Rinehart
WEALTH & INVESTMENT
ADVISORY

MAY 2018 INSIGHTS

INVESTMENT OVERVIEW

1Q18 ECONOMIC OVERVIEW: ASSESSING THE CYCLICAL SEESAW

As the second-longest equity bull market in U.S. history continues to evolve, signs of fatigue are balanced by solid earnings and global economic growth. Monitoring this cyclical seesaw becomes monotonous, as months pass with the stock market oscillating in a decided technical trading range and fixed income bumbling back-and-forth on increasing interest rates and fluctuating inflation expectations. With both positives and negatives equally stacked, a neutral tactical allocation stance across investment portfolios is increasingly warranted, as prudent investors will patiently adjust allocations alongside the business cycle so as to capture incremental upside, while simultaneously preparing portfolios for sustained, increased volatility and potential equity market turbulence.

There are a number of positive factors supporting the case for sustained economic growth and corresponding stock market appreciation, including a strong tax reform tailwind, equity earnings momentum, and synchronized global growth. Alternatively, there are notable concerns emerging including inflation, restrictive and protectionist trade policies (e.g., tariffs), increased market volatility, and extended valuations. Chart I on the next page provides an overview of the current Economic Cyclical Seesaw, which will be the primary focus of the Investment Team's First Quarter 2018 Economic Overview, presented via webinar on Thursday, May 10th at 10:00 AM EST - additional registration details are provided on page 6.

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WEALTH ADVISORY OVERVIEW

2018: AN IMPORTANT PLANNING YEAR FOR DIVORCING COUPLES

The Tax Cuts and Jobs Act ("the Act") repealed the above-the-line deduction for alimony and separate maintenance payments and made the receipt of such payments nontaxable to the recipient. The change applies to divorce or separation instruments executed after December 31st 2018. The Act also applies to revisions of any such instruments executed before December 31st 2018 but modified after this date. Therefore, 2018 is an important planning year for clients in the midst of a divorce, contemplating divorce, or needing to modify documents from a prior divorce.

ALIMONY & CHILD SUPPORT

Under current law, alimony is includible in the income of the recipient and deductible by the payer. To qualify as alimony, the payments must be in cash, required by a divorce or separation agreement, not required after the death of a payee, and not paid to a member of the payer's household. After 2018, alimony will not be includible in the income of the recipient, nor will it be deductible by the payer.

Child support, on the other hand, is not includible in the income of the recipient and is not deductible by the payer under current law. Given the difference in the tax treatment of these two items, a common strategy to take advantage

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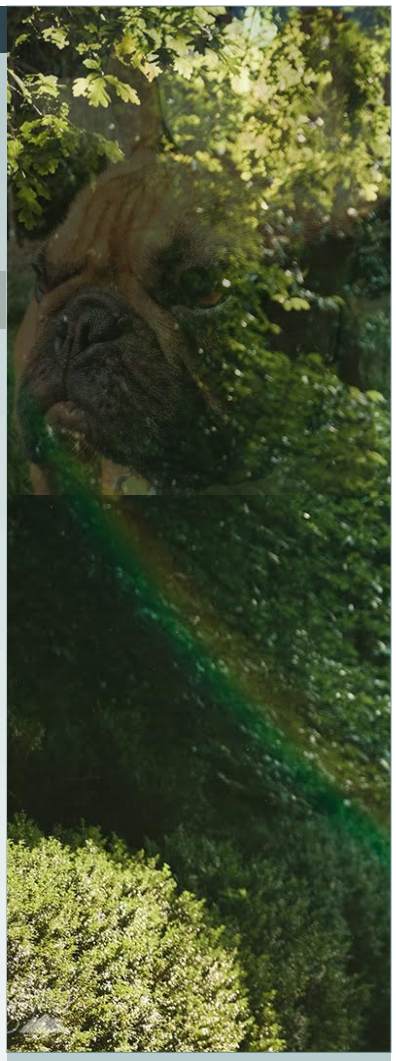

INVESTMENT TEAM

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Elliott Van Ness, CFA
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WEALTH ADVISORY TEAM

