Rinehart
WEALTH & INVESTMENT
ADVISORY

May 2017

INSIGHTS

Investment Overview

1Q17 Economic Overview: 2017 Value in Review

At the beginning of the year, the Investment Team highlighted focus investment opportunities for 2017 (January 2017 INSIGHTS). Specifically, the Investment Team identified relative value investment opportunities in high-yield municipal bonds, emerging market equities, European equities, and certain hard-hit sectors and segments of the U.S. equity market that underperformed in 4Q16, such as Health Care and Information Technology. Given we are already approaching the midpoint of 2017, taking inventory of our investment themes seems appropriate.

High-Yield Municipal Fixed Income

In January, the Investment Team discussed how the precipitous decline in the municipal bond market following the U.S. presidential election, triggered by a rapid rise in inflation expectations and a corresponding spike in interest rates, appeared exaggerated relative to the declines seen in the treasury and corporate bond markets, as technical factors tend to cause outsized declines in municipal bonds when interest rate expectations shift suddenly. Given the absence of any imminent change in the economic outlook or deterioration in the underlying credit quality of the municipal bond market, we recommended adding incremental exposure to municipal bonds given increasingly attractive relative valuations. In particular, high-yield municipal bonds were attractive relative to high-yield corporate bonds due

Continued on next page

Wealth Advisory Overview

Should You Incorporate Home Equity Into Your Retirement Income Strategy?

The question of whether or not a reverse mortgage should be considered as part of an overall retirement income planning strategy is one that is often asked by many individuals nearing retirement. Perhaps the reason why is because for most Americans home equity represents a significant asset on their balance sheet. Therefore, it is no surprise that questions regarding converting this equity into an income stream to supplement Social Security, pay for escalating medical expenses, or meet other unexpected expenses in retirement are top of mind.

What is a Reverse Mortgage?

A reverse mortgage is a special type of home loan that lets you convert a portion of the equity in your home into cash. The proceeds from the reverse mortgage can be taken out in a combination of any of the following four ways:

- **Lump-Sum Payment:** This involves taking out a large initial amount, though not necessarily the full amount available.

Continued on page 8

Investment Team

Daniele Donahoe, CFA
CEO & Chief Investment Officer
Elliott Van Ness, CFA
Director of Research & Portfolio Manager
Brittany Danahey, CFA
Portfolio Manager
Mary Rinehart, CFP®
Chairman & Portfolio Manager

Wealth Advisory Team

Sandy Carlson, CFP®, CPA, CDFA™
President & Wealth Advisor
Leah Maybry, CPA
Wealth Advisor
Ryan Vaudrin, CFP®
Wealth Associate
Lorri Tomlin, RP®
Wealth Associate
Jeremy Williamson
Client Service Associate

Special points of interest

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

Investment Overview

1Q17 Economic Overview: 2017 Value in Review

to the fact that the yield ratio had risen above 100%, which has historically been indicative of attractive buying opportunities for high-yield municipal bonds.

Since our recommendation, the Bloomberg Barclays High-Yield Municipal Bond Index has returned +4.06%, while the Bloomberg Barclays U.S. High-Yield Corporate Bond Index has returned +2.70%. Municipal bond markets recently benefited from improved investor sentiment, as anxieties about the near-term impact of comprehensive tax reform on the favorable treatment of municipal bonds dissipated and the adjustment to interest rate expectations stabilize. Municipal bond mutual funds have enjoyed positive year-to-date ("YTD") net cash inflows of approximately +$6.22 billion through the first two months of 2017 after having suffered substantial year-end outflows of approximately -$28.47 billion during the final two months of 2016. As illustrated below in Chart I, the index-level yield ratio remains above the 100% threshold (±107% as of March 31st 2017), indicating that high-yield municipal bonds are still relatively *more attractive* than high-yield corporate bonds, although the yield ratio appears to be trending lower from recent peak levels.

