

## INSIGHTS

### INVESTMENT OVERVIEW

#### ECONOMIC INDICATORS REVISITED: LEADING VS. LAGGING

While assembling the Quarterly Economic Overview, the Investment Team analyzes macro- and microeconomic data in order to develop a fundamental investment outlook, which drives tactical asset allocation and security selection. The research and analysis process incorporates the use of **economic indicators** to gain insight into an economy's progression through the business cycle, as we feel these indicators apprise investors of the state of the economy and, if used and interpreted correctly, can have predictive value. By definition, a **lagging economic indicator** measures recent past economic activity and trails behind financial markets, while a **leading economic indicator ("LEI")** tracks a particular variable that has historically been predictive of impending "turns" in the market cycle. In other words, lagging economic indicators are helpful when trying to characterize prevailing economic conditions but offer limited insight into forthcoming shifts in the stock market. Conversely, shifting trends and fluctuations in underlying LEI data can signal upcoming pivot points in the business or market cycles that are not yet reflected in asset prices.

For the past 6-12 months, the Investment Team has been arguing that lagging economic indicators within the U.S., such as the unemployment rate and gauges of consumer confidence, illustrate the relative health of the current U.S. economy and may indicate a "topping" in the stock market, if historical peaks are any indication of where we might be in the current cycle. Furthermore, several of

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### WEALTH ADVISORY OVERVIEW

#### CYBER SECURITY UPDATE

Cyber security is increasingly becoming an important part of everyday life, with the media seemingly reporting on new cyber crime attacks every day. As recently as June 27<sup>th</sup>, there were reports of a new computer virus from Ukraine wreaking havoc on computer systems around the world. It is believed that this virus originated and spread from users downloading a popular tax accounting package or by visiting a local news site. Years ago, it seemed like individual users could simply rely on their anti-virus software to provide adequate protection. Unfortunately, this is no longer the case: it is nearly impossible to ensure that personal information is 100% protected when it is stored or transmitted electronically, but there are ways to lessen your risk. For this reason, we want to provide as much assurance as possible about the Rinehart email and portal processes, discuss some recent security issues that you need to be aware of, and share a few practical tips to minimize your chances of being a cyber crime victim.

At Rinehart, we are huge advocates of using our portal and secure email functionality to protect personal data and reduce the opportunities for identity theft. The portal uses an encrypted environment that offers significantly more protection than unencrypted emails. This is accomplished by all files being saved

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#### INVESTMENT TEAM

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*Wealth Associate*

#### SPECIAL POINTS OF INTEREST

- [Monthly Index Review](#)
- [Stock & Strategy Spotlight](#)
- [Around Rinehart](#)

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the LEIs that the Investment Team tracks, such as trends in temporary employment, have been exhibiting patterns typically associated with an economy approaching the later stages of the business cycle, which can correspond with the stock market nearing a peak.

## LAGGING ECONOMIC INDICATORS

As previously indicated, lagging economic indicators provide useful ways to qualify current economic conditions but are not reliable indicators of future market performance. Therefore, the Investment Team places little credence in the data's ability to accurately determine movements in the market. Normally, when this data appear robust, the stock market is already in the process of peaking, as the stock market has historically preceded economic conditions with reliable prognostication. Two of the more popular lagging economic indicators that we monitor as contrarian indicators are the unemployment rate and the Consumer Confidence Index®: it is when these indicators appear strongest that concerns of excessive market exuberance begin to emerge.