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Leah Maybry, CPA
Wealth Advisor
Lorri Tomlin, FPQP™
Wealth Advisor
Michael Means, CPA
Wealth Advisor
Ryan Vaudrin, CFP®
Wealth Associate

SPECIAL POINTS OF INTEREST

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POSITIVE VS. NEGATIVE ECONOMIC FACTORS

TAX REFORM TAILWIND

As the Investment Team outlined in last year's November and December editions of INSIGHTS, the favorable bottom-line impact from corporate tax reform has contributed to a pronounced upward trend in near-term, forward-looking EPS estimates for the S&P 500® Index, which has, in turn, brought index-level valuations, as measured by the next twelve months price-to-earnings ("PE NTM") multiple, down from previous levels that seemed

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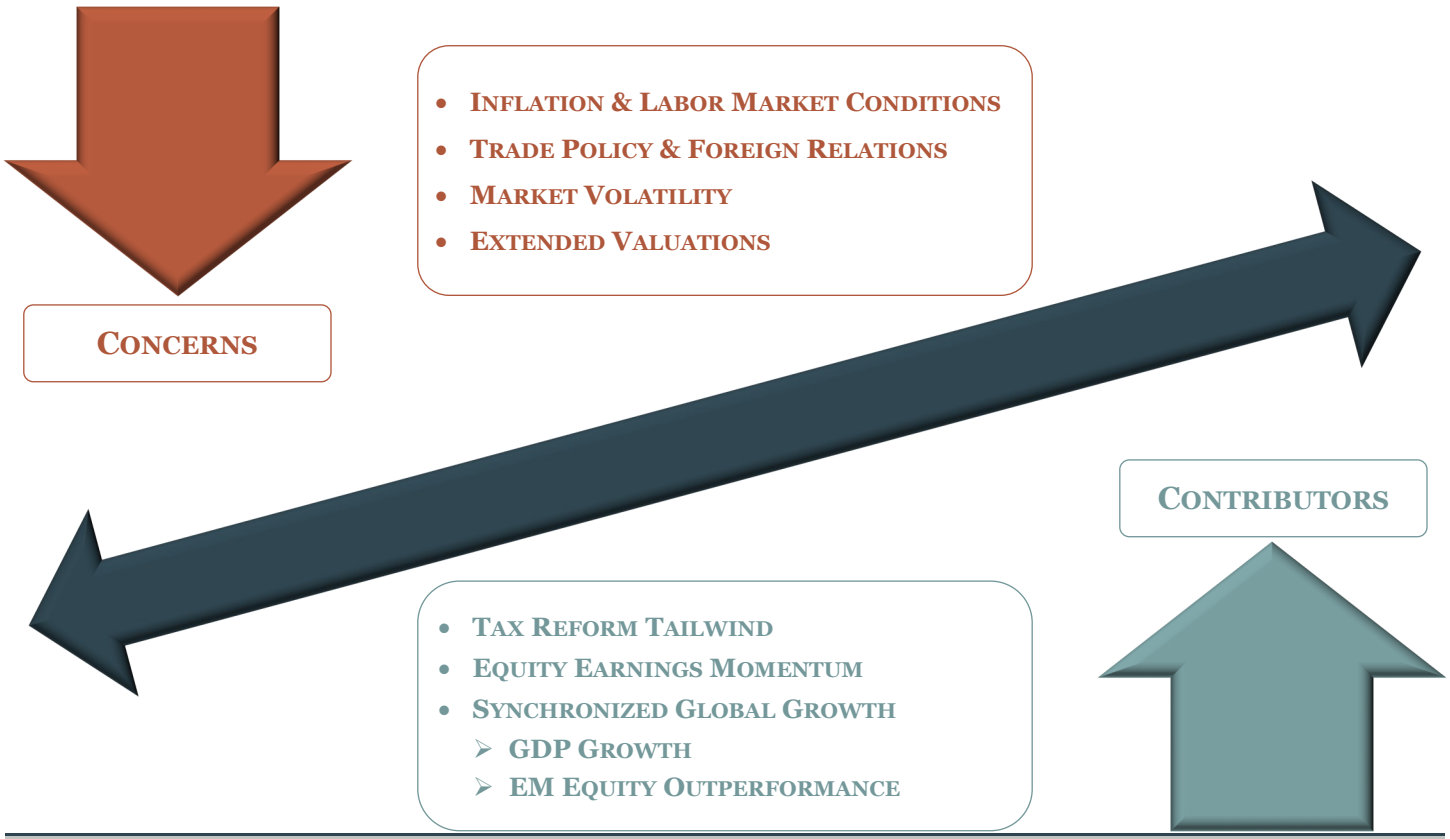
CHART I: ECONOMIC CYCLICAL SEESAW