While the Investment Team continues to recommend dedicated exposure to high-yield municipal bonds as part of a diversified Hybrids portfolio, the "easy money" on this theme has been made, and we are adding to positions with

Chart I: High-Yield Municipal vs. High-Yield Corporate Yield Ratio

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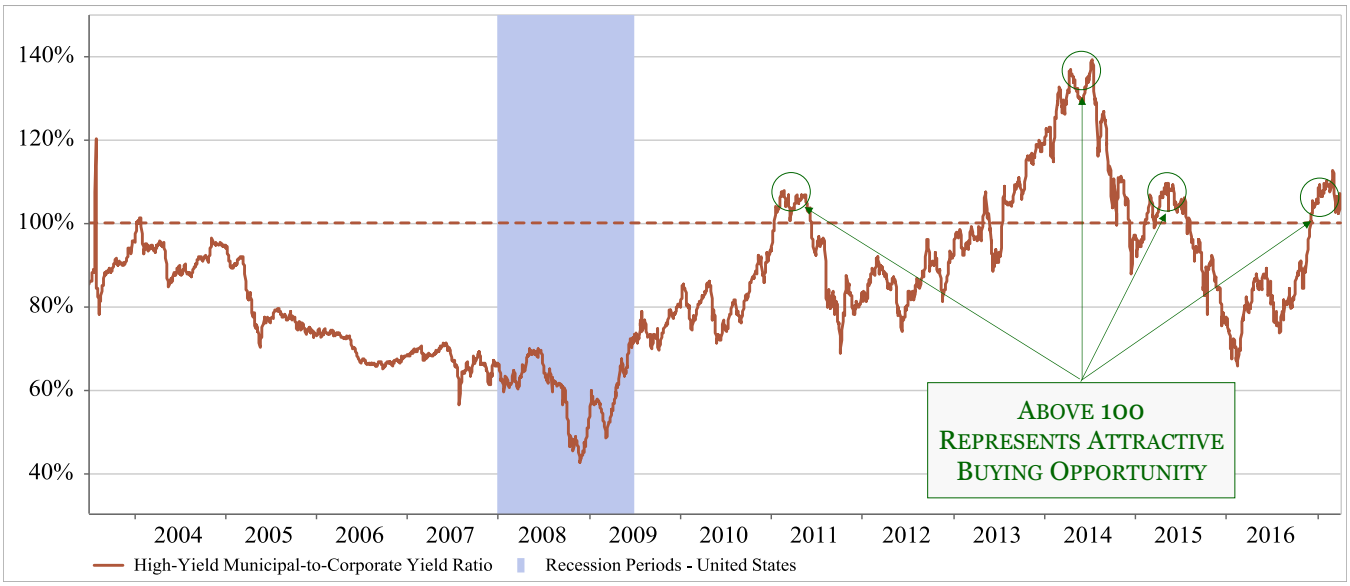

Source: FactSet Research Systems, Inc.

Monthly Index Review (USD Total Return)

Data as of April 30th 2017	April 2017	2017 YTD	2016	2015
S&P 500	+1.03%	+7.16%	+11.96%	+1.38%
Dow Jones Industrial Average	+1.45%	+6.71%	+16.50%	+0.21%
NASDAQ Composite	+2.35%	+12.71%	+8.87%	**+6.96%**
Russell 2000	+1.10%	+3.59%	**+21.31%**	-4.41%
MSCI Emerging Markets	+2.21%	**+13.95%**	+11.60%	**-14.60%**
MSCI EAFE	**+2.62%**	+10.20%	+1.51%	-0.39%
Barclays US Aggregate	+0.77%	+1.59%	+2.65%	+0.55%

Investment Overview

1Q17 Economic Overview: 2017 Value in Review

less urgency.

Emerging Market Equities

Additionally, the Investment Team suggested that the relative underperformance of emerging market equities in 4Q16 reflected unrealistic concern regarding the ominous implications of U.S. "protectionism" under the Trump administration, as well as the negative impact of a stronger U.S. dollar ("USD"), on the ability of emerging markets to stimulate and sustain higher economic growth.

