

INSIGHTS

INVESTMENT OVERVIEW

WAGE INFLATION

Until recently, there has been little to substantiate a shift in the tepid inflationary environment that has constrained any meaningful upward trajectory in interest rates. Signs of potential wage inflation have been percolating throughout this year's Job Opening and Labor Statistics ("JOLTS") data, eventually materializing in a 2.5% increase in year-over-year real average hourly earnings for the month of October. Given that unemployment is approaching the Federal Reserve's structural target, this subtle shift in the trend in wage growth could represent a tilt toward higher inflation, which has been an absent ingredient in the Federal Reserve's recipe for higher interest rates.

It has consistently been our belief that without wage inflation and a concomitant acceleration in the velocity of money, any move made by the Federal Reserve ("the Fed") toward interest rate normalization would be premature, as well as potentially dangerous to the feeble global economic growth. Consequently, the Investment Team has been analyzing wages and employment trends constantly and now sees a shift that deserves attention.

In order to extensively analyze wage inflation, it is important to consider the crucial contribution of shifting labor force supply and demand

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FINANCIAL ADVISORY OVERVIEW

CONTEMPLATING YEAR-END GIVING? CONSIDER A DONOR ADVISED FUND

Donor-advised funds ("DAFs") are charitable giving vehicles offered by a public charity that enable organizations, families, and individuals to make contributions and receive an immediate tax deduction, while retaining flexibility regarding the management of funds and the timing of distributions. First established in 1931, DAFs have grown in popularity and are now the fastest growing charitable giving vehicle in the United States. There are currently more than 175,000 donor-advised accounts, housing over \$37 billion in assets.¹

To utilize a DAF, a donor would first open an account with a charitable organization, such as Fidelity or Schwab Charitable. Once the account is open, an irrevocable contribution of cash or securities may be made, allowing the donor to receive an immediate tax deduction. Donors can receive up to 50% of their adjusted gross income (AGI) when donating cash and up to 30% of AGI when gifting appreciated securities, mutual funds, real estate, and other assets. Since tax deductibility limits vary by asset type and are subject to a five year carry forward, thoughtful tax planning should be utilized to ensure the successful deduction of all contributions.

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SPECIAL POINTS OF INTEREST

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dynamics, labor productivity, and broader inflationary pressures. When taking these contributing factors into consideration, the Investment Team remains of the opinion that the recent positive trends in wage inflation should persist with moderation, given where we are in the current economic cycle.

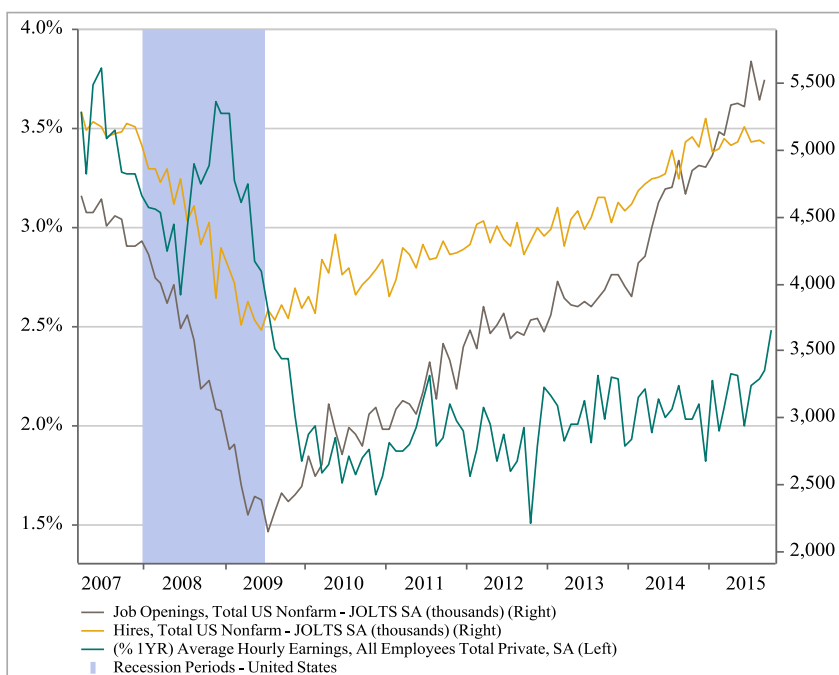
SHIFTING SUPPLY & DEMAND DYNAMICS

There has been a shift in the supply and demand dynamics within the labor market, illustrated by the aforementioned JOLTS data, wherein openings have recently exceeded hires. Total US Nonfarm Job Openings, represented by the brown line in Chart I, have been tracking ahead of Total US Nonfarm Hires (i.e., the gold line) since February 2015, which means that the number of available positions has been greater than the number of employees hired, suggesting there might be a lack of supply of qualified candidates to fill available positions. Current labor market conditions may be approaching a state of disequilibrium, which could prompt an acceleration in wage growth to attract potential employees, which appear increasingly scarce, despite a stubbornly low participation rate. This suggests an imbalance in labor market supply and demand could signal and contribute to wage inflation, as measured by the seasonally-adjusted, year-over-year change in Real Average Hourly Earnings (i.e., the green line), which recently jumped by 2.5% in October.