MONTHLY INDEX REVIEW
USD TOTAL RETURN

DATA AS OF APRIL 30TH 2018	APRIL 2018	2018 YTD	2017	2016
S&P 500®	+0.38%	-0.38%	+21.83%	+11.96%
Dow Jones Industrial Average	+0.34%	-1.63%	+28.11%	+16.50%
NASDAQ Composite	+0.08%	**+2.67%**	+29.64%	+8.87%
Russell 2000	+0.86%	+0.78%	+14.65%	**+21.31%**
MSCI Emerging Markets	-0.29%	+1.04%	**+37.75%**	+11.60%
MSCI EAFE	**+2.57%**	+0.94%	+25.62%	+1.51%
Barclays U.S. Aggregate Bond Index	-0.74%	**-2.19%**	+3.54%	+2.65%

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irrational and extended absent clear upward revisions to earnings expectations at this stage in the market cycle. As companies have begun reporting first quarter 2018 ("1Q18") earnings, however, the nominal impact from the reduction in the corporate tax rate is evident and significant, with five of the major domestic large-cap banks reporting an earnings increase of **±$2.5 billion** from associated tax savings (*Source: The Wall Street Journal*).

EQUITY EARNINGS MOMENTUM

According to consensus estimates and market expectations, the S&P 500® Index is expected to report double-digit year-over-year ("YoY") earnings growth of **±17.3%** for the first quarter of 2018 (*Source: FactSet Research Systems, Inc.*). Furthermore, recent research indicates that investors can reasonably expect as many as two-thirds of S&P 500® Index companies to report better-than-expected quarterly earnings results exceeding consensus estimates, thanks in large part to the aforementioned tax tailwind (*Source: Canaccord Genuity Group, Inc.*). The question is, therefore, whether or not the market will reward these highly-publicized earnings beats, as much of the potential upside could be already priced into shares?

SYNCHRONIZED GLOBAL GROWTH

The International Monetary Fund ("IMF") anticipates +3.9% global economic growth in 2018, which is decidedly above the Investment Team's long-term estimate of +2.0% annualized economic growth. There is good visibility on sustained economic growth despite tariff and trade concerns, as emerging market ("EM") economies' contribution to global economic growth continues to increase and their relative dependence on the U.S. continues to decline. The strong secular case for EM economic growth and the current valuation discount relative to the U.S., as illustrated below in Chart II, and developed market ("DM") economies reinforces our relative overweight allocation to EM equities across International Equity portfolios at this stage in the market cycle.