The post-election decline in emerging market ("EM") equities proved short-lived: after falling -7.04% during the week immediately following the election, the MSCI EM Index extended its rally into 2017, generating a total return of +11.49% in 1Q17 vs. +6.07% for the S&P 500®, outperforming most traditional asset classes. As indicated below in Table I, several of the index's highest-weighted countries have exhibited strong country-level total return performance thus far in 2017, which has positively contributed to index-level outperformance. Despite consensus optimism about the USD continuing to strengthen entering 2017, the USD suffered a decline of -1.6% in 1Q17, moderating currency-related headwinds. Accordingly, investor sentiment quickly shifted, as reflected by net new cash flows into EM equity mutual funds turning positive through the first two months of 2017, with investors' net contributions totaling +$1.965 billion after two consecutive years of cumulative net outflows of -$8.248 billion in 2015 and 2016 *(Source: FactSet Research Systems, Inc.)*.

EM equity valuations and broader demographic trends continue to look attractive on a relative basis: as of March 31st, the MSCI EM Index was trading at a forward price-to-earnings ("PE") multiple of 12.1x, reflecting a -31.3% discount to the S&P 500®, which was trading at a forward PE of 17.6x. According to the iShares MSCI Emerging Markets ETF ("EEM"), EM equities have traded at an average discount of approximately -19.0% to the S&P 500® over the past 10 years, implying that EM equities could appreciate by +12.3% through multiple expansion should valuations converge toward "normalized" levels relative to U.S. equities.

Moreover, on an absolute basis, EM equity valuations have upside potential for additional, late-stage cyclical multiple expansion. Given the tendency of EM equities to outperform during the later stages of the market cycle and the asset class' economic sensitivity to commodities and cyclical industries, EM equity multiples could expand without heroic positive momentum necessary to move meaningfully higher. During the last market cycle, EM equities hit a peak forward PE multiple of 15.1x in October 2007, which would suggest potential upside of +24.75% from

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Table I: EM Country-Level Performance (USD Total Return)

Data as of March 31st 2017

Country	Index Weight	1Q17
China	26.90%	+12.93%
South Korea	15.07%	**+16.90%**
Taiwan	12.27%	+11.78%
India	8.86%	**+17.12%**
Brazil	7.62%	+10.43%

Source: FactSet Research Systems, Inc. & MSCI Inc.

About Rinehart

Rinehart Wealth & Investment Advisory 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:

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1Q17 ECONOMIC OVERVIEW: 2017 VALUE IN REVIEW

current levels.

The Investment Team believes that EM equities continue to represent an attractive investment opportunity in 2017 and would recommend that long-term investors maintain an overweight allocation to EM equities.

EUROPEAN EQUITIES

Heading into 2017, the sentiment surrounding European equity markets and multinational companies was decidedly negative; Rinehart, however, had a controversially constructive view on the asset class. Trading at a double-digit discount to the S&P 500®, the Investment Team felt that the bad news was well-known and already priced into the markets. According to the FactSet Europe Equity Market Index, European equities were trading at a forward PE multiple of 14.4x next-twelve months' ("NTM") earnings per share ("EPS") at the end of 2016, representing a -14.8% discount to the S&P 500®, which was trading at a comparable multiple of 16.9x. As of March 31st 2017, this relative discount had *expanded* to -16.5%, vs. a 10-year historical average discount of approximately -13.0%, with European equities and the S&P 500® trading at forward PE multiples of 14.7x and 17.6x, respectively, despite incremental improvements in underlying fundamentals.

Macroeconomic factors, such as better-than-expected economic data out of several EU countries and the stabilization in the Euro ("EUR") relative to the USD, provided fundamental support for European equities in 1Q17, as the MSCI Europe Index delivered a total return of +7.61% in 1Q17 - outperforming the S&P 500® by +154 basis points ("bps"). Coordinated easy monetary policies across the EU and other European countries (e.g., the United Kingdom) provided an accommodative backdrop for high-quality European equities, several of which had been trading at irrational valuation discounts relative to their U.S. counterparts.

