager employing a strategy designed to outperform a stated benchmark: for example, an actively-managed US equity strategy may use the S&P 500® Index as the portfolio's benchmark, with a stated objective of delivering total returns in excess of the S&P 500. Alternatively, passive management seeks to replicate the returns of the benchmark portfolio – also often referred to as "indexing." A passive US equity strategy, comparable to the example above, would be constructed to deliver returns of the S&P 500: no more, no less. When used appropriately, passive management reduces costs and improves overall portfolio performance – the inherent hurdle is to understand how to use them appropriately. While passive management has a place in portfolios, it should not constitute 100% of a well-diversified portfolio. An optimal blend of both passive and active can maximize risk-adjusted

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Financial Advisory Overview

Creating wealth using tax bracket optimization

Prior to 2010, converting all or part of your IRA to a Roth IRA was only an option for those with adjusted gross income of $100,000 or less. Now, the IRS allows everyone to convert their IRA to a Roth IRA. Unfortunately, most people shy away from a Roth conversion due to the upfront tax paid on IRA funds converted.

In the past, deferring the tax recognition of income for as long as possible has been an effective strategy. Today, with a greater number of tax brackets, higher rates, itemized deduction and personal exemption phase-outs, as well as a sur-tax, the tax deferral strategy can be a less attractive option when future income recognition pushes individuals into a higher tax bracket.

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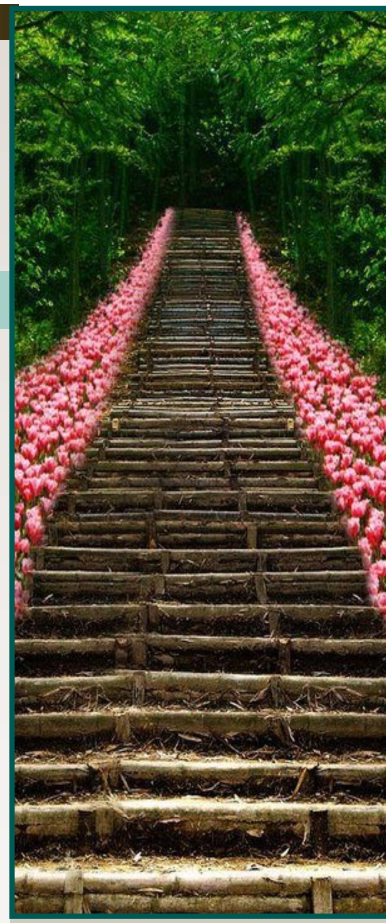

Investment Team

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Special points of interest

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

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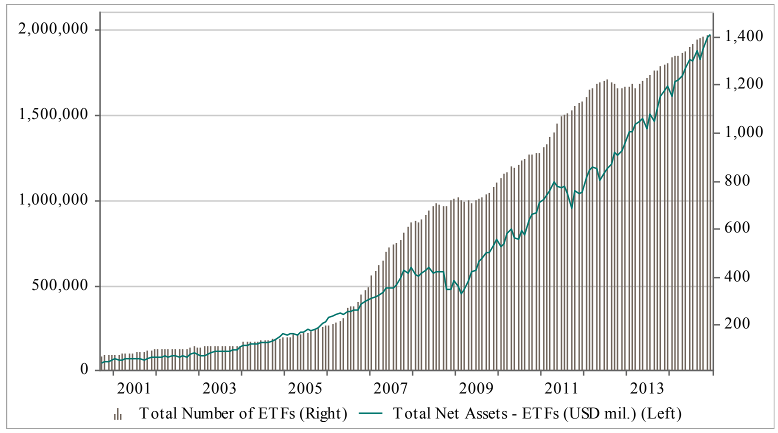
returns and minimize underlying costs. We strongly believe in investment portfolios comprised of both passive and active vehicles.

While Rinehart evaluates active and passive investment strategies, our personalized portfolio management process focuses on an in-depth, holistic understanding of each client's investment objectives and constraints in order to develop a comprehensive, strategic asset allocation based on the individual's risk-return profile. As fiduciaries, this is an important distinction: our responsibilities extend beyond relative performance metrics and include ensuring that our portfolios are managed effectively and responsibly to help our clients attain their ultimate goals and objectives through appropriate risk management.

Chart I: Growth in Number of ETFs & ETF Assets



Source: FactSet Research Systems

An increasingly important factor in portfolio construction is not only determining whether or not to use active or passive management but also identifying the appropriate passive ETF. Given the proliferation of ETFs, as illustrated in Chart I, it is becoming all the more difficult to navigate the ever-growing universe of ETFs, especially as the ETF industry evolves to include more exotic strategies in illiquid (i.e., thinly-traded) asset classes.

