

## DECEMBER 2017 INSIGHTS

### INVESTMENT OVERVIEW

#### THAT'S A WRAP

With the S&P 500 up 20.5% year-to-date driven by earnings upside and the allure of tax reform and repatriation, history would suggest a strong finish to the year. Over the past 20 years, the S&P 500 has averaged a 1.5% increase in the month of December. Barring any catastrophic geopolitical event, the market should continue to drift higher on momentum from the prevailing, but still unsubstantiated, rationale. With paltry volatility and a market that has gone the entire year without a drop of 2.0% or more, 2017 has been a robust year for investors providing pristine portfolios as holiday gifts this year.

Wrapping up 2017 is bitter sweet as many of our tactical allocation ideas performed well, and we are left looking into 2018 pleased with past performance but struggling to find value. Earnings have largely supported the market's ascent, but lofty outstanding expectations surrounding tax reform and infrastructure spending have market multiples looking mediocre even after positively adjusting S&P 500 EPS estimates for a favorable resolution to tax reform.

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### WEALTH ADVISORY OVERVIEW

#### WHAT TO EXPECT FROM THE WEALTH ADVISORY TEAM IN 2018

Good financial planning software is an essential tool for any wealth management firm. Financial planning software assists in projecting long-term financial trade-offs that impact a client's future, and provides them with the ability to make financial decisions that align with their values, as well as help them to meet their goals. These calculations are often far too complex to be done without an appropriate technology solution.

#### **WHICH SOFTWARE IS BEST VARIES DEPENDING ON HOW A FIRM MAY CHOOSE TO UTILIZE THE SOFTWARE.**

Four years ago, Rinehart made the decision to purchase NaviPlan, a robust financial planning cash flow based software package. The purchase of this software replaced a proprietary excel spreadsheet program that had been used to illustrate retirement projections. The challenge of using excel was two-fold: it did not allow our Wealth Advisory team to efficiently run multiple planning scenarios, nor was it able to model more complex financial planning options.

While we have been happy with our decision to utilize NaviPlan, we have decided to transition to eMoney in 2018 because we believe that our clients will benefit from a more collaborative planning experience. In the past, the primary output of financial planning software was the financial plan, which consisted of a series of reports detailing the planning projections and results. In today's environment, the market is trending more toward live presentation models, and transitioning

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#### INVESTMENT TEAM

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*CEO & Chief Investment Officer*  
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*Director of Research & Portfolio Manager*  
Brittany Priester, CFA  
*Portfolio Manager*  
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#### WEALTH ADVISORY TEAM

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Leah Maybry, CPA  
*Wealth Advisor*  
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*Wealth Advisor*  
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*Wealth Associate*

#### SPECIAL POINTS OF INTEREST

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

**INVESTMENT OVERVIEW**

**THAT’S A WRAP**

**MARKET MULTIPLE MORE REASONABLE WITH TAX CUTS**

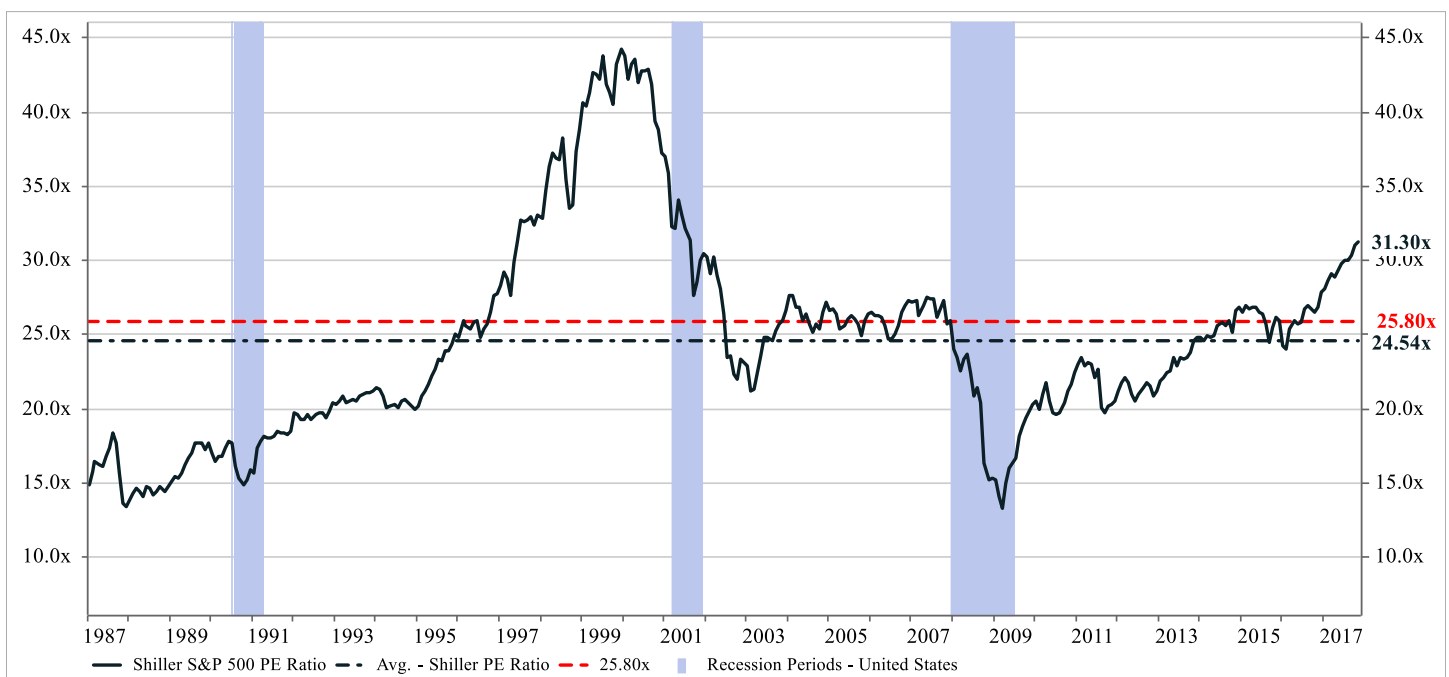
Market performance is largely driven by earnings growth and this recovery is no different. The correlation between price increase in the S&P 500 and earnings growth is pronounced at .92 since 1990 (*Source: Bespoke Investment Group*). With earnings set to grow over 11% next year following double-digit growth in 2017, this year’s rally is validated. At this point, investors realize that even without the benefit of fiscal stimulus in the form of tax cuts and infrastructure spending, the economy is