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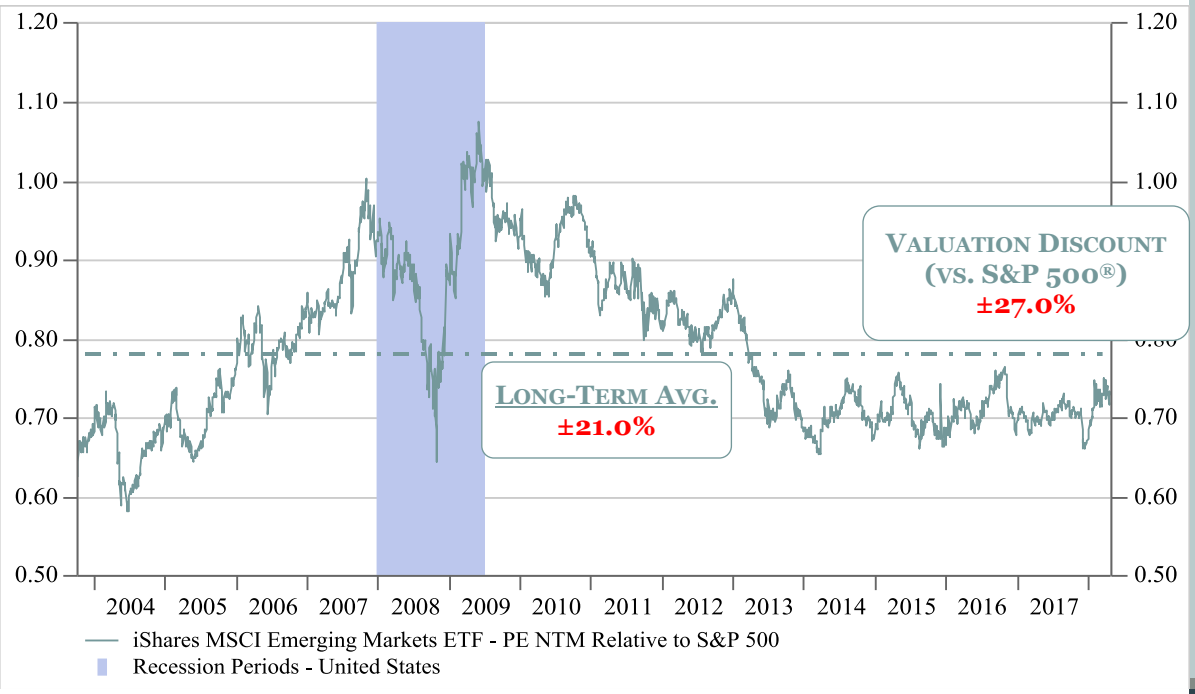
CHART II: MSCI EM PE NTM VS. S&P 500®



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.

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NEGATIVE ECONOMIC FACTORS

Offsetting these clear and present positive global growth factors are burgeoning concerns that the Investment Team continues to monitor closely, as they often indicate future market turbulence and signal a maturing economic cycle.

INFLATION & LABOR MARKET CONDITIONS

The link between labor market conditions and inflation is particularly important and visible in the relationship between employment data provided by the Bureau of Labor Statistics ("BLS") in its monthly Job Openings & Labor Turnover Survey ("JOLTS") and the rate of wage inflation. As can be seen below in Chart III, there has been an ongoing shift in supply and demand dynamics within the labor market over the past three years, wherein the number of job openings (dark blue line) has consistently exceeded the number of hires (red-orange line) since the end of 2014. The number of available positions outstrips the number of employees hired, suggesting a deficit of candidates to fill available positions, indicating demand exceeds supply, which eventually puts upward pressure on wages, as companies compete for scarce talent. Evidence that this deficit has effectively "pulled" year-over-year ("YoY") wage inflation higher contributed to the equity market sell-off at the beginning of February 2018, as the market focused on inflation eventually leading to an accelerated pace of interest rate increases by the Federal Reserve.

TRADE POLICY & FOREIGN RELATIONS

In addition to increasing concern over inflation and rising interest rates, a succession of announcements made by the Trump administration regarding the implementation of punitive, protectionist tariffs, as well as the retaliatory announcements made by certain countries (e.g., China), lead to a rapid escalation in trade tensions and repeatedly rattled global financial markets throughout 1Q18. The direct economic impact of these tariffs is estimated to be fairly

