

INSIGHTS

INVESTMENT OVERVIEW

3Q16 ECONOMIC OVERVIEW: THE CHANGING OF THE GUARD

Stock market behavior often aligns with the economic cycle, making it extremely important to track and analyze the economy as part of the investment process. For this reason, the Investment Team conducts an exhaustive review of global economic data on a quarterly basis and has done so since 2011. The Quarterly Economic Overview is the synthesis of our comprehensive economic research and provides the contextual framework for tactical portfolio positioning.

Over the past several months, numerous data points suggest a transition to the later stage of the economic cycle is currently underway. In particular, the length and duration of the current equity bull market suggests the rally is maturing, with this bull market being one of the longest in history. Furthermore, equity markets appear to be signaling a broad-based sector and size rotation, symptomatic of a market shifting to position for the later stages of the economic cycle. At the same time, inflation expectations have increased modestly in response to positive economic trends, implying that inflation, which has been stubbornly absent, could be on the rise.

When reviewing and analyzing this data within the context of an extended equity bull market, the Investment Team believes that recent trends reflect a changing of the guard, representative of the later stages of the economic cycle and, on the margin, we recommend positioning portfolios, accordingly.

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WEALTH ADVISORY OVERVIEW

ESTATE PLANNING FOR DIGITAL ASSETS

The next time your family is together, glance around the room and count how many electronic devices you own. Smart phones, tablets, watches, laptops – the number adds up fast. So does the number of accounts and applications (“apps”) accessed through each device.

WHAT ARE DIGITAL ASSETS?

You may think of Digital Assets as the electronic items that you buy or control, such as books, movies, and songs downloaded through Amazon and iTunes. However, a Digital Asset is the name given to a broad range of electronic purchases, as well as online accounts and licensed material to include Facebook and Twitter. Estate lawyers, planners, and executors realize that these types of accounts are “assets.” They are part of a decedent’s life and must be dealt with properly in estate settlement.

In order to plan ahead properly for Digital Assets, three questions must be considered:

1. What monetary value do these assets have?
2. Who do I want to have access to my accounts when I am deceased?
3. What happens to the accounts that are still around even after I am deceased (i.e., legacy)?

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INVESTMENT TEAM

Daniele Donahoe, CFA
CEO & Chief Investment Officer
Elliott Van Ness, CFA
Director of Research & Portfolio Manager

Mary Rinehart, CFP®
Chairman & Portfolio Manager
Brittany Danahey, CFA
Portfolio Manager

WEALTH ADVISORY TEAM

Sandy Carlson, CFP®, CPA, CDEA™
President & Wealth Advisor
Brandon Davis, CFP®
Wealth Advisor
Lorri Tomlin, RP®
Wealth Associate
Jeremy Williamson
Client Service Associate

SPECIAL POINTS OF INTEREST

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

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REVIEWING THE CYCLE: LENGTH & DURATION

Within the United States, the Great Recession lasted approximately 18 months, with the U.S. economy officially entering a recession in January 2008 and exiting in July 2009. At the beginning of the third quarter, the current post-Great Recession period of U.S. economic expansion celebrated its seventh-year anniversary, making it the fourth-longest period of U.S. economic expansion since the Great Depression: approximately 2.30 years longer than the historical average U.S. economic expansion period.