LACKLUSTRE LABOR PRODUCTIVITY

Over the past six years since the US economy exited The

CHART I: WAGE INFLATION VS. JOLTS DATA



Source: FactSet Research Systems, Inc.

Great Recession, the broader labor market has gradually improved, as evidenced by the significant decline in the unemployment to 5.0% as of the end of October. These gains have occurred without meaningful improvements in the underlying productivity of the workforce. The deficient growth in real labor productivity may constrain the recent uptick in wage growth, suggesting rampant wage inflation due to escalating wages might not be an immediate threat. Chart II provides an illustration comparing the year-over-year change in unit labor costs (i.e., the green line) to the year-over-year change in labor productivity (i.e., the brown line) over the past 30 years.

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MONTHLY INDEX REVIEW (USD TOTAL RETURN)

Data as of November 30 th 2015	November 2015	3Q15	2015 YTD	2014
S&P 500	+0.30%	-6.44%	+3.01%	+13.69%
Dow Jones Industrials	+0.71%	-6.98%	+1.76%	+10.04%
NASDAQ Composite	+1.28%	-7.09%	+9.05%	+14.75%
Russell 2000	+3.25%	-11.92%	+0.64%	+4.89%
MSCI Emerging Markets	-3.89%	-17.78%	-12.70%	-1.82%
MSCI EAFE	-1.54%	-10.19%	+0.95%	-4.48%
Barclays US Aggregate	-0.26%	+1.23%	+0.88%	+5.97%

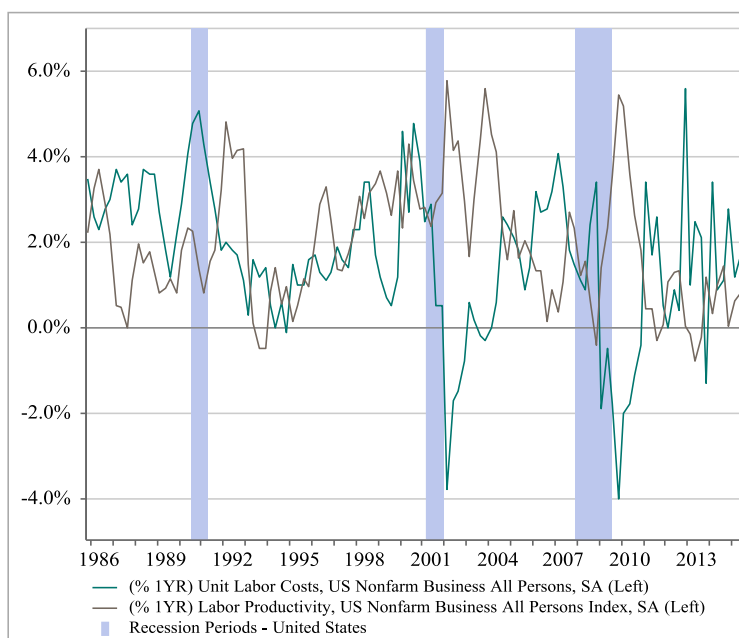
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Despite a sharp bounce back during the end of The Great Recession in late-2009, year-over-year labor productivity growth has failed to exhibit any sort of sustainable recovery above its long-term average of approximately 2.2%. Growth in unit labor costs, however, have fared better since exiting The Great Recession.

The lack of realized gains in labor productivity in the face of marginal increases in unit labor costs help to partially explain how the rate of wage inflation has remained below trend growth rates due to an inability of employers to raise wages without eroding profits in the face of

CHART II: LABOR PRODUCTIVITY VS. LABOR COSTS



Source: FactSet Research Systems, Inc.

US dollar and a heightened risk environment across international financial markets.

“Inflation is the one form of taxation that can be imposed without legislation.”

Milton Friedman

anemic revenue growth and top-line inflation. Without productivity or inflation, it is difficult for wages to rise rationally, as employers are faced with the proposition of trying to rationalize sharing *more* of their realized profits with employees at a time when labor productivity has failed to justify real wage rate growth.