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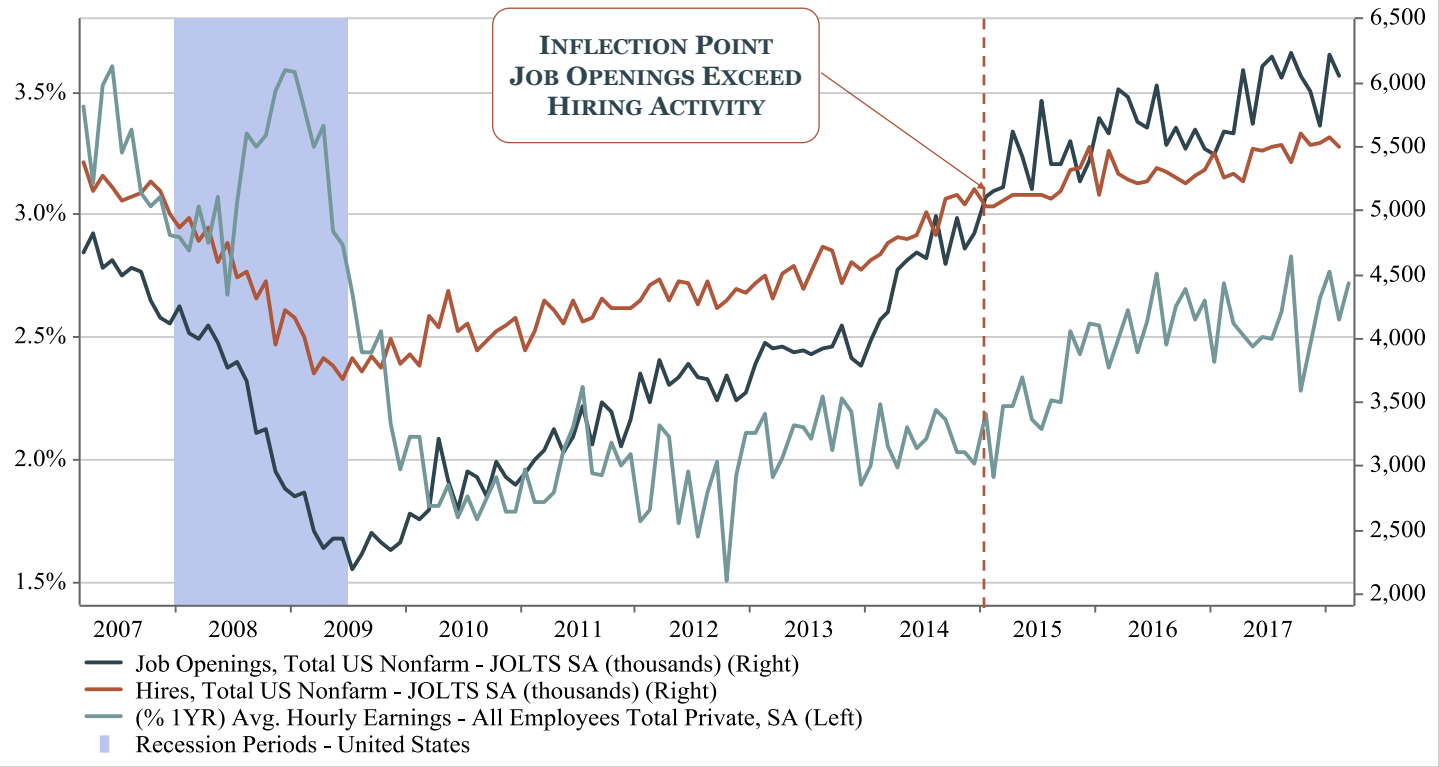
CHART III: WAGE INFLATION VS. JOLTS DATA



Source: FactSet Research Systems, Inc.

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1Q18 ECONOMIC OVERVIEW: ASSESSING THE CYCLICAL SEESAW

minimal in terms of both countries' respective economies, but the potential threat of an all-out trade war between the U.S. and its major trading partners is worthy of attention and consideration. Consensus expectations amongst economists and analysts, however, remain relatively optimistic that all sides will remain open to negotiations and concessions in order to prevent such a worst-case scenario, as historical episodes of protectionism and restrictive trade policies, such as the global economy's hastened descent into the Great Depression following the enactment of the Smoot-Hawley Tariff by the U.S. in 1930, provide sufficient evidence of the ultimate, unintended consequences of protectionist trade policies.