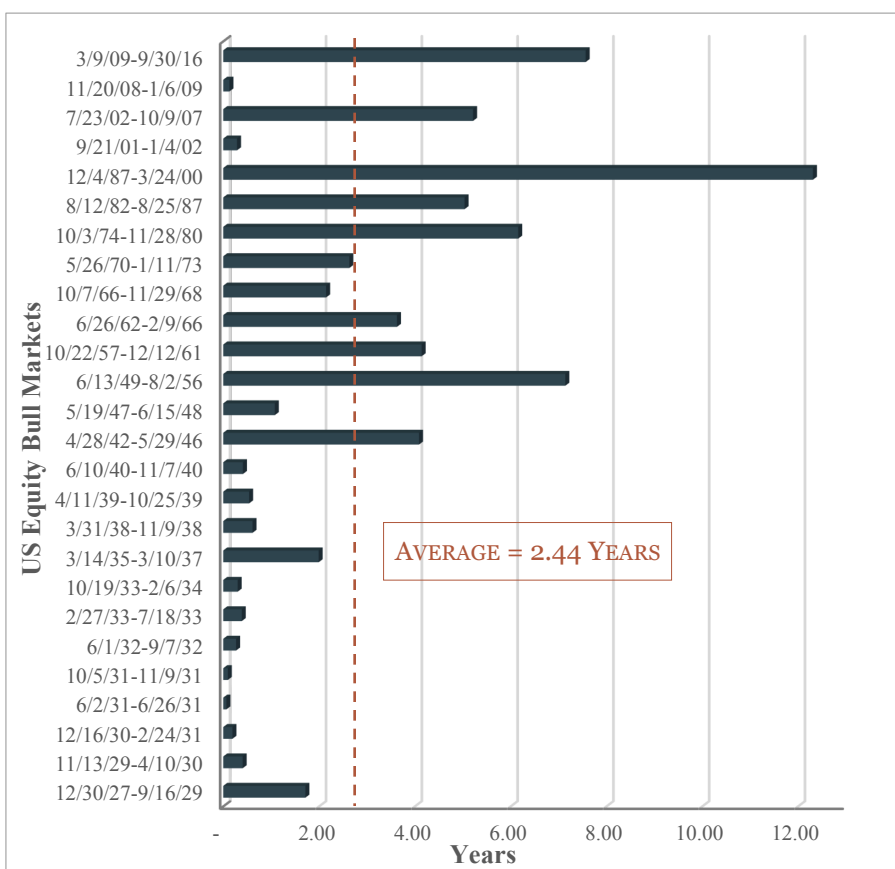
Despite an unprecedented amount of unconventional quantitative easing and sustainable, positive economic growth, the rate and scale of GDP growth has been disappointing. The proliferation of easy monetary policy has, however, succeeded in stimulating the second-longest equity bull market in recorded U.S. history. Specifically, a bull market can be defined as an uninterrupted gain of **+20%** or more in the market, following a decline of more than **-20%**, without a subsequent or corresponding decline of more than **-20%**.

As can be seen in Chart I on the right, the current bull market in U.S. equities began when equity markets bottomed on March 9th 2009, with the S&P 500[®] Price Index closing at 676.53 - its lowest close in over 12 years. As of September 30th 2016, the

bull market in U.S. equities has been ongoing for 2,762 days, which equates to roughly 7.57 years. Relative to previous bull markets, the current bull market appears increasingly extended, exceeding the historical average bull market by more than 1,870 days, or roughly 5.13 years.

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CHART I: U.S. EQUITY BULL MARKETS



Source: FactSet Research Systems, Inc.

MONTHLY INDEX REVIEW (USD TOTAL RETURN)

DATA AS OF OCTOBER 31 ST 2016	OCTOBER 2016	2016 YTD	2015	2014
S&P 500	-1.82%	+5.87%	+1.38%	+13.69%
Dow Jones Industrial Average	-0.79%	+6.36%	+0.21%	+10.04%
NASDAQ Composite	-2.27%	+4.66%	+6.96%	+14.75%
Russell 2000	-4.75%	+6.16%	-4.41%	+4.89%
MSCI Emerging Markets	+0.25%	+16.64%	-14.60%	-1.82%
MSCI EAFE	-2.04%	+0.12%	-0.39%	-4.48%
Barclays US Aggregate	-0.76%	+4.99%	+0.55%	+5.97%

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In December 2015, Federal Reserve Chairwoman Janet Yellen made the following statement during a press conference: “I think it’s a myth that expansions die of old age. I do not think that they die of old age. So, the fact that this has been a long expansion doesn’t lead me to believe that its days are numbered.” Economic cycles and market cycles are not perfectly correlated to or codependent on one another, but they do exhibit similar characteristics and sensitivities. While length may not predict the precise end of the cycle, it does provide meaningful context when considering positioning within the market and potential proximity of a correction.