MINIMAL INFLATIONARY PRESSURES

In last month’s edition of *INSIGHTS* ([November 2015 INSIGHTS](#)), the Investment Team explained how the Fed surprised the market with its decision to leave the federal funds rate unchanged at the conclusion of the September meeting of the Federal Open Market Committee (“FOMC”). Commentary from the FOMC focused on the persistent lack of inflation within the US economy, as well as the continued relative strength of the

On the following page, Chart III shows how the relevant measures of inflation used by the Fed remain well below the Fed’s stated target rate of 2.0%. As previously mentioned, there is substantial evidence to confirm that an established and identifiable relationship between price inflation and wage inflation exists; determining whether price inflation precedes wage inflation or vice versa, however, remains extremely difficult. Furthermore, this relationship is subject to transitory influences and cyclical variables, distorting the relationship’s short-term predictive power.

Over the long run, we expect incremental inflationary pressures to coincide with increases in the wage growth rate, such that any nominal growth in economic activity corresponds to increases in the nominal wage growth rate.

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ABOUT RINEHART

Rinehart Wealth Management 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:

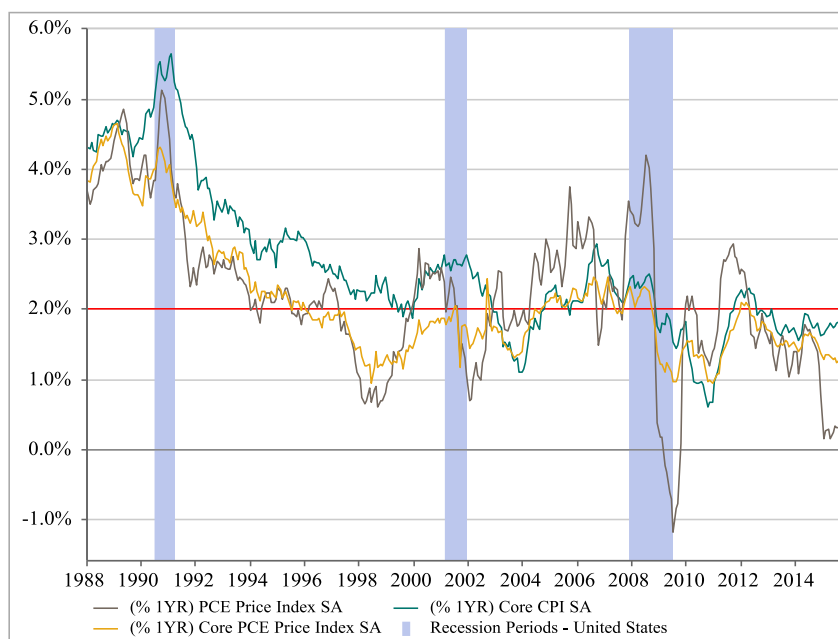
The differentiating factor of our portfolio management process is the proprietary investment research driving the portfolio construction. All investment research and analysis is done entirely in-house by our Investment Team.

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We welcome the modest uptick in wage growth as the lack of inflationary evidence was becoming increasingly concerning given the unprecedented quantitative easing and monetary stimulus conducted by the Fed over the past six years. A dash of inflation paired with a serving of market stabilization might be the recipe the Fed needs to raise rates this holiday season.

CHART III: US INFLATION



Source: FactSet Research Systems, Inc.

STOCK & STRATEGY SPOTLIGHT

Company Name:

Daktronics, Inc.

Ticker:

DAKT

2015 YTD

-28.30%

Company Description:

Daktronics, Inc. ("DAKT") designs, manufactures and sells computer-programmable information display systems. It operates through the following business segments: Commercial, Live Events, High School, Park, and Recreation, Transportation, and International. The Commercial Segment sells video and display product lines to resellers, outdoor advertisers, national retailers, quick-serve restaurants, casinos, and petroleum retailers. The Live Events Segment provides scoring and video display systems to college and professional sports facilities and convention centers, while the High School, Park, and Recreation Segment engages in the sale of scoring systems, video, and display systems to primary and secondary education facilities. The Transportation Segment consists of sales to governmental transportation departments, airlines, and other transportation-related customers, while the International Segment is composed of sales of all product lines outside the United States and Canada. The Investment Team believes that shares of DAKT are priced at extremely attractive valuations, currently trading at 1.83x Tangible Book Value with a 4.69% Dividend Yield, providing quantifiable downside protection. After having spoken with a member of the management team earlier this year, we were able to gain invaluable insight beyond pervasive negative market sentiment and were reassured by the strong underlying business fundamentals, which presented an incredibly appealing opportunity for outsized positive risk-adjusted returns.