MARKET VOLATILITY

The convergence of these concerns and negative factors has contributed to a sustained increase in equity market volatility. After several years of persistent stagnation, the CBOE Volatility Index® ("VIX") jumped **+80.9%** in 1Q18 - spiking as much as **+115.6%** in a single trading session on February 5th. Last August (August 2017 INSIGHTS), the Investment Team discussed the associated risks of investing when volatility is extremely low by acknowledging that, per historical trends, volatility is *mean-reverting*, and how the conditional probability of rising volatility *increases* as investors become accustomed to its absence. Following the sharp spike in the VIX earlier this year, the Investment Team communicated with clients and reiterated its emphasis on constructing and managing investment portfolios to tolerate a certain level of downside risk and equity market volatility by avoiding high-momentum names and favoring equities with lower market risk (i.e., beta) across client investment portfolios.

EXTENDED VALUATIONS

As can be seen below in Chart IV, the S&P 500® continues to trade at a significant premium (**±76.8%**) relative to its long-term average, as measured by the Shiller PE Ratio. The Shiller PE ratio, also known as the cyclically-adjusted PE ratio ("CAPE"), is well-known

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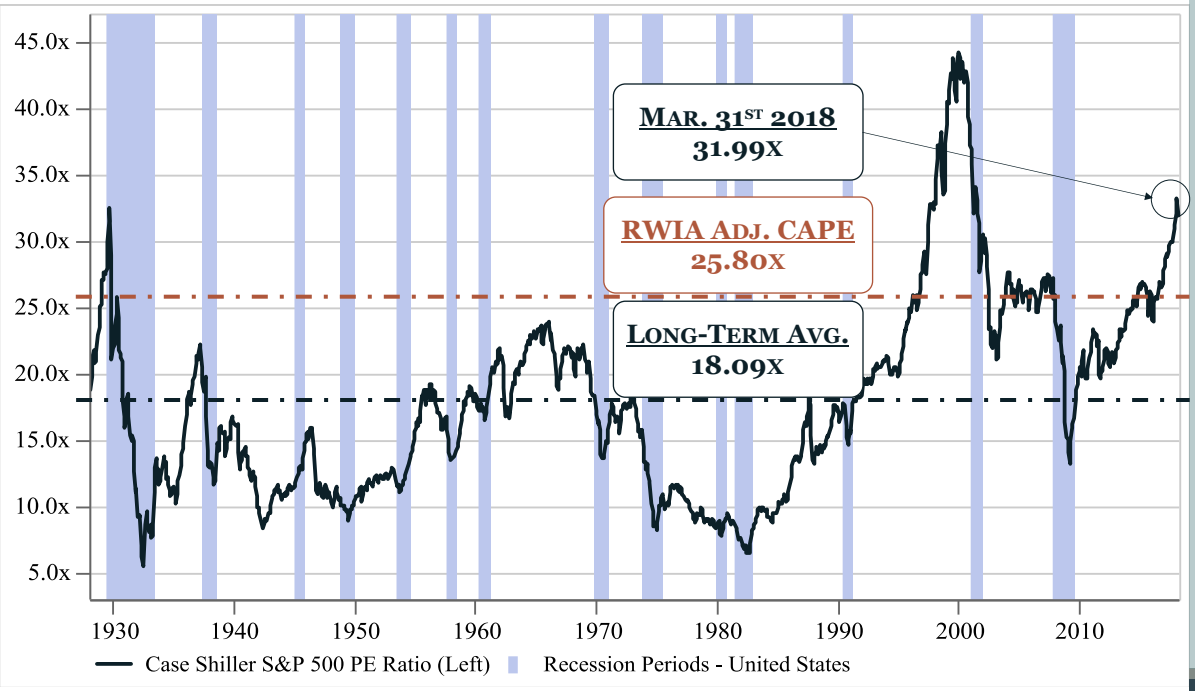
CHART IV: CASE SHILLER S&P 500® PE RATIO



Source: FactSet Research Systems, Inc.

