Rinehart Wealth Management
Greater Trust *Celebrating 30 Years!*

September 2015

INSIGHTS

Investment Overview

Behavioral Finance: Separating Emotion from Investing

Understanding the relatively new, multidisciplinary field of behavioral finance offers the opportunity for improved investment performance. Behavioral finance studies the origins and implications of cognitive, emotional, and sociological factors in financial decision-making, including the subsequent counterproductive behaviors that often negatively impact investment returns.

In our opinion, establishing trust through education is the most powerful means of mitigating potential mistakes, and the associated investment underperformance, that result from flawed logical decision-making and cognitive impairment. Education, therefore, can not only improve performance over time, but also reduce the anxiety associated with investing. For this reason, the Investment Team has written an extensive white paper on behavioral finance: to request a copy, please email Cynthia Sims at csims@rinhartwealthmanagement.com.

Juxtaposition of Behavioral Finance & Traditional Finance

Behavioral finance explores both individual investor behavior and financial market performance beyond the mathematical and quantifiable theories of traditional finance. The basic assumptions inherent in traditional finance are that investors are rational (i.e., they will seek to maximize utility) and that markets are efficient: behavioral

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Financial Advisory Overview

Find Annuities Confusing? Join the Club...

Annuities are a form of insurance. An annuity is a contract between an insurance company and an individual that is commonly used to fund retirement and to help meet specific goals including principal protection and lifetime income. Unlike life insurance, which insures against pre-mature death, annuities provide insurance against longevity risk or the risk that you will outlive your assets.

Types of Annuities

Immediate vs. Deferred

There are two basic types of annuities: deferred and immediate. With a deferred annuity, your money is invested for a period of time until you are ready to begin taking withdrawals, typically in retirement. With an immediate annuity, you begin receiving payments immediately after you pay the initial premium.

Fixed vs. Variable

A fixed annuity obligates the insurance company to make a series of fixed annuity payments for the duration of the contract. The individual surrenders a lump sum of cash in exchange for monthly payments that are guaranteed by the insurance company.

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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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finance questions the reality of both suppositions.

A key assumption of traditional finance is that investors and financial market participants are considered to be rational economic beings, wherein rational is defined as: acting only in a self-interested manner, using all available information to make perfectly-informed, unbiased, and utility-maximizing decisions. Rational decision-making is the cornerstone of the aforementioned expected utility theory. In reality, the ideal that every investor consistently makes rational decisions appears impractical.

As behavioral finance and its theories continue to grow in popularity, notable contributors continue to explore and expand its relevance across diverse disciplines. While the underlying premises and implications of behavioral finance have been applied to multiple fields, the most obvious advances have been achieved in economics and finance, where behavioral finance continues to challenge the prevalence of traditional finance theory.

Common Behavioral Finance Biases

Individual investors and financial professionals are susceptible to behavioral biases, but proper education and self-awareness can lead to significant improvements in financial decision-making. Behavioral biases fall into two main categories: cognitive errors and emotional biases. Cognitive errors are caused by faulty or inaccurate logical analysis, while emotional biases are slightly more complex, due to the fact that they stem from unconscious thoughts, feelings, and emotions.

The consequences of cognitive errors and emotional biases are often irrational economic and financial decision-making that adversely impact long-term investment results. An individual's inability to adhere to rational investment behavior (acting in consideration of one's own self-interests, utilizing perfect information to maximize utility, and exhibiting risk-aversion) often results in reactive and irrational behavior that creates market anomalies, mispriced assets, and capital impairment. For individual investors and financial professionals, failing to acknowledge behavioral biases and the effects on the decision-making process endangers not only the investor's financial health and wellbeing but the working relationship and trust between the two parties.

"Investing is not a game where the guy with the 160 IQ beats the guy with the 130 IQ... Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing."