ROTATION UNDERWAY

While U.S. equities have exhibited remarkable resilience since March 2009, with the S&P 500® generating annualized total returns of approximately **+17.81%**, the underlying drivers of recent equity market performance are beginning to signal a potential fundamental shift. Most notably, as it relates to a maturing market cycle, traditional Defensive Sectors (i.e., Consumer Staples, Health Care, Telecommunication Services, and Utilities), which have outperformed the S&P 500® by **+306** basis points (“bps”) on an annualized basis since 2014*, were the leading relative *underperformers* in 3Q16, while Cyclical Sectors, such as Information Technology and Industrials, were among the leading relative *outperformers* in 3Q16. Financials, which we consider a Near Cyclical Sector, also outperformed in 3Q16, beating the S&P 500® by **+0.73%**. This sector-level rotation out of equities with defensive, less-cyclical characteristics (e.g., high dividend yield, high share buybacks, low beta/volatility, etc.) and into equities that are relatively more sensitive to the economic cycle could indicate a potential inflection point in a multi-year trend in equity market investing.

This changing of the guard or rotation away from Defensive Sectors toward late-stage Cyclical Sectors may be occurring for several reasons, such as: mean reversion, given the aforementioned level of relative outperformance; the proliferation of exchange-traded funds (“ETFs”) catering towards defensive equity strategies (e.g., low volatility, high dividend, etc.) becoming an increasingly crowded trade; and, finally, lagging data points suggesting we are approaching the later stages of the economic cycle (e.g., rising short-term rates, increasing inflation, low unemployment, etc.).

In general, equity investors appear to have been overweight Defensive Sectors relative to the S&P 500® as a means of gaining marginal, “lower-risk” exposure to the stock market, while also supplementing portfolio-level income by investing in parts of the market with above-average yields. Given low interest rates and the relative lack of inflation, this has been an incredibly successful strategy that has delivered impressive risk-adjusted returns. The growing popularity of this type of strategy, however, has resulted in a crowded trade and extended valuations across these Defensive Sectors. Investors looking for more attractive risk-adjusted upside potential are turning to those areas of the market that have underperformed and offer exposure to those end markets poised to benefit during the later stages of the business cycle.

In addition to a rotation in sector-level exposures, large cap equities have recently underperformed relative to small cap after years of strong outperformance, during which investors flocked to the relative safety and stability of large cap stocks, particularly in 2015 and early-2016. In 3Q16, however, the Russell 2000, a widely-used small cap equity index, outperformed the S&P 500® by **520** bps, signaling yet another change in the established regime.

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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The sector rotation and downsizing currently evident across equity markets presents an interesting proposition for portfolio management at this juncture. Recent equity market trends across sectors, styles, and sizes could represent an initial shift in favor of those companies and sectors likely to benefit from a late-cycle economy, thus potentially signaling continued outperformance.

INFLATION PRESSURES PERCOLATING

Inflation has remained stubbornly low throughout the current economic expansion, despite an unprecedented amount of quantitative easing and continued easy monetary policy following the Great Recession. Excluding the recent collapse in oil and energy-related commodity prices in late-2014 and 2015, core measures of inflation have been trending higher over the past two years, with services-related prices and expenditures exhibiting relatively strong year-over-year growth. Producer price inflation (“PPI”) has also been trending upward.

The ability of consumer to digest these price increases could be supported by ongoing improvement in labor market conditions. The unemployment rate is a lagging economic indicator, also supportive of a mature cycle stance. We believe that the temporary labor force as a percentage of the labor market is currently peaking, signaling that employers will need to take on permanent employees as we enter the later stages of the economic cycle. This could spur incremental wage inflation, which

has been gently climbing since early-2015, when job openings started to outpace hiring activity.

