Rinehart
WEALTH & INVESTMENT
ADVISORY

March 2018 Insights

Investment Overview

4Q17 Economic Overview: The Crystal Ball Consumer

Given the rambling market, our economic analysis continues to focus on established indicators that have historically exhibited strong predictive power regarding the longer-term trajectory of financial markets from prevailing levels. Continuously monitoring key metrics while comparing them to historical patterns has become fundamental to our economic analysis.

At this stage in the economic cycle, consumer behavior can serve as a crystal ball, providing potential insight into future market performance at a conflicting juncture. Time and again, euphoric consumer confidence data coincide with a market top, while credit card delinquencies trend up and personal savings rates slide simultaneously. If history is any indication - while it may not always repeat itself, it often serves as an exemplary teacher - the indicators suggest ±12-18 months until the onset of an economic recession in the U.S. The analysis of the indicators is technical, while determining the timing is an art and often impossible to get exactly correct.

Consumer Confidence as a Contra-Indicator

Analyzing consumer behavior to prognosticate market behavior is an art that assists in determining the maturity of the economic cycle. Consumers tend

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Wealth Advisory Overview

Evaluating Continuing Care Retirement Communities

A Continuing Care Retirement Community ("CCRC") is one of the over 62 retirement community that welcomes residents who can live independently and provides them the promise of community, as well as the guarantee of providing future long term health care needs within the community. CCRCs are insurance contracts, providing housing and nursing needs for a resident's life. Typically, CCRCs provide three levels of care: independent, assisted living and skilled nursing, so that a resident can be cared for during the full continuum of their life, without having to move.

Questions to Consider When Evaluating CCRC Options

What Contract Type Best Fits Your Needs?

There are three main contracts to be considered:

1. **Type A or a Life Care Contract:** This type of contract requires the highest monthly fee, and possibly even a higher entrance fee. The initial higher fees usually cover future care for assisted living or skilled nursing with little or no increase in monthly fees, other than inflationary adjustments.
2. **Type B or a Modified Contract:** This type of contract typically requires a lower monthly fee than a Life Care contract, and possibly even a lower entrance fee. However, if assisted living or skilled nursing care is required, the resident will be responsible for some of the cost. Often the

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Investment Team

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Special Points of Interest

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

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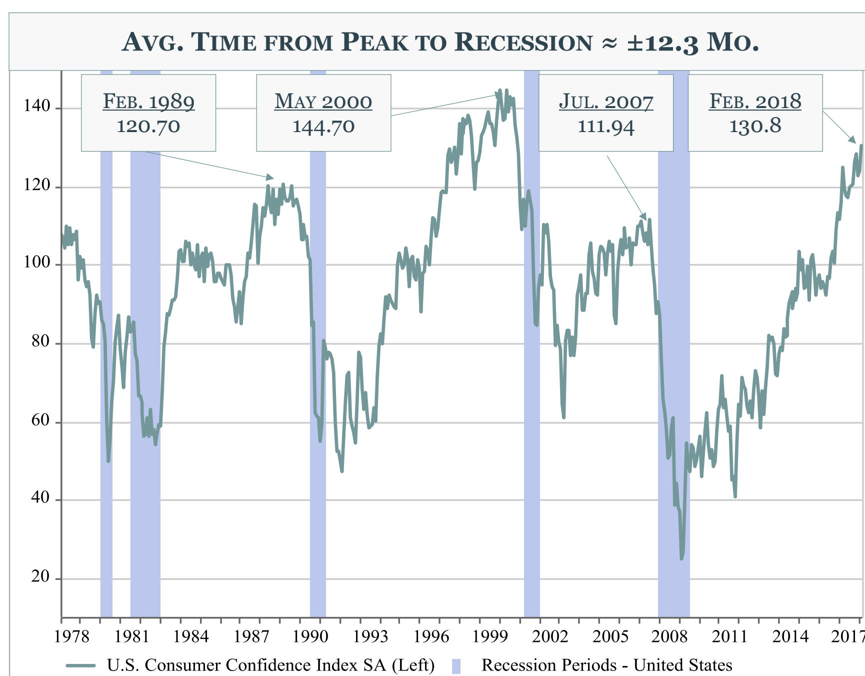
to exhibit repeatable, recognizable patterns applicable to tactical portfolio positioning around the economic cycle. Notably, consumers tend to be *fearful* when investors should be *adding* exposure to risk assets and *confident* when investors should be *reducing* exposure to risk assets. Consumer sentiment is a notoriously reliable contra-indicator, suggesting that tactical shifts in portfolio positioning that are inversely-related to near-term trends in consumer confidence data may produce incremental risk-adjusted returns relative to the broader market.

The U.S. Bureau of Labor Statistics ("BLS") publishes a monthly report on consumer perceptions of current and expected business and economic conditions: the Consumer Confidence Index® ("CCI"). The CCI measures the relative value of consumers' appraisal of current business and employment conditions, as well as their six-month forward-looking expectations for business and employment conditions, including total family income in six months. As an economic indicator, the CCI is fraught with assumptions: in particular, it assumes that consumers are logical and capable of differentiating between current conditions and their perception of those that will be present in the future. This *cognitive dissonance* causes consumers to unreasonably extrapolate current conditions into the future, which is why we view this metric as a contra-indicator: the consumer's ability to make rational, unbiased predictions is notoriously limited and thus often reflects a peak, or trough, in present economic conditions.