exceeding expectations.

With the economy clearly performing, the question outstanding is whether the robust growth is priced into the market with the S&P 500 up 362.2% since the cycle bottom on March 6, 2009. When valuing the market, the bellwether multiple is the Shiller S&P 500 PE Ratio (“Shiller PE”), which is based on average inflation-adjusted earnings from the previous 10 years. Looking at the Shiller PE on next year’s number, the S&P 500 is trading at a 27.5% premium to the historic average. If we factor in a 10.8% increase to the

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**CHART I: SHILLER S&P 500 PE RATIO**



Source: FactSet Research Systems, Inc.

**TABLE I: ASSUMPTIONS FOR S&P 500® EPS & PE RATIO CALCULATION**

DATA AS OF NOVEMBER 30 <sup>TH</sup> 2017	CY2018 ESTIMATES MEAN - CURRENT	CY2018 ESTIMATES INC. TAX REFORM IMPACT*
	CY2018 S&P 500® EPS (Mean - Current)	\$145.45
CY2018 S&P 500® PE Ratio	18.1x	16.5x
	CURRENT	20-YR. AVERAGE
Shiller S&P 500® PE Ratio (Trailing/Backward-Looking)	31.3x	24.5x
Adjusted Implied Tax Reform Impact (Forward-Looking)	25.8x	

\*RWIA Estimated Tax Reform Impact Derived from: Goldman Sachs Global Investment Research - “U.S. Equity Views: Progress Toward Tax Reform Creates Earnings Upside” (Oct. 3<sup>rd</sup> 2017)

Source: FactSet Research Systems, Inc.

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backward-looking Shiller EPS and incorporate 9.5% in positive impact from tax cuts, the forward market multiple is 25.8x, which appears more reasonable relative to the historic average trailing Shiller PE of 24.5x noted in Table I, albeit still not inexpensive using a forward multiple. This is approximately in-line with the 27.6x peak multiple experienced during the housing bubble last cycle, but dramatically lower than the high of 44.2x reached during the Internet bubble in 2000 as depicted in Chart I. Consequently, valuation is inconclusive heading into 2018 suggesting the market map is predicated on positive exogenous events and sustained to accelerating earnings momentum.

## POLITICS &amp; PORTFOLIOS

In 2017, politics played a particularly important role in the media while the market managed to respond more to earnings, ignoring much of the daily noise. That said, expectations are for the political volatility to continue with investors attempting to triangulate the impact on the market. Tax reform will most likely be the longest political factor facing the market given its potential significant and immediate impact to earnings.

Repatriation should benefit portfolio names like Cisco Systems, Inc. (CSCO), Microsoft Corporation (MSFT) and Oracle Corporation (ORCL) given the large cash balances these technology stalwarts hold on their balance sheets. According to an estimate by Goldman Sachs, companies could repatriate as much as \$250 billion in cash which could result in considerable distributions to shareholders. The problem is that most of the aforementioned stocks have already exhibited outsized performance year-to-date with CSCO, MSFT and ORCL up 27.8%, 37.7% and 29.6%, respectively.