We believe these are indicative of inflation reaching an inflection point, which could finally give the Federal Reserve the ammunition needed to raise rates - yet another signal that we are approaching the later stages of the economic cycle!

THIRD QUARTER ECONOMIC OVERVIEW

As always, we look forward to discussing these topics, as well as other pressing economic issues, during our Quarterly Economic Overview webinar: details and registration information are provided below. Please contact us at 980-585-3368 or evanness@rinehartwia.com if you have any questions.

<p>DATE: Wednesday, November 9th</p> <p>TIME: 10:00 AM EST</p> <p>REGISTRATION INFORMATION</p> <p>Please refer to the link included in the original email or look for additional registration reminders, which will be sent out prior to the webinar.</p> <p>A recording will be available on our website after November 10th.</p>

STOCK & STRATEGY SPOTLIGHT

Name	Ticker	2016 YTD
Fresenius Medical Care AG & Co. Spons. ADR	FMS	-2.26%

Description & Investment Thesis

The Investment Team recently added Fresenius Medical Care AG & Co. Spons. ADR (“FMS”) to our Buy List and initiated positions across discretionary client portfolios. FMS is a leading global provider of products and services to patients with chronic kidney failure. FMS offers renal information technology solutions and provides services, such as renal replacement therapy and therapeutic apheresis, and its product portfolio includes dialysis machines, dialyzers, and related disposables. We believe that FMS is the best and most attractive company in the End Stage Renal Disease (“ESRD”) and diabetic product and service industry due to the company’s vertically-integrated business model, as well as its long-term and industry-leading relationships with government payers, which represent a significant source of ongoing and recurring revenue. Furthermore, FMS has historically traded at a sizeable premium relative to its peers but has pulled back recently and is currently trading in-line with long-term relative and absolute average multiples, which is reasonable given the quality and caliber of the company. We believe that intermediate- and long-term positive catalysts outweigh the near-term negative sentiment surrounding FMS, which should provide for incremental multiple expansion supported by strong underlying fundamentals and strong execution of the company’s business strategy.

WEALTH ADVISORY OVERVIEW

ESTATE PLANNING FOR DIGITAL ASSETS

VALUE

For most people, the value of Digital Assets are fairly modest. In many cases, items you buy and download are licensed to you for your specific use. They do not necessarily pass to other users and therefore do not really have monetary value. Surprisingly, award points and airline miles often fall into this category. In addition, some widely-used online accounts may have actual monetary value, for example PayPal or eBay.

emerge. In 2015, the Revised Uniform Fiduciary Access to Digital Assets Act emerged. A version of the revised act was enacted in North Carolina in 2016.

Generally, it allows for an individual account owner to consent to access and disclosure of digital assets to an account manager in a legal document like a Will or Power of Attorney. Digital account providers can then choose how much access they give to the named account manager.

“The crowd is most enthusiastic and optimistic when it should be cautious and prudent - and is most fearful when it should be bold.”

Humphrey Neill

ACCESS

It is important to consider who should have access to your digital information in the event you are incapacitated or deceased. Who has access depends on what is contained in the “terms of service” agreement that you agreed to when you setup your account. Historically, there has not been a lot of legislation in this area, and the practices vary widely among different digital account providers.

The simplest version of access is to keep a list of accounts and passwords that would allow a spouse or family member to log in to your account. However, digital account providers worry this constitutes unauthorized access and strongly prefer more official methods.

LEGACY

What happens to your Facebook page or Twitter account after you are deceased? Increasingly, the digital account providers are making provisions for an “online account manager.” That is, while the primary account owner is alive, he or she can name an account manager to have limited access to the account upon death. This feature is helpful when it exists, but not all accounts have this feature.