Active vs. Passive: Best Practices

By and large, active management focuses on generating alpha: risk-adjusted returns in excess of a required rate of return (i.e. the return on a stated benchmark). Conversely, passive management, in its purest form, provides beta: overall market exposure or systematic risk and return. Actively-managed strategies tend to have higher management fees or net expense ratios, ultimately creating an internal drag on performance. The relatively lower cost of passively-managed strategies has been one of the driving forces behind their popularization and proliferation. The cost benefit, however, should not be the only factor when deciding which strategy to choose: the efficiency of the asset class and underlying market, for instance, is of particular concern when evaluating whether to invest in active or passive management.

The critical decision is not *if* passive management but *when* and *where*. Before determining where to use active or passive management, it is necessary to understand the characteristics of the asset class in question. Analyzing the daily liquidity of the underlying assets, as well as the informational transparency, is the first step. This helps to determine if the market is efficient and, consequently, a candidate for a passive investment vehicle. An efficient market is one in which market and security prices fully, accurately, and instantaneously incorporate all available information (*Source: CFA Institute*). The foundation of indexing was predicated on the precept that active management cannot consistently

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Monthly Index Review

Data as of February 28th, 2015	February 2015	2014	2013
S&P 500	5.75	13.69%	32.39%
Dow Jones Industrials	6.01	10.04%	29.65%
NASDAQ Composite	7.25	14.75%	40.12%
Russell 2000	5.94	4.89%	38.82%
MSCI Emerging Markets	3.11	-1.82%	-2.27%
MSCI EAFE	5.99	-4.48%	23.29%
Barclays US Aggregate	-0.94%	5.97%	-2.02%

INVESTMENT OVERVIEW

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generate excess returns because, in sum, the prices of the underlying securities will match the securities' intrinsic values instantaneously. Accordingly, a market is inefficient if there are impediments to information acquisition which enable active managers to earn consistent excess returns. Rinehart typically prefers to use passively-managed strategies to gain broad exposure to efficient, high-quality markets, such as large- and mid-cap US equities, while relying on active management to gain exposure to relatively inefficient markets where we feel an active manager has a higher probability of success.

Given the relative difficulty of trading and lack of financial reporting transparency in small-cap emerging market equities, we conduct extensive manager due diligence to select portfolio managers we believe capable of outperforming the asset class or benchmark. As fee-only managers, we are very judicious about allocating assets to active managers as it behooves us to minimize costs and maximize portfolio performance.

This multistep process of analyzing asset class characteristics and determining whether or not active management is preferable to passive, or vice versa, requires conducting extensive research to find the optimal investment vehicle: ETFs for passive exposure or mutual funds for active management.

Below, Chart II provides an illustration of the relative advantage of passive management in efficient asset classes and markets as compared to the relative advantage enjoyed by active management in inefficient markets. As the chart shows, US large-cap ETFs enjoy an advantage over US large-cap mutual funds across all exhibited timeframes, while emerging market mutual funds exhibit outperformance over emerging market ETFs in all but the 10-year period: it may be worth noting, however, that

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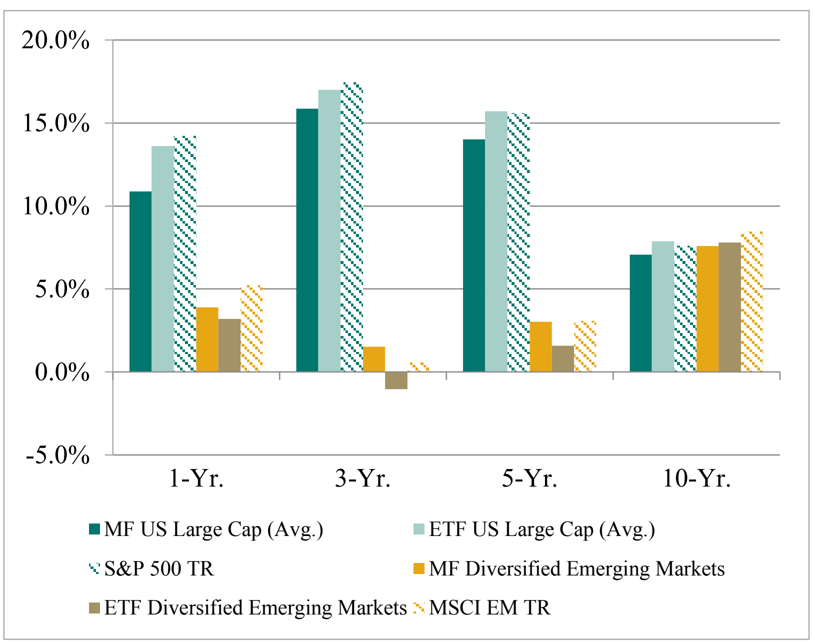
"90% of what passes for brilliance or incompetence in investing is the ebb and flow of investment style." - Jeremy Grantham

CHART II: ANNUALIZED RETURNS – MUTUAL FUNDS VS. ETFS



Source: Morningstar® & FactSet Research Systems

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.