Warren Buffett

Mitigating Irrational Behavior

Successfully mitigating negative investment behavior through the identification, modification, or correction of cognitive errors and emotional biases can significantly improve investment performance, as well as increase the likelihood of achieving and realizing long-term financial goals and objectives. For example, understanding behavioral tendencies allows investors to identify and recognize any behavioral biases that adversely impact their long-term investment plan. By reducing cognitive errors and emotional biases, an investor

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Monthly Index Review

Data as of August 31st, 2015	August 2015	2Q15	2015 (YTD)	2014
S&P 500	-6.03%	+0.28%	-2.88%	+13.69%
Dow Jones Industrials	-6.20%	-0.29%	-5.68%	+10.04%
NASDAQ Composite	-6.70%	**+2.03%**	**+1.65%**	**+14.75%**
Russell 2000	-6.28%	+0.42%	-2.97%	+4.89%
MSCI Emerging Markets	**-9.01%**	+0.82%	**-12.62%**	-1.82%
MSCI EAFE	-7.35%	+0.84%	+0.14%	**-4.48%**
Barclays US Aggregate	-0.14%	**-1.68%**	+0.45%	+5.97%

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improves the probability of constructing an optimal investment portfolio to reach their long-term goals. By working with investment professionals to develop a long-term financial plan in tandem with the portfolio construction process, individuals can identify their primary objectives, wealth preservation (i.e., minimizing losses) vs. wealth accumulation (i.e., maximizing returns), and focus on long-term goal attainment instead of near-term minutia, increasing the likelihood of achieving financial goals.

Stock & Strategy Spotlight

Strategy Name:	Ticker:	2015 (YTD)
Permanent Portfolio®	PRPFX	-4.70%

Company Description:

After recently speaking with Michael Cuggino, Portfolio Manager of the Permanent Portfolio® Fund ("PRPFX" and "the Fund"), we believe that the Fund's recent bout of underperformance is not symptomatic of a fundamental deterioration in the underlying investment strategy, but rather a consequence of the strategy itself being out-of-favor during a multi-year equity bull market. As increased volatility reemerges, the Fund expects normalizing asset class correlations to mitigate the impact of that volatility, while also preventing the permanent impairment of capital, which we saw recently when the S&P 500®, after peaking on May 20th, declined -12.15% over a three-month period ending August 25th. During this same time, PRPFX, while not immune to the drastic sell-off , declined only -7.68%, exhibiting relative outperformance of over +400 bps. We believe this is a valuable lesson in not abandoning established portfolio managers with proven, long-term investment strategies due to short-term underperformance.

Find Annuities Confusing? Join the Club...

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Therefore, fixed annuities are essentially CD-like investments that pay guaranteed rates of interest, however they are generally higher interest rates than bank CDs. The convenience and predictability of a set payout makes a fixed annuity a popular option for retirees who want a known income stream to supplement their other retirement income. While a fixed annuity can remove market risk from the investment return, the spending power provided by the monthly payment may decline significantly over the life of the annuity contract because of inflation. Annuities with inflation protection are available, but they are significantly more expensive. Therefore, depending on the amount that is used to purchase an annuity, careful consideration should be given to protect the spending power of the annuity payout.

A variable annuity is a long-term tax-deferred retirement vehicle that allows you to choose from a selection of investments, typically stock or bond mutual-fund-like portfolios called sub-accounts. Therefore, variable annuities involve investment risk and may lose value. Many variable annuity products offer "living benefit riders" that provide principal and/or income guar-

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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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A variable annuity is a long-term tax-deferred retirement vehicle that allows you to choose from a selection of investments, typically stock or bond mutual-fund-like portfolios called subaccounts. Therefore, variable annuities involve investment risk and may lose value. Many variable annuity products offer “living benefit riders” that provide principal and/or income guarantees to help protect principal or retirement income from declining markets. There are three basic types of living benefit riders that include: Guaranteed Minimum Accumulation Benefit (GMAB), Guaranteed Minimum Income Benefit (GMIB), and Guaranteed Minimum Withdrawal Benefit (GLWB).