Source: FactSet Research Systems, Inc.

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ADVANTAGES VERSUS TRADITIONAL CHARITABLE GIVING

The ability to donate low basis appreciated stock without realizing and recognizing capital gain taxes is a valuable tax benefit of DAFs. If you have appreciated stock that you have held for more than a year, you can donate it to your charitable account and deduct the fair market value of the asset. By donating the security and allowing the tax-exempt charity to sell the security for cash, any capital gain taxes are avoided, thereby allowing a greater contribution to charity.

A standard DAF can allow donors to recommend investments from among a variety of investment options. This allows the donor to continue to have discretion regarding how their account is invested. If donors would like to involve their investment advisor in assisting them with their donor advised fund, they may do so by having their advisor receive copies of their monthly statements, or by allowing the advisor to link the DAF to their master account on the platform where the DAF is established.

Once your charitable account is funded, you can recommend grants at any time to any IRS-approved 501(c)(3) public charity. Typically, the minimum annual distribution is 5% of the account balance. Therefore, while the tax deduction is taken upfront, the donor does not have to distribute the entire account balance in the same year. Rather, they can take their time to disburse grants, providing an undecided donor more time to determine where they would like the funds to be allocated.

Recommended grants can be accompanied by letters personalized with your DAF name, or you can elect that grants be sent anonymously. While the charity that sponsors the fund technically can make the final determination as to the disposition of the assets, it is uncommon that the donor's requests go unfulfilled. Therefore, most grants are tied to the underlying preferences of the original donors.

Other advantages of this alternative form of charitable giving include, but are not limited to, administrative ease, cost savings over private foundations, as well as the ability to build a charitable legacy for your family. DAFs are easy to setup and administer. Additionally, the cost savings associated with contributing to a DAF versus establishing a private foundation are substantial. A private foundation requires anywhere from 2.5% to 4.0% in fees on an annual basis to cover operating expenses. Compare this to the much lower administrative fees charged by most DAFs, in addition to their administrative ease, and it is no wonder why they have become so popular.

Funding a future of charitable giving, and sharing these values with your family can be tremendously fulfilling. DAF make it easy for children and parents to get together to discuss what matters to them and how they can make a difference by talking about which charities to support. This fosters a unique opportunity to teach compromise and consensus-building and offers a venue to discuss shared values.

WHAT ARE THE DRAWBACKS TO DAF'S?

As with any kind of investment vehicle, there are some drawbacks associated with DAF's. These include, but are not limited to, the inability to accept donations of illiquid assets, as well as the types of organizations a DAF can make contributes to. Illiquid assets include the ownership of a private company, real estate, art, and limited partnership interests.

If you are interesting in learning more about donor-advised funds please feel free to contact your Rinehart Wealth Advisor.

¹Charitable Giving Statistics by NPTrust.

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AROUND RINEHART

POPULAR PIE DAY



RWM's second annual "Stop By, Say Hi, Grab a Pie Day" was a huge success! If you were unable to make it, we would love for you to join in the fun next year. We are always grateful for quality time together with our wonderful clients. Stay tuned for more fun events we are planning for 2016!

RWM'S ANNUAL CHRISTMAS PARTY

Daniele Donahoe is opening her lovely Dilworth home to host RWM's annual holiday party December 2nd. She enlisted the help of Chef Charles to create an intimate gluten-free six-course menu paired with fabulous wine tastings provided by Bond Street Wines. Local pianist Marc Hoffman, a regular at the Ritz Carlton, will round out the festivities playing holiday favorites on the baby grand piano. Hopefully, Daniele's husband Josh Hall will pull out his violin again this year to accompany the pianist with some classic holiday tunes.



RWM MAKES A DIFFERENCE



RWM enjoys sharing 10% of its profits each year with various local charitable organizations as well as giving gifts in our clients' honor to Heifer International and Crisis Assistance Ministry. Thank you for providing help

and hope to the recipients for the above charities. Together we make a wonderful difference.

2016 FINANCIAL RESOLUTIONS

Another fresh new year is almost here. Have you made your New Year's Financial Resolutions? Our team at RWM looks forward to helping you review your financial scorecard for 2015 and outline goals for your financial future. Contact your RWM Wealth Advisor to discuss strategies and investment solutions to maintain the financial health of you and your loved ones in 2016!



We wish you a very Happy Holiday season and a peaceful and prosperous New Year.



Rinehart Wealth Management

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

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