Rinehart
WEALTH & INVESTMENT
ADVISORY

September 2017

INSIGHTS

INVESTMENT OVERVIEW

THE OPPORTUNITY COST OF CONSCIOUS CONCERN

With the S&P 500® Price Index up +15.5% since the U.S. presidential election, headline risk (i.e., media) and geopolitical volatility have had little impact on equity market performance until only recently. Oddly enough, the reemergence of volatility across global financial markets coincided with Rinehart's newsletter last month (August 2017 INSIGHTS), which highlighted the eerie absence of volatility, especially at this stage in the market cycle. The prevailing concern is that the precarious geopolitical situation and the irrational market exuberance will converge, potentially precipitating an outsized correction across global equity markets.

While trying to time the markets is not a productive exercise, being adequately aware, prepared, and informed through exhaustive research is necessary to position portfolios appropriately in anticipation of continued stock market strength or a sudden, severe decline. Analyzing and reevaluating the protection within the portfolio is critical at this juncture in the market cycle, and, as such, the Investment Team recommends incremental adjustments across investment portfolios, while analyzing current relative portfolio performance.

Accumulating excess cash and effectively managing cash allocations is more important in the later stages of the market cycle, which is why we recently completed an exhaustive review of cash and cash equivalent strategies to better help clients maximize their cash allocations held at Rinehart, as well as those held outside their investment portfolios. In addition to a general curiosity and wariness about future market performance is the recent underperformance of our

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WEALTH ADVISORY OVERVIEW

UNDERSTANDING THE ROBO-ADVISOR & THE ROLE THEY FILL

Technology is often a catalyst for driving economic change and the wealth and investment advisory industry is no exception. Moving beyond the ability to manage and view one's banking and brokerage accounts online, individuals are now able to use new technology, in the form of "robo-advisors", that offer inexpensive financial advice.

The concept behind a robo-advisor is straightforward: individuals do not always have the means to pay the costs associated with wealth advisory and professional investment management services. Therefore, for a small fee, these individuals can utilize a specialized computer program to handle their investments and wealth advisory needs.

USING A ROBO-ADVISOR MAY NOT BE AS STRAIGHTFORWARD AS IT APPEARS

Like any new financial trend, robo-advisors should be met with caution. Although it may seem easy to have a robo-advisor select a few index funds for your portfolio, it is crucial to take a personalized approach when planning for your financial future. As individuals look for ways to plan for retirement, manage their

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INVESTMENT TEAM

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SPECIAL POINTS OF INTEREST

INVESTMENT OVERVIEW

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actively-managed high-quality, valuation-driven investment strategy. Since the election, growth stocks have experienced dramatic outperformance relative to value stocks, while dividend-paying stocks have, in general, dramatically underperformed.

PORTFOLIO PROTECTION AT A PRICE

Rinehart has long advocated for a strategic allocation to alternative investments (i.e., Hybrids) as a necessary component of a well-diversified, long-term investment portfolio capable of providing positive risk-adjusted returns (i.e., alpha) over a full market cycle. As such, the Investment Team is constantly monitoring the underlying securities and investment strategies utilized within the Hybrids asset class to determine whether or not the contribution to portfolio-level performance is justified relative to the implicit or explicit cost of owning a particular investment. For additional detail on explicit costs, such as internal investment management fees charged by mutual funds and exchange-traded fund ("ETFs"), please refer to June's edition of INSIGHTS (June 2017 INSIGHTS).

The Investment Team selectively utilizes high-quality, actively-managed investment strategies in inefficient asset classes, such as Hybrids, wherein active management has a proven track record of delivering persistent, long-term alpha. When we uncover a manager straying from the stated investment mandate or failing to provide appropriate alpha relative to the expense ratio, however, we will reevaluate our thesis on the strategy. While short-term underperformance can often be reconciled, when a fund consistently fails to generate risk-adjusted returns commensurate with its stated investment objective and its respective investment strategy, the Investment Team must revisit its original investment thesis and determine whether or not recent performance continues to justify the cost of ownership.