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valuation metric that uses average, inflation-adjusted earnings for the S&P 500® over the previous 10 years to quantify valuation levels over the course of a full business cycle. Although the full impact of the tax tailwind has yet to completely flow through to corporate earnings, the only period when the unadjusted CAPE has been higher than current levels was during the "dot-com" bubble, prior to the S&P 500® declining **-49.2%** from March 24th 2000 through October 9th 2002. Even after making discretionary adjustments to incorporate the positive impact from the aforementioned tax tailwind, the CAPE appears extended by **±42.6%** relative to its long-term average.

FIRST QUARTER 2018 ECONOMIC OVERVIEW WEBINAR

As always, we look forward to discussing the particulars of the aforementioned concerns and contributors, as well as other pressing and relevant issues influencing our outlook for the economy and the markets, during our First Quarter 2018 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 or concerns ahead of the webinar.

FIRST QUARTER 2018 ECONOMIC OVERVIEW WEBINAR

DATE: Thursday, May 10th

TIME: 10:00 AM EST

REGISTRATION INFORMATION

Please refer to the following link, which can also be found in the original registration email, or look for additional registration reminders, which will be sent out in the days leading up to the webinar.

To register for the webinar, please click here.

A recording will be available on our website after May 11th.

STOCK & STRATEGY SPOTLIGHT

NAME	TICKER	2018 YTD
Absolute Convertible Arbitrage Fund	ARBIX	**+1.37%**

DESCRIPTION & INVESTMENT THESIS

After an initial in-person meeting and follow-up due diligence conference call with Eric Hage, Chief Investment Officer ("CIO") of Mohican Financial Management, LLC and Portfolio Manager of the Absolute Convertible Arbitrage Fund ("ARBIX" or the "Fund"), the Investment Team is adding ARBIX to the firm's mutual fund and exchange-traded fund ("ETF") buy lists and recommending the Fund for all applicable client investment portfolios. ARBIX is not to be confused with the Absolute Strategies Fund ("ASFIX"), which the Investment Team sold out of last September, as highlighted in that month's edition of INSIGHTS (September 2017 INSIGHTS). Given Mr. Hage's prior success and experience in managing the Mohican VCA Fund, LP (the "Predecessor Fund"), according to the same fundamental investment strategy and similar mandates/guidelines from 2002 through the Predecessor Fund's reorganization into the Fund's current structure on August 14th 2017, the Investment Team believes that ARBIX is extremely attractive and offers complementary exposure for long-term investors with dedicated allocations to alternative investment strategies (i.e., Hybrids). As part of its in-depth research and due diligence process, the Investment Team reviewed the historical performance of the Predecessor Fund during the later stages of the previous market cycle and believes that the Fund is capable of providing enhanced risk-adjusted returns (i.e., alpha) at this stage in the current market cycle. After returning -19.62% in 2008, the Predecessor Fund generated an extremely impressive +51.12% return in 2009, for a cumulative 2008-2009 return of +21.47%: outperforming both the Bloomberg Barclays U.S. Aggregate Index (+11.48%) and the HFRI Fund Weighted Composite Index (-3.56%).
Please feel free to reach out to a member of the Investment Team if you would like any additional information on ARBIX, including our investment thesis, or if you have any questions, comments, or concerns regarding the strategy and/or your investment portfolio.

Wealth Advisory Overview

2018: An Important Planning Year for Divorcing Couples

of the difference in tax rates between the payer and payee has been to structure any such payments to qualify as alimony. This is accomplished by specifying a time period for the payments to end in the documents that is not tied to an event in the child's life, such as when they turn the age of majority or graduate from school. Given the change in the deductibility of alimony, this reclassification of cash payments by high-rate taxpayers to the lower-rate taxpayer as alimony rather than child support will no longer be viable.

Property Settlements

Gains and losses from the exchange of property in a property settlement are nontaxable, and the income tax basis of the property carries over to the spouse receiving the property. Clients should focus on the anticipated holding period and the after-tax value of properties exchanged in determining the fairness of the settlement. They should also use qualified domestic relations orders ("QDROs") to divide retirement assets. Both of these strategies remain unchanged by the Act.