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there were only 13 emerging market ETFs available as of January 31st 2006, which skews the sample data (*Source: FactSet Research Systems, Inc.*). Given the rapid growth in the number of investment vehicles, particularly ETFs, it has become increasingly important to conduct the requisite due diligence. Even in asset classes in which Rinehart uses passively-managed strategies, it is critical to understand the structure, terms, composition, rebalancing frequency, and constituents of the underlying benchmark portfolio for the investment vehicles under consideration.

As this debate wages on in the ever-evolving investment industry, we will continue to emphasize the quality of any strategy over its relative popularity, employing the appropriate blend of well-researched, thoroughly-vetted, high-quality passive and active strategies. We welcome and encourage you to contact your portfolio manager with any and all questions regarding the active vs. passive debate and your portfolio.

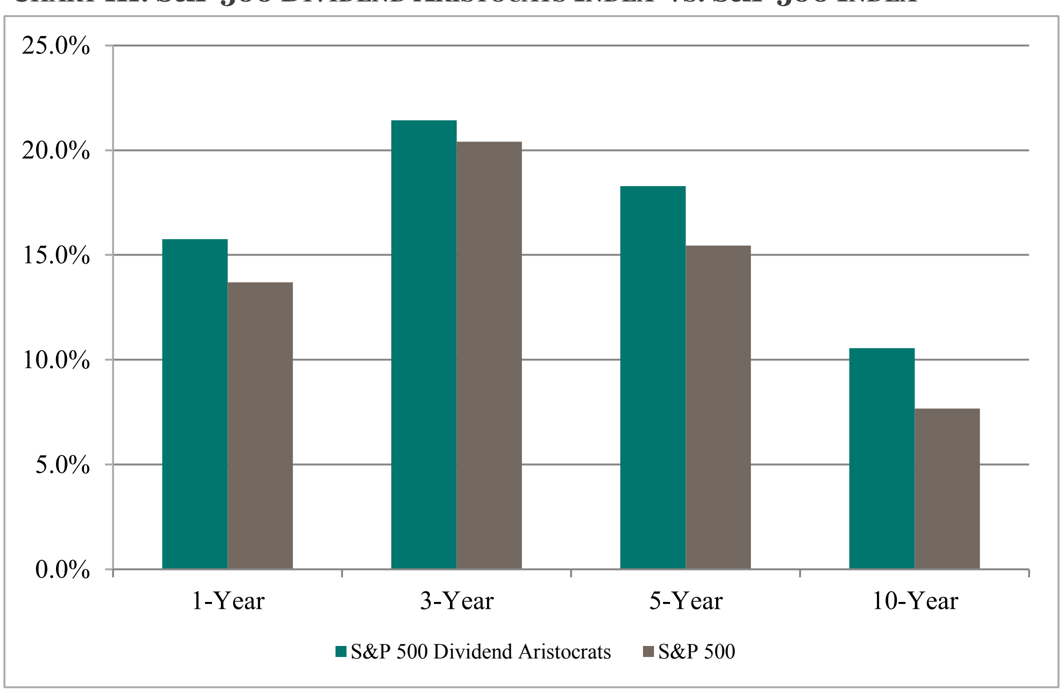
STOCK & STRATEGY SPOTLIGHT

Exchange-Traded Fund ("ETF") Name:	Ticker/Symbol:	Total ETF Assets:
ProShares S&P 500 Dividend Aristocrats ETF	NOBL	$678.70 mil.

ETF Strategy Description:

The ProShares S&P 500 Dividend Aristocrats ETF ("NOBL") provides diversified exposure to high-quality, dividend-oriented US equities. NOBL tracks the performance of the S&P 500® Dividend Aristocrats Index ("the Index"), which is comprised of current S&P 500® constituent companies that have increased dividend payments each year for at least 25 years, while also fulfilling a float-adjusted market capitalization requirement of at least $3.0 billion and a liquidity requirement of an average daily trading volume of at least $5.0 million over a trailing three-month period. The Index equally-weights the underlying stocks, has a minimum holdings requirement of 40 stocks, and limits individual sectors to no more than 30% of the Index. The Index, which is rebalanced each January, April, July, and October, with an annual reconstitution as part of the January rebalance, has provided attractive risk-adjusted returns since its inception in 2005 and complements our current passively-managed US equity ETFs. The chart below illustrates how this high-quality, dividend-growth index has been able to outperform the S&P 500 Index on an annualized, total return basis over the most recent 1-year period ended December 31st, 2014, as well as the trailing 3-, 5-, and 10-year periods.