- GMAB – Guarantees that an owner’s contract value will be at least equal to a certain minimum percentage (usually 100%) of the amount invested after a specified number of years (typically 7 – 10 years), regardless of investment performance.
- GMIB – Designed to provide a base amount of lifetime income, regardless of investment performance.
- GMWB – Guarantees that a certain percentage of the amount invested can be withdrawn annually until the original amount is completely recovered, regardless of investment performance.

Taxation of Annuities

Typically you should consider an annuity only after you have maxed out other tax-advantaged retirement investment vehicles, such as 401(k) plans and IRAs. If you have additional money to set aside for retirement, an annuity's tax-free growth may make sense, especially if you are in a high-income tax bracket. However, just like 401(k)’s and IRAs, it is important to understand that any long-term capital gains you build up in the subaccounts will be taxed at ordinary income tax rates when you withdraw them. This means that high-income investors are effectively converting long-term capital gains into ordinary income that will be taxed at higher rates. In addition, you will pay a 10% penalty on withdrawals if you're under age 59 ½.

Cost of Annuities

The fee structures of annuities can be complex and unclear. The most common fees and charges are:

- *Mortality and Expense Charge (M&E)* – compensates the insurance company for insurance costs and other costs it assumes under the contract. These fees typically range from 1.15% to 1.85% annually.
- *Administrative and Distribution Fees* – covers the costs associated with servicing and distributing the annuity. These fees typically range from 0% to 0.60% annually.
- *Subaccount Fees* – management fees that are paid to the investment advisor responsible for making investment decisions. These fees typically range from 0.70% to 2.73% annually.
- *Living Benefit Riders* – additional fees that pertain to riders such as the ones described above. Actual fees vary by contract but typically range from 0.30% to 2% annually.
- *Contingent Deferred Sales Charge (“Surrender Charge”)* – charges assessed to the annuity owner who liquidates the contract during the surrender period. A typical surrender charge ranges from 7% to 9% and decreases each year the contract is in force until the surrender charge reaches zero.

Before buying any annuity, you should request a prospectus and read it carefully. The prospectus contains important information about the annuity contract including fees and charges, investment options and objectives, risks, death benefits, living benefits and annuity income options. Annuities are some of the most expensive products sold, which can significantly erode investment performance. Therefore, these vehicles should not be purchased as an investment but are more appropriate if they are owned for their contractual guarantees. If you don't need to contractually solve for principal protection or lifetime income, then you probably don't need an annuity.

At Rinehart, we realize that each client’s situation is unique. If there are part of these situations that apply to you, let our expert advisors consult with you to determine the best option for your situation. It is important that the annuity solution compliment your overall portfolio and is allocated at an amount that reflects your age, lifetime goals, and risk tolerance.

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Clients of RWM,

It is with great pleasure that I write to update you on Mary Rinehart's succession plan. I have taken over as CEO as Mary transitions to Chairwoman; a role that she was will enjoy and embody. Myself and the entire staff cannot congratulate and thank her enough for the vision and dedication to start this wonderful firm focused on taking care of individuals.

As owner and now CEO of the business, I am thrilled to come to work each day to serve my clients and work with incredible colleagues. Along those lines, as the firm grows, I am putting in place a strong management team to fortify the business and create a deep bench to service clients for many years to come.

Sandy Carlson has accepted the role of President while simultaneously agreeing to purchase 10% of the firm from Mary. The firm is thrilled that Sandy has made this commitment, and as many of you can attest, Sandy is an asset and personality that we want to be a part of Rinehart forever. The team at Rinehart looks forward to servicing you, and I will continue to strengthen our team when necessary. That said, I think that we have the team in place to guide us through the next decade, and I could not be more proud to call the employees of Rinehart colleagues and friends.

Sincerely,

Daniele Donahoe

Rinehart Wealth Management

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

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