## U.S. UNEMPLOYMENT RATE

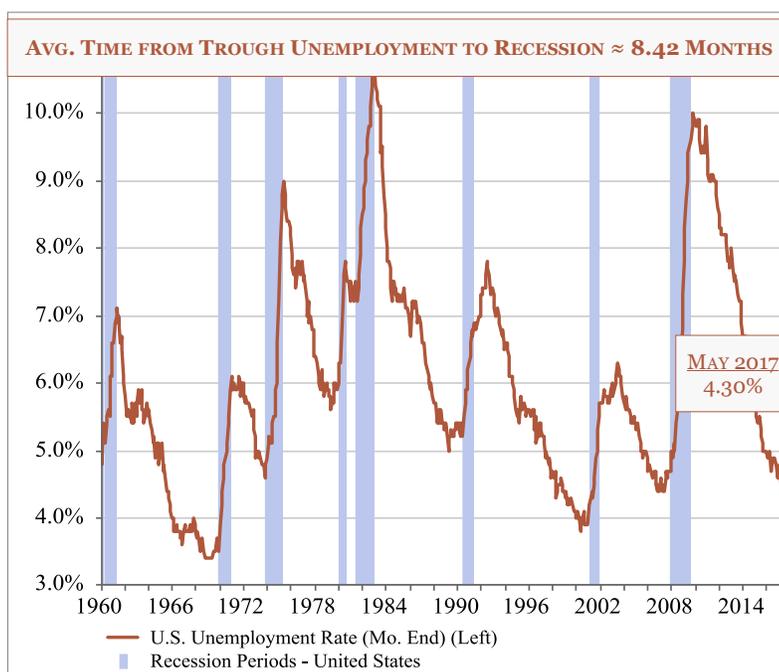
The U.S. Bureau of Labor Statistics ("BLS") publishes a monthly report and comprehensive data on the employment situation and prevailing labor market conditions in the U.S. based on the results of the most recent month's Current Population Survey ("CPS"). Included within this report is the most recent month's unemployment rate, which measures the ratio of unemployed persons (i.e., persons without a job actively seeking a job and available to perform work) to the civilian labor force

(i.e., the sum of employed and unemployed persons older than 16 years).

As it relates to the business cycle, the unemployment rate provides insight into the health of the broader economy, with a *declining* unemployment rate implying robust economic conditions, and a *rising* unemployment rate reflecting deterioration in underlying economic conditions, with layoffs increasing heading into and throughout recessionary periods. As can be seen below in Chart I, after several years of steady declines following the Global Financial Crisis, the U.S. unemployment rate recently hit 4.30% for the month of May 2017: its lowest level in over 15

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CHART I: U.S. UNEMPLOYMENT RATE



Source: FactSet Research Systems, Inc.

## MONTHLY INDEX REVIEW (USD TOTAL RETURN)

DATA AS OF JUNE 30 <sup>TH</sup> 2017	JUNE 2017	2017 YTD	2016	2015
S&P 500	+0.62%	+9.34%	+11.96%	+1.38%
Dow Jones Industrial Average	+1.74%	+9.35%	+16.50%	+0.21%
NASDAQ Composite	<b>-0.87%</b>	+14.71%	+8.87%	<b>+6.96%</b>
Russell 2000	<b>+3.46%</b>	+4.99%	<b>+21.31%</b>	<b>-4.41%</b>
MSCI Emerging Markets	+1.07%	<b>+18.60%</b>	+11.60%	<b>-14.60%</b>
MSCI EAFE	<b>-0.15%</b>	+14.23%	+1.51%	<b>-0.39%</b>
Barclays US Aggregate	<b>-0.10%</b>	+2.27%	+2.65%	+0.55%

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years. Within the context of the business cycle, the unemployment rate tends to bottom out prior to the economy entering a recession, as labor market conditions reflect an economy operating near or at full employment, with fewer and fewer incremental unemployed persons entering the workforce. Historically, an unemployment rate of  $\pm 4.00\%$  has been associated with an economy operating at full employment. Looking at business cycles in the U.S. over the past 50 years, the average time between the unemployment rate hitting its cyclical trough and the U.S. economy entering a recession is approximately **8.42 months**.

*U.S. CONSUMER CONFIDENCE INDEX®*

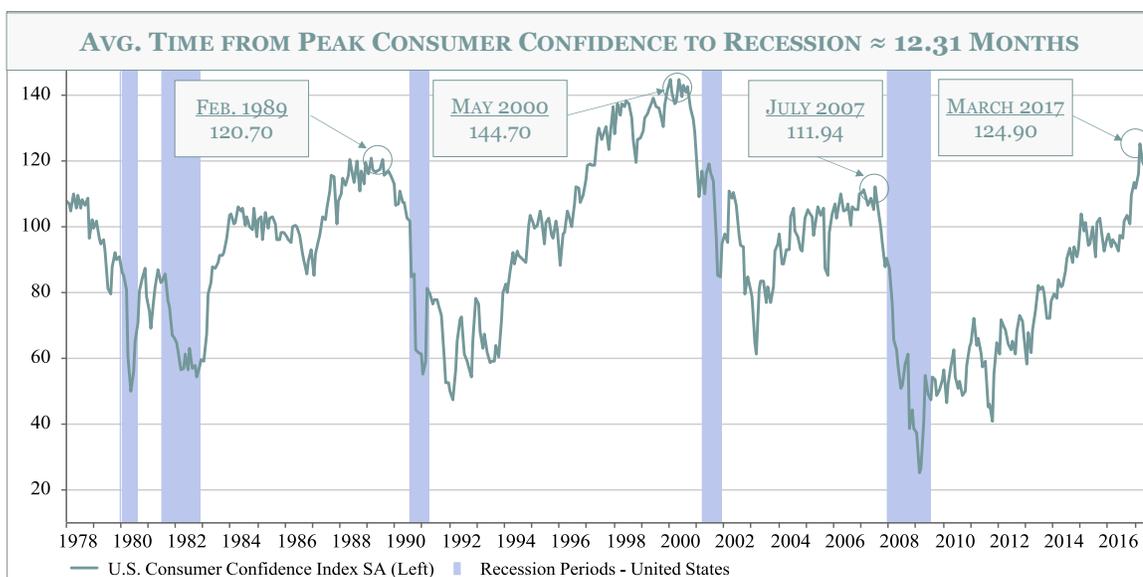
Similar to the BLS' monthly report on employment, The Conference Board publishes a monthly report that captures the perceptions of current and expected business and economic conditions from the perspective of the consumer. The Consumer Confidence Index® ("CCI") measures the relative value of consumers' responses to two sets of questions: the Present Situation Index gauges each respondent's appraisal of