The most clear proposed tax reform is the adjustment of the corporate tax rate down to 25% which would have an outsized positive impact on small capitalization stocks and companies that earn most of their income domestically, such as LSI Industries, Inc. (LYTS) and Triangle Capital Corporation (TCAP). (See stock and strategy spotlight on page 4.) Consumer companies with large brick and mortar footprints domestically have a higher tax rate than sectors that lend themselves to global distribution and manufacturing. So there could be outsized sector performance dispersion driven by tax reform.

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

**DATA AS OF NOVEMBER 30, 2017**

INVESTMENT THEME & INDEX-LEVEL PERFORMANCE	2017
HIGH-YIELD MUNICIPAL BONDS	
Bloomberg Barclays High-Yield Municipal Bond Index	+8.29%
EMERGING MARKET EQUITIES	
MSCI Emerging Markets Index (USD)	<b>+32.91%</b>
EUROPEAN EQUITIES	
MSCI Europe Index (USD)	+24.34%
UNDERPERFORMING SEGMENTS WITHIN U.S. EQUITY	
S&P 500 <sup>®</sup> Health Care Sector Index	+22.87%
S&P 500 <sup>®</sup> Information Technology Sector Index	<b>+38.82%</b>
S&P 500 <sup>®</sup> INDEX	+20.49%

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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## RELATIVE VALUE IDENTIFIED IN 2017

Post the election rally, unique investment opportunities presented themselves as the market reacted in a unilateral fashion favoring a Trump platform predicated on US dominance, and protectionism. This afforded the opportunity to make contrarian calls on the US dollar and International Equities. During 2017 our tactical allocations outperformed nicely as noted below in Table II with each of our equity allocation strategies exceeding the S&P 500 as of the end of November. As we wrap up 2017, the Investment Team will be focused on finding value in 2018; however, the tactical opportunities are increasingly difficult to uncover as valuation discrepancies have converged and assets have moved up in unison to the tune of global coordinated economic expansion.

*“An investment in knowledge pays the best interest.”*

*- Benjamin Franklin*

## MONTHLY INDEX REVIEW (USD TOTAL RETURN)

DATA AS OF NOVEMBER 30 <sup>TH</sup> 2017	NOVEMBER 2017	2017 YTD	2016	2015
S&P 500	+3.07%	+20.49	+11.96%	+1.38%
Dow Jones Industrial Average	<b>+4.24%</b>	+25.69%	+16.50%	+0.21%
NASDAQ Composite	+2.34%	+29.02%	+8.87%	<b>+6.96%</b>
Russell 2000	+2.88%	+15.11%	<b>+21.31%</b>	<b>-4.41%</b>
MSCI Emerging Markets	+0.21%	<b>+32.91%</b>	+11.60%	<b>-14.60%</b>
MSCI EAFE	+1.06%	+23.61%	+1.51%	<b>-0.39%</b>
Barclays US Aggregate	<b>-0.13%</b>	+3.07%	+2.65%	+0.55%

## STOCK &amp; STRATEGY SPOTLIGHT

NAME	TICKER	2017
Triangle Capital Corporation	TCAP	<b>-39.15%</b>

## DESCRIPTION &amp; INVESTMENT THESIS

Triangle Capital Corporation (“TCAP”), headquartered in Raleigh, North Carolina, focuses on lending to the lower middle market, which is highly fragmented and underserved by commercial and investment banks. We initiated a position in TCAP on May 3, 2017 provided market penetration was less than 5%, and the company exhibited strong liquidity and a robust yield. Since investing in TCAP, the company has underperformed. We miscalculated the latent impact of forced investment in riskier assets in vintage year 2014 in order to cover the company’s high dividend payout, and further underestimated the significance of the transition from previous CEO and co-founder, Garland Tucker, to the present CEO, Ashton Poole, in 2013. The series of events that occurred from 2013–2014 resulted in poor investment decisions, and consequently the 2014 vintage non-accrual loans have taken significant steps down in value as of TCAP’s most recent quarterly earnings release; hence, the primary driver for the stock’s recent price decline. This is concerning, however, we spoke with TCAP’s Chief Financial Officer, Steven Lilly, earlier this month, and he alluded that TCAP will be sold to one of several potential buyers in the near future. The prospect of the sale of TCAP for potentially \$16 per share, equivalent to the company’s book value, is reason enough for us to continue to hold this position for potential future stock price appreciation. Since our conversation with Lilly, TCAP hired Houlihan Lokey as its financial adviser to explore strategic opportunities. Other than the poorly performing 2014 vintage year investments, TCAP’s human capital and other balance sheet assets are valuable; therefore, we feel optimistic about a future sale and corresponding stock price appreciation.