In January, the Investment Team illustrated how Netherlands-based Unilever N.V. ADR ("UN"), a long-term holding across our International Equity portfolios, traded down to as much as a -15.0% discount to Procter & Gamble Co. ("PG"), despite trading at an average discount of approximately -4.0% over the past 10 years, as can be seen below in Chart II. Not only has UN been a long-term position in our International Equity allocations, but also a top idea represented in our RWIA Core 20 Equity Portfolios, as well. On February 17th 2017, it was announced that UN had received an unsolicited takeover bid from Kraft Heinz Co. ("KHC"), pricing its offer for UN at an ±18% premium to the stock's prior close, which sent shares of UN soaring +15.29% during the trading session. While UN rejected the offer, the news surrounding the valuation proved sufficient to close the valuation gap relative to peers, such as PG, and sustain UN shares through the end of 1Q17, with the

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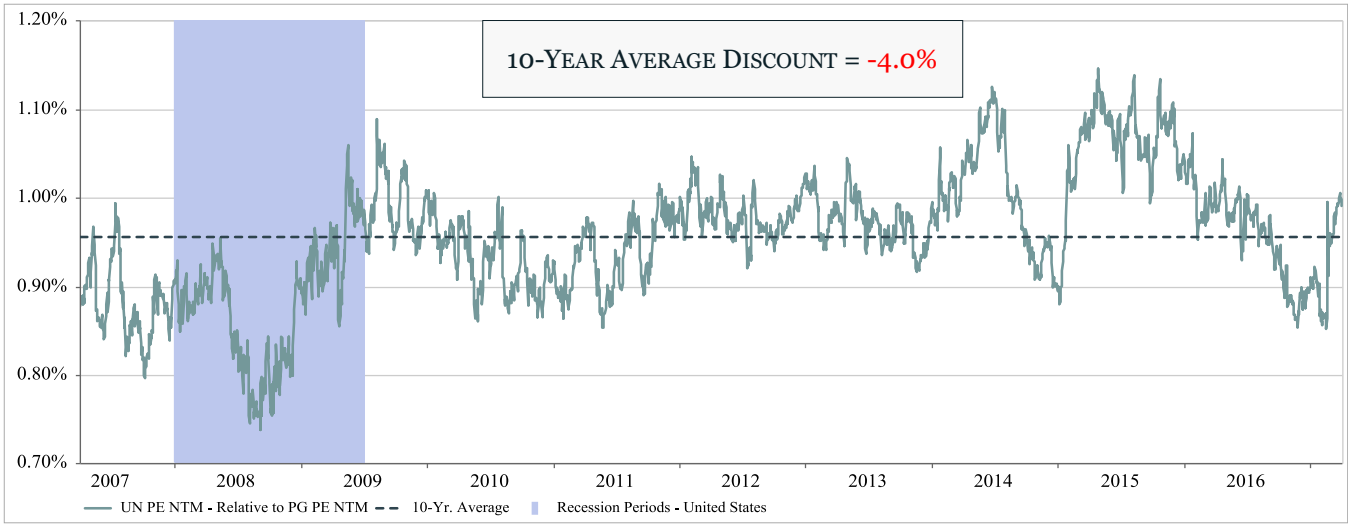
CHART II: RELATIVE VALUATION - UNILEVER N.V. ADR ("UN") VS. PROCTER & GAMBLE CO. ("PG")



Source: FactSet Research Systems, Inc.

Investment Overview

1Q17 Economic Overview: 2017 Value in Review

stock returning an impressive +21.7%!

There are certainly risks involved with investing in European equities, but the Investment Team is confident that selective value investment opportunities are available in high-quality European stocks whose valuations are currently being suppressed by geopolitical concerns and broader, exogenous market-related risks. In addition to individual stock selection, exposure to niche investment strategies via high-quality active management continues to be attractive and value additive, as highlighted in this month's "Stock & Strategy Spotlight" section.