current business and employment conditions, while the Expectations Index measures six-month forward-looking expectations for business and employment conditions, as well as total family income in six months. Respondents select standardized answers of either positive, negative, or neutral, which are then converted into proportions and a relative value for the index.

As an economic indicator, the CCI possesses limited predictive power, partly because the survey-based methodology is fraught with assumptions: in particular, it assumes that consumers are logical and capable of differentiating between current conditions and their perception of those that will be present in the future. Given cognitive dissonance, they are prone to unreasonably, and illogically, extrapolating current conditions into the future. This can be seen below in Chart II, wherein the CCI has peaked an average of **12.31 months** prior to the economy entering a recession ahead of the five most recent U.S. recessions. This is particularly disconcerting given that the CCI hit its highest level in 15 years in March 2017.

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CHART II: U.S. CONSUMER CONFIDENCE INDEX®



Source: FactSet Research Systems, 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:*

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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## LEADING ECONOMIC INDICATORS

In contrast to lagging economic indicators, LEIs can signal upcoming pivot points in the business cycle that are not yet reflected in the stock market. Popular LEIs include manufacturers' new orders data, the Institute of Supply Management ("ISM®") new orders index, building permits data, and, as previously mentioned, stock prices (e.g., price performance of the S&P 500® Index). In addition to these and several other closely-watched economic indicators, the Investment Team focuses on a handful of less popular data series that have proven to be useful and reliable LEIs, such as monthly data on the number of U.S. temporary help services as a percentage of total U.S. non-farm payrolls.

## U.S. TEMPORARY HELP SERVICES

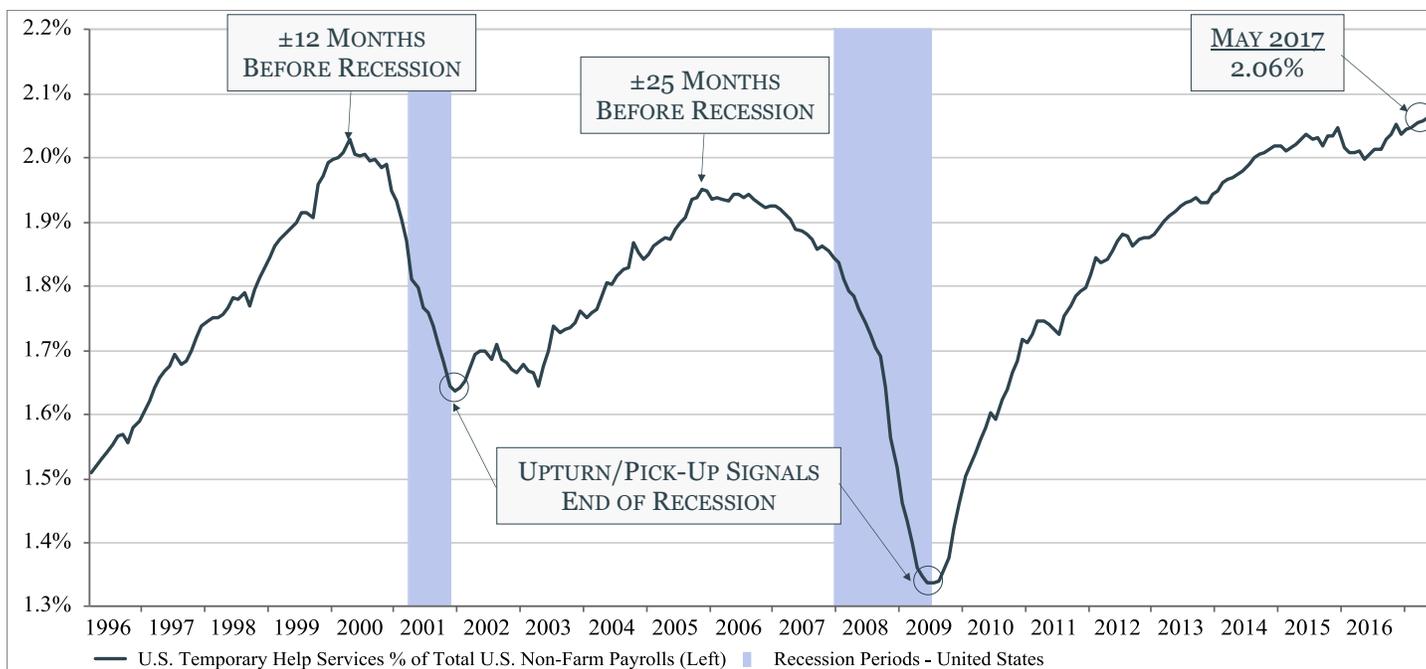
Within the aforementioned monthly employment situation report, the BLS provides industry-level data and statistics, including temporary help services employees. Temporary help services employees are employed by a temporary help firm to provide labor and services to outside, independent employers across various industries: these temporary workers are reported as employees of the temporary help firm - not as employees of the outside firms utilizing the