Portfolios have consistently owned the Absolute Strategies Institutional Fund ("ASFIX") throughout periods of explicable relative underperformance given the fund's stated investment objective of seeking absolute returns and low correlation with traditional financial markets. That being said, following a recent conference call with the portfolio management team and poorly-explained underperformance, the Investment Team believes that ASFIX no longer represents an attractive investment option for client portfolios because the strategy does not justify its fee. ASFIX is effectively changing their approach and appear singularly focused on shorting the broader equity market: a strategy that can be done through a much cheaper, passively-managed investment vehicle. The Investment Team should be able to incorporate downside protection more effectively and more efficiently into investment portfolios without incurring the 1.91% annual net expense ratio of a strategy such as ASFIX.

There are viable alternatives that could mimic the strategic exposure currently provided by ASFIX at a much lower cost to investors. In particular, we are focusing on specific periods of severe negative equity market performance over the past several years, wherein we would expect ASFIX and similar strategies to exhibit durable outperformance relative to the S&P 500®. As can be seen in Table I, certain strategies, such as the ProShares Short S&P 500® ETF ("SH") and the ProShares UltraShort S&P 500® ETF ("SDS"), delivered outsized positive total returns relative to both the S&P 500® and ASFIX

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MONTHLY INDEX REVIEW (USD TOTAL RETURN)

DATA AS OF AUGUST 31ST 2017	AUGUST 2017	2017 YTD	2016	2015
S&P 500	+0.31%	+11.93%	+11.96%	+1.38%
Dow Jones Industrial Average	+0.65%	+13.01%	+16.50%	+0.21%
NASDAQ Composite	+1.43%	+20.34%	+8.87%	**+6.96%**
Russell 2000	**-1.27%**	+4.42%	**+21.31%**	-4.41%
MSCI Emerging Markets	**+2.27%**	**+28.62%**	+11.60%	**-14.60%**
MSCI EAFE	-0.02%	+17.50%	+1.51%	-0.39%
Barclays US Aggregate	+0.90%	+3.64%	+2.65%	+0.55%

Investment Overview

The Opportunity Cost of Conscious Concern

during those periods of severe negative equity market performance. Therefore, the Investment Team believes that we will be able to allocate *less* capital, as a percentage of total investment portfolios, to strategies such as SH and SDS than we currently have invested in ASFIX, which will improve portfolio efficiency by significantly reducing the impact of internal investment management fees due to smaller position sizes and the lower expense ratios of SH and SDS, both of which carry a net expense ratio of 0.89%. For example, in order to derive the comparable portfolio-level benefit of holding a ±1.50% position in ASFIX during the most recent S&P 500® sell-off of -5.34% in June 2016, holders of SH and SDS would have only had to own positions of ±0.80% and ±0.40%, respectively.

Cash Portfolios: Maximizing Returns

With lofty asset prices and extended valuations, having a source of "dry powder" available to invest at lower levels, as well as two years' worth of cash flow and liquidity needs, is an important component of comprehensive portfolio management. One year ago, a cash strategy was not integral to portfolio management given the majority of cash and cash equivalent vehicles consistently offered negligible yields. There are a variety of investment options to consider when implementing a cash management strategy, which is designed to earn higher rates while providing flexibility to invest if the market reverses course. We've summarized the main takeaways from our due diligence process in our "Cash Management" matrix. Please ask your Wealth Advisor or Portfolio Manager for a copy of the matrix if you'd like to see all of our findings. Below, we've highlighted a few options for your reference.

There is a critical difference between money market accounts and money market funds. The former is insured by the Federal Deposit Insurance Corporation ("FDIC") up to the maximum allowed by law at FDIC-insured banks, while the latter is not FDIC-insured. By using money market accounts we can get FDIC insurance without sacrificing considerable after-fee yield. The highest yielding money market account we found yielded ±85 basis points ("bps"), or 0.85%, with no fee. Comparable to a money market account, another well-known bank offers a savings account at no fee that currently yields 120 bps.

A slightly less liquid alternative to money market and savings accounts is an actively-managed portfolio of certificates of deposit ("CDs"), which we utilize for conservative clients to manage the inherent interest rate risk of large Fixed Income allocations as rates continue to rise.