The digital world evolves quickly. Attempts to make rules to address the transfer of digital assets can quickly become outdated. That said, some uniform rules are starting to

PLANNING SUGGESTIONS

Although this area of planning is in its infancy, some best practices are starting to develop:

1. Create a list of your Digital Assets. It is difficult enough for you to take the time to list your own accounts, but it is nearly impossible for a family member or executor do to it after you are deceased. Create a list and update it frequently. The digital world evolves quickly and new accounts are constantly being invented, added and utilized. Also, store a hard copy of the list with other important estate documents.
2. When an online account allows you to name an account manager (that is, a person named to have access when you cannot), be sure to utilize that feature.
3. Name heirs and those with access to digital assets in your estate documents – power of attorney, will, and trusts – along with proper terminology.

Note: Rinehart wishes to acknowledge and thank Jean Carter, attorney with McGuire Woods LLP in Raleigh, NC. She is at the forefront of estate planning for digital assets, having crafted rules for North Carolina and having spoken on the topic to the Charlotte Estate Planning Council and Financial Planning Association of Charlotte, among many other professional groups.

AROUND RINEHART

ELLIOTT VAN NESS QUOTED IN CNBC

Rinehart's Director of Research Elliott Van Ness was recently quoted in a CNBC.com article on ETFs.



For a link to the full article, please visit the [News & Resources](#) page on the new and improved Rinehart website.

SANDY CARLSON QUOTED IN CHARLOTTE BUSINESS JOURNAL



Sandy Carlson, President & Wealth Advisor, was recently quoted in an article by the Charlotte Business Journal on the impact the current presidential election cycle is having on the wealth management and financial planning industry. The article focuses on how local financial planners are working to evaluate the impact of the presidential candidates' proposals on their clients' portfolios and financial strategies, changes in individual income tax, estate tax, and capital gains taxes.

Please contact your Wealth Advisor if you have any questions or would like any additional information.

DANIELE DONAHOE PRESENTING AT ANNUAL EY FAMILY OFFICE EVENT

Daniele Donahoe, CEO & CIO, will present at Ernst & Young's annual Family Office Education Series on November 3rd. This training program provides a practical understanding of technical topics relevant to professionals serving Family Offices. Daniele's presentation is titled "The Request for Proposal: How to Analyze Investment Managers."



ARE YOU PREPARED FOR RETIREMENT?

Rinehart's November Enrichment Series "Flipping the Switch: Are You Prepared for Retirement?" is an informative session on reviewing your preparedness for retirement. This seminar is offered on the following days in November:

- WOMEN, WISDOM & WEALTH EVENT
 - Wednesday, November 9th (5:30-7:30 PM)
- LUNCH & LEARN FINANCIAL WELLNESS
 - Wednesday, November 30th (12:00-1:00 PM)

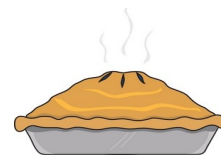
Both events are open to anyone interested and you can register for either event by contacting your Wealth Advisor or by emailing us at rinehart@rinehartwia.com.

For the complete "Women, Wisdom & Wealth" schedule, [click here](#).

For the complete "Lunch & Learn" schedule, [click here](#).

3RD ANNUAL GRAB A PIE EVENT: NOVEMBER 23RD

Please email us at rinehart@rinehartwia.com to reserve your pie today!



We will have a pie waiting for you on Wednesday, November 23rd as a thank you for allowing RWIA to serve your wealth and investment advisory needs!

FOND FAREWELL TO CYNTHIA SIMS

After serving as a trusted and dedicated member of our team, Cynthia Sims has accepted her dream job working in a development role at The Dilworth Center. Cynthia has been, and will always be, a close personal friend of the Rinehart Team, and it is with a heavy heart that we bid Cynthia farewell and wish her the best of luck!

Rinehart Wealth & Investment Advisory

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

521 East Morehead Street
Suite 580
Charlotte, NC 28202
Phone: 980-585-3373 Fax: 980-265-1274

rinehart@rinehartwia.com

Information provided in this newsletter should not be considered or interpreted as advice for your particular financial situation. Please consult a professional advisor for advice regarding your specific financial needs.

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