temporary employees. Consequently, temporary help services employees provide much-needed flexibility and critical cost advantages to employers, which, in turn, makes the industry-level data for temporary help services employees such an informative LEI. As broader demand for goods and services decreases (increases), employers quickly adjust their workforce by decreasing (increasing) their use of indirect, temporary workers prior to firing (hiring) permanent personnel. In this way, it provides a prognosis of the labor market and business owners' appetites for hiring full-time employees. According to a report published by the U.S. Department of Commerce in July 2015: "Firms might be reluctant to bring on permanent employees until the recovery is well-established." When employers experience a slight uptick in demand, they quickly need additional labor capacity and engage temporary workers. As such, this metric has consistently signaled the end of multiple recessions, as can be seen below in Chart III.

As illustrated in Chart III, U.S. temporary help services as a percentage of total U.S. non-farm payrolls tends to peak approximately **12 to 24 months** ahead of a recession, while an upward inflection in that ratio also tends to signal

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**CHART III: U.S. TEMPORARY HELP SERVICES AS A % OF TOTAL U.S. NON-FARM PAYROLLS**



Source: FactSet Research Systems, Inc.

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the end of a recession. As is often the case with LEIs, the rate of change in the trend of the data series is *more* significant than the absolute percentage as a leading indicator for broader economic conditions and the overall business cycle.

## UTILIZING ECONOMIC INDICATOR DATA

Monitoring trends and analyzing LEIs is critical to developing a *forward-looking*, fundamental investment outlook. As previously indicated, lagging economic indicators are useful in qualifying current economic conditions, but this information is usually already reflected in financial markets, which makes them *backward-looking* with regards to presaging future stock market activity.

By evaluating lagging economic indicators, the Investment Team is able to recognize prevailing consensus economic expectations, and, in conjunction with our analysis of LEIs, is able to inspire portfolio-level positioning that is contrarian relative to popular market trends and, ideally, ahead of the rest of the market.

*“A falling stock market is the necessary first step to buying low.”*

*- Charles Ellis*

## STOCK &amp; STRATEGY SPOTLIGHT

NAME	TICKER	2017 YTD
Svenska Cellulosa Aktiebolaget Sponsored ADR Class B	SVCBY	+37.26%
Essity Aktiebolaget Sponsored ADR Class B	ESSYY	-