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Table I: ASFIX & ETF Performance vs. S&P 500® (USD Total Return)

Data as of August 31st 2017	2011 (7/7-10/3)	2012 (4/2-6/1)	2015 (7/20-8/25)	2015-2016 (11/3/15-2/11/16)	2016 (6/23-6/27)
S&P 500®	-18.38%	-9.58%	-12.04%	-12.71%	-5.34%
Absolute Strategies Institutional Fund ("ASFIX")	+1.84%	+1.17%	+4.24%	+5.80%	+2.95%
ProShares Short S&P 500® ETF ("SH")	**+18.89%**	**+10.09%**	**+12.99%**	**+13.33%**	**+5.44%**
ProShares UltraShort S&P 500® ETF ("SDS")	**+37.54%**	**+20.86%**	**+27.33%**	**+27.94%**	**+11.01%**

Source: FactSet Research Systems, Inc. & Morningstar®

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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Through Fidelity, one of our preferred custodians, we recently constructed a $4.0 million layered CD portfolio, with maturities ranging from 6-18 months, which yielded 145 bps. One important thing to note when considering layering CDs is the potential impact of debt ceiling negotiations, similar to what happened in 2011, which are expected to occur in October and could affect laddering opportunities.

If you are interested in implementing a cash management strategy, please contact your Portfolio Manager to discuss the various options in greater detail. Our proprietary "Cash Management" matrix is available upon request, as well, if you would like to see the results of our recent research and due diligence.

GROWTH TRUMPS VALUE & DIVIDEND PAYERS

Since the presidential election, the S&P 500® has returned +17.51%; the underlying drivers of this return, however, have been narrow, volatile, and inconsistent. At Rinehart, our fundamental investment strategy is predicated on consistently underweighting highly-cyclical stocks and overweighting high-quality, dividend-paying stocks, purchased at reasonable prices. Despite the recent short-term relative underperformance, over the long run and during dramatic drawdowns, this strategy has historically outperformed. The S&P 500® Dividend Aristocrats Index ("Dividend Aristocrats") is an appropriate benchmark for our investment style, and an analysis of the index's long-term performance relative to that of other popular indexes is supportive of our fundamental investment strategy.

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TABLE II: S&P 500® INDEX PERFORMANCE COMPARISON (USD TOTAL RETURN)

		ANNUALIZED TOTAL RETURNS				
DATA AS OF AUGUST 31ST 2017	SINCE TRUMP ELECTION	1-YR.	3-YR.	5-YR.	10-YR.	15-YR.
S&P 500®	**+17.51%**	**+16.23%**	+7.24%	+11.94%	+5.30%	+6.84%
S&P 500® Value	+13.40%	+12.35%	+4.39%	+10.32%	+2.77%	+5.81%
S&P 500® Growth	**+20.55%**	**+19.05%**	**+9.54%**	**+13.25%**	**+7.62%**	**+7.69%**
S&P 500® Dividend Aristocrats	+12.35%	+7.31%	**+10.13%**	**+14.45%**	**+10.40%**	**+10.76%**
DEFENSIVES						
Utilities	+14.78%	+15.64%	+8.22%	+8.64%	+3.53%	+6.43%
Telecom. Services	+3.95%	-4.42%	-0.78%	+0.72%	-0.86%	+3.62%
Health Care	+20.60%	+13.78%	+8.33%	**+15.92%**	+8.90%	+7.53%
Consumer Staples	+6.24%	+3.78%	+6.59%	+8.95%	+7.27%	+6.45%
NEAR-CYCLICALS						
Energy	-7.44%	-6.09%	-13.57%	-2.86%	-1.49%	+6.13%
Financials	**+24.94%**	**+26.02%**	+9.14%	+14.97%	-1.02%	+1.74%
Real Estate	+11.08%	+2.70%	+4.86%	+6.36%	+2.40%	+5.51%
CYCLICALS						
Information Technology	**+28.11%**	**+31.19%**	**+15.00%**	**+15.67%**	**+9.81%**	**+10.76%**
Consumer Discretionary	+15.27%	+13.22%	**+9.32%**	+14.68%	**+9.29%**	**+8.96%**
Industrials	+17.94%	+17.52%	+7.83%	+13.10%	+5.00%	+7.07%
Materials	+18.44%	+15.68%	+2.71%	+8.92%	+3.58%	+6.94%

Source: FactSet Research Systems, Inc. & Morningstar®

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The Opportunity Cost of Conscious Concern

Over the last year, the Dividend Aristocrats has returned only +7.31%, as compared to +16.23% and +19.05% for the S&P 500® and the S&P 500® Growth indexes, respectively. This is illustrative of the dramatic distaste for high-quality, consistent dividend growth in the marketplace recently. When looking at annualized performance over the most recent trailing 3-, 5-, 10-, and 15-year timeframes, however, the Dividend Aristocrats outperformed both the S&P 500® and the S&P 500® Growth indexes. In fact, as can be seen in Table II, the Dividend Aristocrats has outperformed the S&P 500® by **+3.9%** annualized over the past 15 years! This is not a strategy to abandon due to twelve months of late-cycle underperformance.