Underperforming Segments within U.S. Equity

Health Care

After years of benefiting from transformative secular growth and subsequent drug price inflation, the S&P 500® Health Care Index was the only sector within the S&P 500® to deliver a negative return in 2016, resulting from election-related headline risks and renewed regulatory scrutiny over drug pricing, as well as a decline in high-profile merger and acquisition ("M&A") activity. At the beginning of 2017, the Investment Team argued that absolute and relative valuations had overcorrected, with the sector trading at a -14.0% discount to the S&P 500®, creating significant value opportunities within the sector. Despite residual political uncertainty under the Trump administration, the long-term outlook remained relatively positive for high-quality Health Care companies heading into 2017 due to persistent, long-term secular tailwinds, such as the need to curb the rising costs of health care by improving the regulatory framework for drug and medical devices and promoting the development of innovation technologies to support an aging population with longer life expectancies.

In 1Q17, Health Care was the third-best performing sector in the S&P 500® behind Information Technology and Consumer Discretionary, outperforming the broader index by +230 bps. Although contentious debate over the economic implications of the administration's health care reform proposals and the American Health Care Act ("AHCA") dominated headlines throughout the month of March, the Health Care sector managed to hold on to the majority of its YTD gains. This is a relatively encouraging indication, as investors may be proving themselves to be better able to look through near-term headline risks and focus on the long-term value proposition of Health Care.

Industry-level performance within Health Care was broadly positive in 1Q17, as the leading industries, Health Care Technology and Life Sciences Tools & Services, returned +24.23% and +15.14%, respectively, while the relative laggards, Pharmaceuticals and Biotechnology, generated more modest returns of +6.76% and +6.62%, respectively. Industry-level valuations remain suppressed relative to historical average multiples, reflective of lingering near-term uncertainty, which may offer extremely attractive buying opportunities for high-quality companies capable of generating long-term growth by delivering cost-saving initiatives and innovative solutions.

Information Technology

Prior to the election, the forward PE multiple for the S&P 500® Information Technology Index hit a five-year peak on an absolute and relative basis. In the wake of the election results, several segments of the Information Technology ("IT") sector sold off in response to the strengthening USD, with the forward PE multiple compressing as much as -6.7% from its prior peak, due to the sector's historical sensitivity to a strong USD given outsized exposure to international markets.

Since then, however, investors have returned en masse to IT stocks in anticipation of corporate tax reform

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1Q17 ECONOMIC OVERVIEW: 2017 VALUE IN REVIEW

due to the substantial amount of cash held overseas by numerous large cap companies within the sector. Consensus expectations are that corporate tax reform will likely contain a provision whereby these companies would be incentivized to repatriate cash at reduced tax rates in order to reinvest the proceeds in the U.S., although, seeing as how IT has led the S&P 500® in average dollar quarterly share buybacks since 2005, we believe this cash will ultimately be used to boost shareholder value by increasing share buyback plans or dividend payouts.

The Investment Team maintained our positive outlook and positioning within IT heading into 2017, and portfolios have benefitted accordingly. As previously indicated, the IT sector was the leading sector-level outperforming in 1Q17, delivering a total return of +12.6% (vs. +6.1% for the S&P 500®). This relative outperformance was driven by significant industry-level contribution from the Hardware, Storage, and Peripherals industries, which returned +23.0% - largely due to the +24.5% return generated by Apple, Inc. ("AAPL").

While sector- and industry-level valuations may not be as attractive as they were at the beginning of 2017, there are still opportunities in high-quality companies with established businesses and recurring revenue models capable of generating predictable free cash flow and steady earnings growth.

FINDING VALUE IN 2017 SCORECARD

The Investment Team identified several successful investment themes at the beginning of the year, which we have summarized below in Table II, and we remain focused on uncovering even more value opportunities throughout the rest of 2017. While this is becoming increasingly difficult, we remain ever vigilant in our quest to find investment ideas that will positively contribute to portfolio-level outperformance for our clients.