## DESCRIPTION &amp; INVESTMENT THESIS

Earlier this month, Svenska Cellulosa Aktiebolaget (“SCA”) completed the planned spin off of its hygiene business, Essity Aktiebolaget (“Essity AB”), in a one-for-one share distribution to all shareholders of record as of June 13<sup>th</sup> 2017. On June 16<sup>th</sup> 2017, client portfolios holding shares of Svenska Cellulosa Aktiebolaget Sponsored ADR Class B (“SVCBY”) received a proportional number of shares of Essity Aktiebolaget Sponsored ADR Class B (“ESSYY”), with the value of the combined positions in both SVCBY and ESSYY being approximately equal to the value of the portfolio’s original, unadjusted position in SVCBY. Currently, the Investment Team is evaluating whether or not we want to continue owning both SVCBY and ESSYY, as our original investment thesis for SVCBY was predicated on the realization of the fundamental value of the company’s consumer products business (i.e., Essity AB). When we initiated our buy recommendation for SVCBY, the stock was trading at a significant discount relative to Consumer Staples peers due to company’s legacy cyclical forest products business, which it was in the process of divesting. We are monitoring trading activity in ESSYY to determine whether or not there is sufficient liquidity to warrant additional consideration, as this would represent a considerable risk should equity market volatility reemerge as we progress through the later stages of the current bull market cycle.

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**WEALTH ADVISORY OVERVIEW****CYBER SECURITY UPDATE**

on a separate encrypted server stored within an integrated IT platform. Any documents uploaded and stored on the portal are read-only files, and anything saved on the portal that includes confidential details are further password-protected to add an additional layer of security. To limit excess paper copies with your confidential information, the portal can also be accessed from any computer 24 hours a day, 7 days a week. Other non-security related benefits include, up-to-date account information and online reports, no file size limitations, and environmental awareness.

Using Rinehart's secure emails when necessary is another essential function to protect data from being compromised. Our software is powered by CipherPost Pro, which adds an encrypted layer and allows you to track secured messages and file attachments. To limit ultra-sensitive content from being forwarded to unintended users, we have the ability to add an extra security password to the email, along with a keyword detection system, to prevent corporate data leakage.

**RECENT CYBER CRIME**

As you may have heard, there have been major ransomware attacks occurring worldwide dubbed the WannaCry virus. This virus is believed to come from malicious websites and emails. Once it infects a computer, the virus encrypts files throughout that computer and spreads to other connected devices. Once the files are encrypted by the virus, they can no longer be opened, viewed, or restored unless the user pays the "ransom" or fee to the attackers.

Another common source of cyber crime is tax related identity theft. Once a criminal obtains your personal details, they will file falsified tax returns with various government agencies at the beginning of each tax season. These returns report large refunds to be deposited into fraudulent bank accounts. With the fraudulent tax return already filed, the real tax return will get rejected.

These two examples show why it is essential to use secure features such as the Rinehart portal and secure emails whenever possible. The two primary areas that criminals focus on when stealing compromising data are emails and internet websites. A few commonsense tips and strategies to increase your computer security include: never clicking

on links within emails if you can log in directly to a website; never opening attachments if there is any doubt of the email sender; closely checking email addresses to ensure they are an exact match of the expected sender; and never sending personal information over the phone or in an email unless you are completely sure who will receive it. Other practical tips to protect yourself from cyber attacks include never sharing passwords with anyone, make sure your anti-virus software and all updates are up to date, pay close attention to website addresses, and verify independently the authenticity of any requests for information unless certain.

**CONCLUSION**

Rinehart believes that your computer security will be improved by using our portal and secure emails. However, if you feel you may be or are a victim of a cyber crime, please do not hesitate to reach out to one of us at Rinehart. We can help you navigate the frustrating and difficult process of alerting the proper authorities, such as the Federal Trade Commission ("FTC"), the Internal Revenue Service ("IRS"), credit bureaus, and financial institutions. The faster the response, the less opportunity criminals will have to take advantage of your data. As always, your Rinehart team is available if you would like to discuss security concerns in more detail.

## IN LOVING MEMORY JEREMY MICHAEL WILLIAMSON

APRIL 13<sup>TH</sup> 1975 - JUNE 7<sup>TH</sup> 2017



As many of you know, we lost a beloved member of our Rinehart family this past month. On Wednesday June 7<sup>th</sup>, Jeremy Michael Williamson, with whom many of you have had the pleasure of working, passed away unexpectedly at the age of 42. We have all been understandably grief-stricken by this sudden loss of such a wonderful teammate, committed colleague, and dear friend. His humor, dedication, and eternal optimism will be sorely missed but fondly remembered at Rinehart.

Below, we have provided a link to Jeremy's obituary, as well as a link to the Jeremy Williamson Memorial Fund:

[Jeremy Williamson Obituary](#)

[Jeremy Williamson Memorial Fund](#)

As always, please do not hesitate to contact us if you have any questions, comments, or concerns at this time.

### RINEHART WEALTH & INVESTMENT ADVISORY

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

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