Furthermore the S&P 500® Growth Index has exhibited extreme near-term outperformance, returning +20.6% (vs. +16.2% for the S&P 500®) since the election, driven by a handful of Information Technology stocks: as can be seen in Table II, the Information Technology Sector has returned +28.1% over this same period. The valuation and performance discrepancy between these names and the rest of the index is not sustainable, in our opinion, and should not be chased at this point. In fact, this investor fixation upon a singular sector and a few stocks is actually creating opportunity for us to identify relatively-undervalued, dividend-paying stocks in traditionally defensive sectors, such as Consumer Staples.

Not Time to Abandon Defensives

Since the presidential election, the strategy of overweighting traditionally-defensive sectors within the S&P 500® (i.e., Utilities, Telecommunications Services, Health Care, and Consumer Staples) has underperformed the broader S&P 500® by **-6.12%**, as illustrated in Chart I, which compares the total return

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Chart I: S&P 500® vs. Defensive Sectors - Total Return Performance

Source: FactSet Research Systems, Inc.

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performance of a hypothetical, equally-weighted aggregate index of those defensive sectors to that of the S&P 500®. Throughout the turbulence of 2015 and amidst the cacophonous election cycle of 2016, however, this same strategy outperformed the S&P 500® on a total-return basis by **+1.63%** and **+0.38%**, respectively.

While the combined underperformance of both "defensives" and dividend-paying stocks has had an adverse impact on short-term performance relative to the S&P 500®, it is cause for an in-depth, contemplative review of the market confidence reflected in the limited breadth of this most recent equity market rally, supportive of maintaining our long-term portfolio positioning strategy. Stable, consistent investment strategies, capable of delivering both downside protection and long-term relative outperformance, have underperformed chasing momentum across a handful of high-flying stocks, which have driven a significant amount of the S&P 500®'s recent outperformance. In fact, through the end of the second quarter of 2017 ("2Q17"), just six stocks accounted for approximately **±26.0%** of the total returns generated by the S&P 500® year-to-date ("YTD") in 2017: Facebook, Inc. Class A ("FB"), Apple, Inc. ("AAPL"), Amazon.com, Inc. ("AMZN"), Microsoft Corp. ("MSFT"), and Alphabet, Inc. Class A ("GOOGL") *(Source: Goldman Sachs Global Investment Research)*.

In other words, excluding the total return contribution from FB, AAPL, AMZN, MSFT, and GOOGL from the total return of the S&P 500® through 2Q17, the 2017 YTD total return for the S&P 500® would have been approximately **+6.91%**: **±2.43** percentage points *lower* than the actual 2017 YTD total return of **+9.34%** through 2Q17.