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TABLE II: FINDING VALUE IN 2017 SCORECARD (USD TOTAL RETURN)

DATA AS OF MARCH 31ST 2017

INVESTMENT THEME & INDEX-LEVEL PERFORMANCE	1Q17
HIGH-YIELD MUNICIPAL BONDS	
Bloomberg Barclays High-Yield Municipal Bond Index	+4.06%
EMERGING MARKET EQUITIES	
MSCI Emerging Markets Index (USD)	**+11.49%**
EUROPEAN EQUITIES	
MSCI Europe Index (USD)	+7.61%
UNDERPERFORMING SEGMENTS WITHIN U.S. EQUITY	
S&P 500® Health Care Sector Index	+8.37%
S&P 500® Information Technology Sector Index	**+12.57%**
S&P 500® INDEX	+6.07%

Source: FactSet Research Systems, Inc.

Investment Overview

1Q17 Economic Overview: 2017 Value in Review

First Quarter Economic Overview

As always, we look forward to discussing these topics, as well as other pressing investment and economic issues, during our Quarterly Economic Overview webinar: details and registration information are provided below.

Please feel free to contact us at (980) 585-3390 or evanness@rinehartwia.com if you have any questions.

Date: Thursday, May 11th

Time: 10:00 AM EST

Registration Information

Please refer to the following link, which was included in the original email, or look for additional registration reminders, which will be sent out prior to the webinar.

To register for the webinar, please click here.

A recording will be available on our website after May 12th.

"It's wise to remember that too much success in the stock market is in itself an excellent warning."

- Gerald Loeb

Stock & Strategy Spotlight

Name	Ticker	2017 YTD
JOHCM International Small Cap Equity	JOSMX	**+12.10%**

Description & Investment Thesis

The Investment Team recently held an in-person meeting with Senior Fund Manager Robert Cresci, during which he explained how the JOHCM International Small Cap Equity Fund ("the Fund") has been able to effectively generate attractive absolute and relative risk-adjusted returns since the Fund's inception in October 2013. The Fund utilizes a methodical investment strategy and a rigorous research process emphasizing fundamental, bottom-up research and analysis to construct high-quality, high conviction investment portfolios of high-quality durable growth companies with targeted 4-7 year investment horizons. In particular, the Fund identifies its investable universe by focusing only on those companies that satisfy its multifactor quantitative and qualitative screening process, thereby reducing the number of companies under the Fund's coverage at any given time to a more manageable number (±200 stocks). Furthermore, valuation analysis is tailored to be company- and industry-specific, such that the Fund is able to appropriately utilize its accumulated research efforts and correctly apply its fundamental assumptions. The Investment Team believes that the Fund takes a unique, fundamentally-driven approach to actively investing in high-quality international equities that is reflective of our own investment philosophy and objective, which is extremely attractive at this stage in the market cycle.

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SHOULD YOU INCORPORATE HOME EQUITY INTO YOUR RETIREMENT INCOME STRATEGY?

- **TENURE PAYMENT:** This method works similar to an income annuity where a fixed monthly payment is guaranteed to be received for as long as the borrower lives and remains in the home.
- **TERM PAYMENT:** A fixed monthly payment is received for a fixed amount of time.
- **LINE OF CREDIT:** A line of credit is opened and available from which to draw as needed.

HOW DO I QUALIFY FOR A REVERSE MORTAGE?

Reverse mortgages are administered by the Housing and Urban Development department of the federal government. In 1989, reverse mortgages were consolidated into one program known as the Home Equity Conversion Mortgage ("HECM"), which is insured by the Federal Housing Administration. Requirements to become an eligible HECM borrower include:

- **AGE:** The borrower must be at least 62 years of age.
- **HOME EQUITY:** The borrower must be on the title of the home and either own the home outright, or have a low enough remaining mortgage balance for the reverse mortgage loan to pay off the existing debt.
- **PRIMARY RESIDENCE:** The borrower must live in the home and cannot live elsewhere for more than 12 consecutive months.
- **FINANCIAL QUALIFICATIONS:** The borrower must be financially able to pay their property taxes, insurance, home maintenance and any applicable HOA fees.