Filing Status

For spouses with dependent children, wording should be included in the documents to qualify the parents as heads-of-household before the divorce by using the abandoned spouse rule and, after the divorce, by careful drafting of the divorce decree. These planning principles generally remain unchanged, but because of the restructuring of the tax rate schedules by the Act, the benefits of head-of-household filing status from 2018-2025 are reduced above $150,000 of taxable income.

"Spend at least as much time researching a stock as you would choosing a refrigerator."

- Peter Lynch

Child Custody, Dependency Exemptions, and Child-Related Credits

Under current law, the dependency exemptions for children are generally under the control of the parent designated as the custodial parent, or the one who has custody for the greater part of the year. The child care and earned income credits are available to the custodial parent, while the child credit and college credits follow the dependency exemption. From 2018-2025, the deduction for dependents is eliminated, but the statutory framework for identifying who can claim the exemption deduction remains in the law and determines which parent can claim the child and college credits. The custodial parent can waive his or her right to the child credit, college credits, and future deductions by giving the noncustodial parent these benefits with a signed Form 8332. Negotiating who can claim these tax benefits will remain part of the divorce process.

IRA Contributions

Under current law, alimony is treated as compensation to the recipient, allowing contributions to traditional and Roth IRAs. After 2018, alimony will not be treated as compensation and contributions to IRAs based on alimony will no longer be allowed.

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2018: AN IMPORTANT PLANNING YEAR FOR DIVORCING COUPLES

LEGAL FEES

Legal expenses arising from a divorce are considered personal and not deductible. Under current law, exceptions to this rule allowed parties to deduct the portion of the legal fees that related to tax advice and the production of income, such as alimony and distributions from retirement plans. It was also possible to treat the payment of the other party's legal fees as alimony. From 2017 through 2025, the elimination of the itemized deduction for miscellaneous expenses subject to the two percent floor includes legal fees related to tax advice and the production of income. In addition, payment of the other party's legal fees as alimony may work for divorces and modifications finalized in 2018, but not after 2018.

Around Rinehart

Rinehart Supports Room to Bloom

Daniele joined presenter and guest of honor Mark Sikes at the 66th Annual Room to Bloom Celebration: a time-honored Auxiliary tradition representing fellowship and philanthropy at its best.

Rinehart Sponsors ICON Bechtler Gala

RWIA was a proud sponsor of "ICON! The Bechtler Museum of Modern Art's 2018 Gala." This is our fourth 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. This was the Bechtler's ninth annual fundraising gala. All proceeds benefit the museum's operating costs and community outreach initiatives that encourage an appreciation of the arts, culture, education and inclusiveness.

Freedom School Partners' 15th Annual Spring into Summer Event

On April 19th we sponsored the Freedom School Partners' annual event "Spring into Summer" at the Booth Playhouse at the Blumenthal Performing Arts Center. Freedom School Partners promotes the long-term success of children by preventing summer learning loss through igniting a passion for reading and inspiring a love of learning. The Rinehart Team attended to show our support for the organization, which has been a long-term focus of our philanthropic efforts over the years.

Rinehart Sponsors SEED20

Rinehart was honored to sponsor SEED20 on April 16th at the Knight Theater. SEED20 is a program for nonprofit entrepreneurs, it was created by Social Venture Partners ("SVP"). The annual SEED20 program identifies, highlights, and connects the community to our region's most innovative ideas for tackling pressing social challenges. These innovations can be developed by the following: An individual or start up with a well-formed idea; An emerging nonprofit; A well-established nonprofit with a new program.

Each year, over the course of two months, a class of twenty nonprofit participants receives training, coaching, feedback, and mentoring on how to succinctly and powerfully tell their story – who they are and why they matter. These efforts culminate in SEED20 OnStage*:* a high-energy event where ten members of the class compete to win cash for their non-profit.

Knights Baseball Game

Enjoy A 'Knight' of Fun with Rinehart on Tuesday May 22nd at the BB&T Ballpark. If you are interested in joining us that evening, please RSVP to lburke@rinehartwia.com. Space is limited, please reserve your spot today.

Rinehart Wealth & Investment Advisory

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

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