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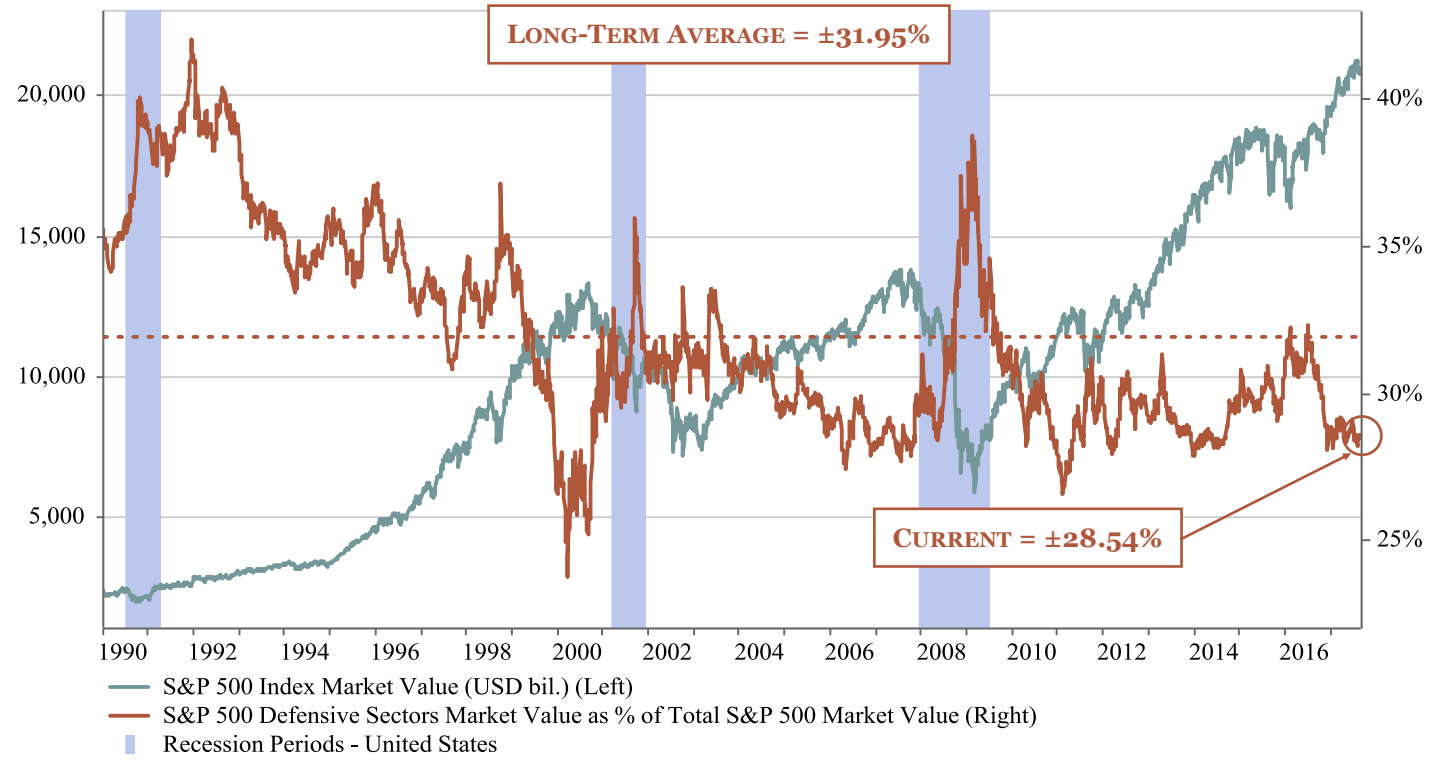
CHART II: S&P 500® VS. DEFENSIVE SECTORS - MARKET CAPITALIZATION



Source: FactSet Research Systems, Inc.

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Defensives as a percentage of the market capitalization of the S&P 500® are depressed relative to history: currently, they represent **±28.54%** of the S&P 500® market capitalization vs. a long-term historical average of **±31.95%**. As can be seen in Chart II, despite being in a relative downward trend over the past ±17 years, this ratio has exhibited a pronounced tendency to spike heading into and throughout U.S. recessionary periods, as investors seek out the relative safety and stability of these defensives sectors. For instance, this ratio rose to as high as **±42.06%** in December 1991, and, during the two most recent recessionary periods, the ratio peaked at **±36.02%** and **±38.82%** on September 20th 2001 and February 23rd 2009, respectively.

With the ratio continuing to hover around pre-recessionary levels of **±28.00%**, the Investment Team believes that there could be considerable potential downside protection, as well as incremental long-term upside capture, for defensives relative to the S&P 500® at this stage in the market cycle.

"Markets can remain irrational longer than you can remain solvent."
- John Maynard Keynes

Stock & Strategy Spotlight

Name	Ticker	2017 YTD
Absolute Strategies Institutional Fund	ASFIX	-5.65%

Description & Investment Thesis

As previously indicated, the Investment Team has been a long-term advocate for the Absolute Strategies Institutional Fund ("ASFIX") because the strategy boasted a proven historical track record of delivering differentiated performance relative to traditional equity and fixed income markets. Moreover, over the past several years, we have reconciled periods of relative underperformance with the fund's stated investment objective of seeking absolute returns and low correlation with traditional financial markets. That being said, following a recent conference call with the portfolio management team, the Investment Team believes that ASFIX no longer represents the most-attractive investment option available to client portfolios and, therefore, does not justify the implicit and explicit costs of continuing to own ASFIX within investment portfolios. In particular, with ASFIX currently positioned to perform/behave like a value-oriented market neutral strategy, we believe that we should be able to incorporate downside protection more effectively and more efficiently into investment portfolios without incurring the 1.91% annual net expense ratio of a strategy such as ASFIX. The Investment Team believes that we will be able to incorporate an actively-managed dedicated allocation to strategies designed to mimic the inverse performance of the S&P 500® Index, which will require a smaller relative position within investment portfolios, while also offering lower net expense ratios relative to ASFIX.