HOW DO REVERSE MORTGAGES WORK?

Unlike a traditional home equity loan or second mortgage, HECM borrowers do not have to repay the loan until they have left the home, either through death or by moving. Upon death, heirs can arrange for a time period of up to 12 months to repay the loan balance, or they can walk away if they believe the outstanding balance is significantly higher than the appraised value and potential selling price for the home. Upon sale of the home, all proceeds beyond the amount owed belong to your spouse or estate. This means any remaining equity can be transferred to your heirs without debt.

Distributions from a reverse mortgage are not taxable and therefore, are not included in your Adjusted Gross Income. This will help with tax bracket management when trying to minimize the impact of taxation on other retirement benefits.

WHAT ARE THE ASSOCIATED FEES?

The cost of a reverse mortgage will depend on the type of loan you choose, how much money you take out upfront, as well as the lender chosen. With a HECM mortgage, you'll be charged in two ways: upfront and over time.

- **UPFRONT COSTS:** These include lender fees, upfront mortgage insurance, and real estate closing costs. Your upfront mortgage insurance charge is based on the size of your loan, and how much you choose to take out in the first year.
- **COSTS OVER TIME:** These fees include interest and ongoing mortgage insurance premiums. The interest rate you pay depends on what lender you choose. You interest rate may be fixed or variable. Mortgage insurance adds an additional 1.25% on top of the interest rate. Each month, interest and mortgage insurance charges are calculated based on the current loan balance. These charges are added to your loan balance.

Note: In addition to HECM mortgages, lenders may offer proprietary reverse mortgages, which may have different qualifications and fees associated with these products.

CONCLUSION

Reverse mortgages have a relatively short history in the U.S. Therefore, the financial planning community does not have extensive research modeling the use of these products, nor their effects on the retirement plan. Preliminary findings indicate that strategies that exhaust home equity prior to taking distributions from investments increased the overall risk for the retirement plan. More upside potential was generated by delaying taking distributions from investments, however, more downside risk was created because home equity was used more rapidly without necessarily being compensated by sufficiently high market returns.

Around Rinehart

Welcoming Michael Means, CPA!

We are pleased to announce that Michael Means will be joining Rinehart Wealth & Investment Advisory and Maybry McShane in May. Michael is a CPA with almost nine years of experience, seven of which were at Elliott Davis Decosimo, one of the nation's top 30 accounting firms. While at Elliott Davis Decosimo, Michael worked alongside Leah Maybry to serve the tax and accounting needs of some of Charlotte's most prominent families and closely-held businesses.

Michael holds a Bachelor of Business Administration in Accounting & Finance and an MBA with a focus in Accounting from Winthrop University. We are excited to add another CPA with proven tax experience to the Rinehart/Maybry McShane team.

RWIA Sponsors Bechtler Gala!

RWIA was a proud sponsor of "Taboo! The Bechtler Museum of Modern Art's 2017 Gala" earlier this month. This is our third year sponsoring this fun, festive event to raise awareness and funding for the Bechtler museum in Charlotte whose art and architecture brings unique focus on cultural innovation in Charlotte. Daniele and Sandy shared the evening with clients and friends!

RWIA Cheers on Charlotte Knights!

While sponsoring an evening watching the Knights at the BB&T Ballpark, Rinehart went from "wealth advisors" to "weather managers" (see picture below). It was overcast and cold, so thank goodness we are better wealth advisors than meteorologists!

First Quarter Economic Overview Luncheons

In addition to our webinar, Daniele & Elliott will be hosting two luncheon presentations of the Quarterly Economic Overview for CPAs and interested parties at our offices on the following days:

- **Clients & Interested Parties Luncheon**
  - Thursday, May 25th (12:00 - 1:30 PM)
- **CPA Luncheon**
  - Friday, May 26th (12:00 - 1:30 PM)

For more information or to register for either event, please contact Elliott Van Ness (evanness@rinehartwia.com).

Rinehart Wealth & Investment Advisory

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

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