## WEALTH ADVISORY OVERVIEW

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to a software package that provides us with the option to offer both was an important consideration in our decision to make a change. With a live presentation, we can change data or assumptions during the course of the meeting, and immediately show clients how this change may affect their financial plan, thereby enhancing meeting efficiency and productivity.

#### **eMONEY STRENGTHS AND FEATURES**

**ACCOUNT AGGREGATION:** One of eMoney's strengths lies in its ability to aggregate account data. Account aggregation is a feature that pulls over and updates client account information for accounts that are held either at Fidelity or Schwab. It also allows clients to link their outside accounts (e.g., bank accounts, insurance policies, etc.), and pulls that data into the planning software. This eliminates the need to enter these asset account values manually, and ensures that we are using the most up-to-date information every time we rerun a plan.

**LIVING BALANCE SHEET:** If clients choose to link outside accounts, they will have the ability to login to one website and see all of their balances in a single location, thus providing them with a daily living balance sheet.

**SCREEN SHARING CAPABILITIES:** eMoney has the capability to allow Wealth Advisors to share their screen with clients during planning presentations to enhance collaboration when a client is not able to meet in person.

**BUDGETING:** eMoney has a budgeting feature that will allow clients to build out monthly spending budgets and track spending habits on their connected transactional accounts.

#### **TRANSITION SCHEDULE**

##### *JANUARY 2018 – LAUNCH RETIREMENT PLANNING MODULE*

Beginning in January, all client financial plans will be provided through eMoney. Therefore, your plan update will have a different format. The implementation of eMoney will be in a similar format to the rollout of our client portal. Therefore, time will be allocated during each client meeting to review the new eMoney client site to ensure that clients understand how to access and link accounts.

##### *FEBRUARY 2018 – LEARNING OPPORTUNITIES*

We will provide various opportunities for clients to attend seminars to learn how to navigate the new software. This will include a guide to setting up accounts, how to access eMoney via multiple technology devices, the new budgeting feature, as well as how to setup client alerts. We will also hold webinars for clients who are unable to attend these sessions in person. We will send out a schedule for all learning opportunities in January.

#### **HUMAN ADVICE AND DIGITAL CAPABILITIES CONTINUE TO COMBINE TO CREATE A UNIFIED WEALTH ADVISORY EXPERIENCE**

At Rinehart, we know that at the heart of every great advisor-client experience is a strong personal relationship. However, we feel that increasing collaboration with clients through the use of new technology continues to help us enhance this personal relationship. These new and powerful collaborative technologies allow us to build and maintain our client relationships at an even higher level. We know that our clients expect technology to be integral to the way they manage their financial lives, so we are focused on bringing you the best technology has to offer.

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## AROUND RINEHART

### RWIA SUPPORTS VERSE & VINO

2017 was our third year sponsoring this premier event, which supports the Charlotte Mecklenburg library system. Verse & Vino was an extraordinary event featuring multiple New York Times best-selling authors.

RWIA is proud to support the Charlotte Mecklenburg Library Foundation.



### STRATEGIC PLANNING & CELEBRATING

The Rinehart team hosted its annual offsite meeting on November 28<sup>th</sup>.

This meeting was held at The Duke

Mansion Library. We reviewed a successful 2017 and set new initiatives and goals for 2018.

We will celebrate our accomplishments at this year's office holiday party on December 14<sup>th</sup> at Bond Street Wines in Charlotte.

### THE ATHENA® LEADERSHIP AWARD EVENT

The ATHENA Leadership Award is presented to a woman who is honored for attaining professional excellence, community service and for actively assisting women in their achievement of professional excellence and leadership skills. Daniele Donahoe and Leah Maybry are pictured with Holly Stubbing, Executive Vice President and In-



House Counsel for the Foundation for the Carolinas. Holly was a 2017 Athena Honoree for the Leadership Award-Service.

### COME BY, SAY HI, GRAB A PIE!

On Wednesday November 22<sup>nd</sup>, Rinehart and Maybry McShane hosted our fourth annual "Come By, Say Hi, Grab a Pie" event throughout the day

at our offices! We had a record number of 45 Apple pies given to our clients this year.

### HOLIDAY HOURS

RWIA & MMFO will be closed Monday December 25<sup>th</sup> and Tuesday December 26<sup>th</sup>, as well as Monday January 1<sup>st</sup> with the office closing at 2:00pm on Friday December 22<sup>nd</sup>, and so please provide any planning needs or cash distribution requests accordingly.



We Wish You a Very Happy Holiday Season and a Peaceful & Prosperous New Year!

### Rinehart Wealth & Investment Advisory

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

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