CHART III: S&P 500 DIVIDEND ARISTOCATS INDEX VS. S&P 500 INDEX



Source: Morningstar® & FactSet Research Systems

FINANCIAL ADVISORY OVERVIEW

CREATING WEALTH USING TAX BRACKET OPTIMIZATION

(cont. from page 1)
Most Roth conversion strategies involve tax bracket optimization; reporting more income now when your tax rate is lower. For example, if you file your income tax return as Married Filing Jointly and are in the 25% marginal tax bracket, you might be better off converting a portion of your IRA to a Roth each year to completely fill up the 25% bracket. Taking more income and paying taxes in the present allows you to take less income in the future when Required Minimum Distributions RMDs might propel you into the next higher tax bracket at which point you have very little control of your income. The optimal result can be a "flattening" of your cumulative tax rate over your life time and a significant increase in your ultimate portfolio value due to tax savings. In addition, Roth IRA's grow tax-free and do not require any RMDs at age 70 ½, which can allow for greater long-term net worth accumulation.

WHO SHOULD CONVERT?

You will want to consider this strategy if you meet the following criteria:

You are currently retired or are otherwise in a low income tax bracket. When you convert to a Roth IRA, the amount that you are converting will be taxed 100% at ordinary income rates. Therefore, it is best for you to initiate a Roth conversion in years that you are in a low income tax bracket.

You are not yet 70½. Once you turn 70½, your retirement accounts (traditional IRAs, 401(k)s, etc.) are subject to RMDs. This means that you are forced to take a specific amount out of your retirement accounts each year. This often forces retirees into a much higher tax bracket and unfortunately, the RMD cannot be converted to a Roth IRA.

You have funds outside of your retirement accounts to pay for the additional taxes. If you don't have excess cash outside of your retirement accounts to pay the tax due on the Roth conversion, you are not a good candidate for this strategy.

HOW TO CONVERT?

If you decide you could benefit from a full or partial Roth conversion in any given year, consider following this strategy:

Convert only partially to maximize income in your current tax bracket. We can work with you to figure out the maximum amount you can convert without pushing you into the next marginal tax bracket. As income can vary from year to year, you should do this calculation on an annual basis.

Pay any tax owed from your taxable accounts. It is important that you don't withdraw funds from your converted IRA to pay taxes on the conversion, as you will lose most of the benefit of the conversion. Make sure you have enough money to pay the estimated tax on the conversion outside of our IRA account.

Paying taxes now might actually help save on taxes in the future, as well as allow for additional wealth creation. At Rinehart, we realize that each client's situation is unique, and we can assist with deciding if a Roth IRA conversion is the best option for your situation.

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.

Rinehart Wealth Management

Greater Trust

Celebrating 30 Years!

A heartfelt thanks to all the clients, professionals and friends that gathered at the Charlotte Country Club to honor thirty years of outstanding achievement and philanthropy by RWM's CEO Mary Rinehart as well as the current direction and leadership of President and CIO Daniele Donahoe.   We have much to be grateful for!

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RWM

RWM ON SIRUUS XM BUSINESS RADIO

Tune in March 3rd to hear Rinehart's Andrew Savant CFP®, deliver practical advise on personal finances with Host Kent Smetter, a Professor of Insurance and Risk Management at the University of Pennsylvania's Wharton School. Smetter's popular program *"Your Money"* airs Tuesdays, 5-7 PM Eastern Time. To hear Andrew and Kent's discussion, tune in at 6 p.m. to SiriusXM channel 111, or through the SiriusXM Internet Radio App on smartphones and other connected devices, as well as online at siriusxm.com.

HALSTON AND WARHOL: SILVER AND SUEDE

As part of RWM's sponsorship of the Mint Museum Auxiliary's Room to Bloom festivities, CIO Daniele Donahoe will attend the Mint Museum Uptown exhibit uniting the work of Roy Halston Frowick and Andy Warhol, giving a unique perspective on the intersections between their lives and creative practice while raising money for a great cause. To learn more about this event click here or visit www.mintmuseum.org.

COLLABORATIVE DIVORCE = FINANCIAL SENSE

This month's *Financial Fitness* series by RWM's wealth advisor Sandy Carlson, CFP®, CPA, CDFA™, discusses how a financial divorce expert involved early in the divorce process can potentially save you time and money. Her recent article "Collaborative Divorce, The New Normal" is featured in this month's Myers Park Life and South Park Life publications. To view the complete article click here or visit www.rinehartwealthmanagement.com.

RWM HELPS HOPE FLOAT

This year RWM will celebrate KinderMourn's 11th Annual Hope Floats Duck Race in a very special way. We will float "Deaton's Ducklings" alongside 20,000 other rubber duckies in honor of our own Neal Deaton and his son Parker who lost their wife and mother Carey Deaton last October. The event will be held at the US National White Water Center. Rubber duck adoptions begin March 9th. To adopt a "Deaton Duckling" click here or visit www.duckrace.com/ charlotte.

Rinehart Wealth Management

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

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