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income taxes or arrange the affairs of their estate, it is important to acknowledge the realities of using a robo-advisor and what you should know before entrusting this technology to manage your life, as well as your life savings.

WHAT EXACTLY ARE ROBO-ADVISORS?

In its most basic form, a robo-advisor is a web-based program offering automated investment tools that require little to no human interaction. In other words, referring to this technology as an "advisor" is somewhat of a misnomer. Typically, robo-advisors utilize algorithms that are standardized by the financial services company managing the portfolio. The algorithms are modified for each customer based upon a questionnaire that assesses their demographic and risk profile, typically focusing on popular or trendy funds that track against the top indexes. Due to their cookie-cutter approach, robo-advisors often provide limited portfolio diversification, making little or no attempt to adjust their investment profiles along market trends.

THE DOWNSIDE TO WORKING WITH A ROBO-ADVISOR

Looking past automated portfolio management, another downside when it comes to robo-advisors is their inability to work with individuals one-on-one. Robo-advisors do not have the ability to get involved in the more personal areas of wealth management, nor do they have the ability to answer questions such as: Are you on track to meet your retirement goals? Do you and your significant other have different comfort levels with market risk?

While the capabilities of each robo-advisor program vary on a case-by-case basis, robo-advisors also lack the capacity to provide advice on taxes, insurance or estate planning, not to mention budgeting and cash flow management – all critical components of a comprehensive financial plan. While they may offer management at a fraction of the cost of a dedicated wealth advisor and portfolio manager, individuals must ask themselves at what point does the lack of personal touch affect long-term success?

DESERVING A DEDICATED FINANCIAL PARTNER

Investing and planning for one's financial future is a very personal experience that relies on more than simply allocating funds across a variety of asset classes. While it is easy to have a robo-advisor manage a portfolio in a strong market, during a recession or a period of extended volatility, many individuals find reassurance in being able to pick up the phone and speak with a personal wealth advisor and/or portfolio manager to make sense of the current situation and lay out a plan to move forward.

The client/advisor relationship requires a critical balance of emotional support, serving as a support system and providing counsel on how to make financial decisions that provide a competitive advantage over the rest of the market.

For younger investors who are just beginning to build their financial profile and want to save money in a Roth IRA, using a robo-advisor can provide an effective and cost-efficient way to get started. Robo-advisors can also help individuals with smaller savings or simplified tax circumstances. As with any financial investment, it is important for individuals to research a robo-advisor, looking at the associated fees and services, before making a selection.

At Rinehart, we are a boutique firm that works to provide customized solutions for our client's wealth advisory and investment management needs. This personalized, long-term approach has allowed us to provide our clients with superior long-term results and assisted them with the ability to meet their life goals.

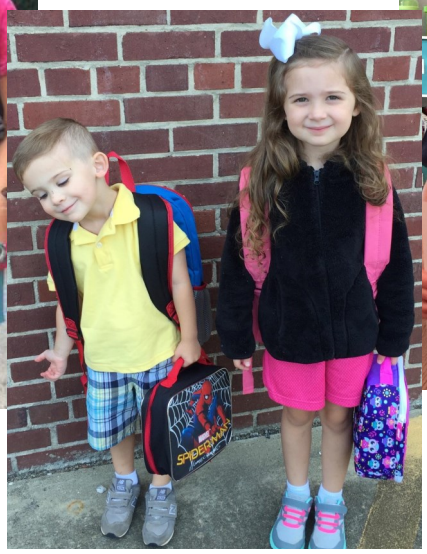
AROUND RINEHART

HAPPY LABOR DAY!

As a quick reminder, our offices will be closed on Monday, September 4th in recognition of Labor Day!

We will resume normal office hours on Tuesday, September 5th.

BACK-TO-SCHOOL SEASON AT RINEHART!



Rinehart Wealth & Investment Advisory

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

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