This can be seen when looking at Chart I, which shows consumer confidence data during the most recent recessionary periods in the U.S., wherein the CCI has peaked an average of **±12.3 months**, ranging from ±5.1 to ±21.2 months, prior to the U.S. economy entering a recession. This is particularly disconcerting given that the most recent CCI reading for February 2018 hit **130.8**: exceeding consensus estimates (±126.6) and the highest level of consumer confidence in ***±17 years*** (November 2000 = 132.6) - surpassed only by the euphoric years of the "dot-com" bubble.

Chart I: U.S. Consumer Confidence Index®



Source: FactSet Research Systems, Inc.

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Monthly Index Review
USD Total Return

Data as of February 28th 2018	February 2018	2018 YTD	2017	2016
S&P 500®	-3.64%	+1.83%	+21.83%	+11.96%
Dow Jones Industrial Average	-4.10%	+1.69%	+28.11%	+16.50%
NASDAQ Composite	-1.40%	**+5.54%**	+29.64%	+8.87%
Russell 2000	-4.17%	-1.36%	+14.65%	**+21.31%**
MSCI Emerging Markets	-4.17%	**+3.36%**	**+37.75%**	+11.60%
MSCI EAFE	-4.58%	+0.30%	+25.62%	+1.51%
Barclays U.S. Aggregate Bond Index	-0.68%	-2.09%	+3.54%	+2.65%

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Saving Less Suggests Misguided Sense of Comfort

As confident consumers extrapolate robust economic conditions into the future, they begin to spend more and save less. Similar to our interpretation of consumer confidence data as a contra-indicator given the tendency of consumers to unreasonably and illogically extrapolate current economic conditions into the future, we view the personal saving rate as being a misguided extrapolation of consumers' perceived financial stability into the near future. Again, cognitive dissonance causes flawed decision making amongst consumers, such that when consumer confidence is high, consumers are comfortable spending more of their disposable income because they believe their financial situation will continue to improve: as a result, personal saving declines as a percentage of disposable personal income ("DPI") at the exact wrong time in the economic cycle. The U.S. Bureau of Economic Analysis ("BEA") publishes a monthly report on national economic statistics on U.S. production, consumption, and investment activity, as well as personal income and saving data. Personal saving is DPI less personal spending (i.e., discretionary spending and personal consumption), and the personal saving rate is personal saving as a percentage of DPI.

As can be seen below in Chart II, the personal saving rate has been in secular decline for ±40 years in the U.S. and follows a predictable pattern of reaching cyclical lows an average of **±15.3 months** ahead of an economic recession. The timing of the trough in the U.S. personal saving rate does, however, exhibit a fairly significant range (±1.1 to ±39.1 months), which is why we do not use or view the personal saving rate data in isolation. As part of a macroeconomic mosaic, however, the trend in the data series can be an effective input when analyzed alongside other economic indicators, such as consumer confidence and, as we will discuss, consumer credit card delinquencies.

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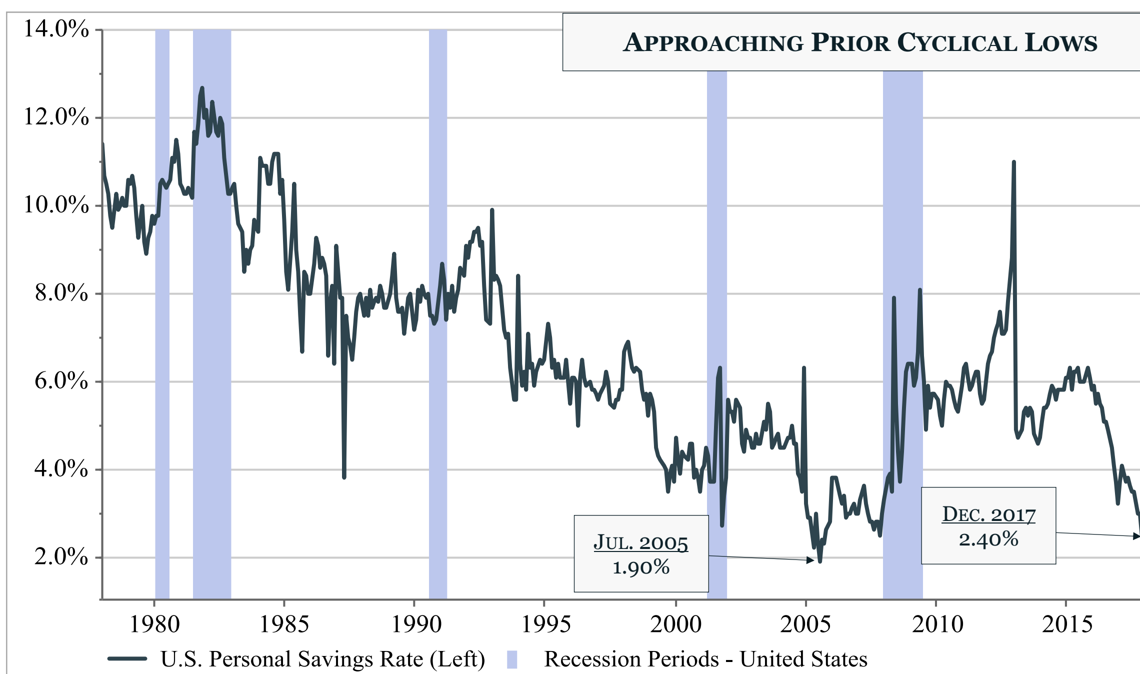
Chart II: U.S. Personal Saving Rate



Source: FactSet Research Systems, Inc.

About Rinehart

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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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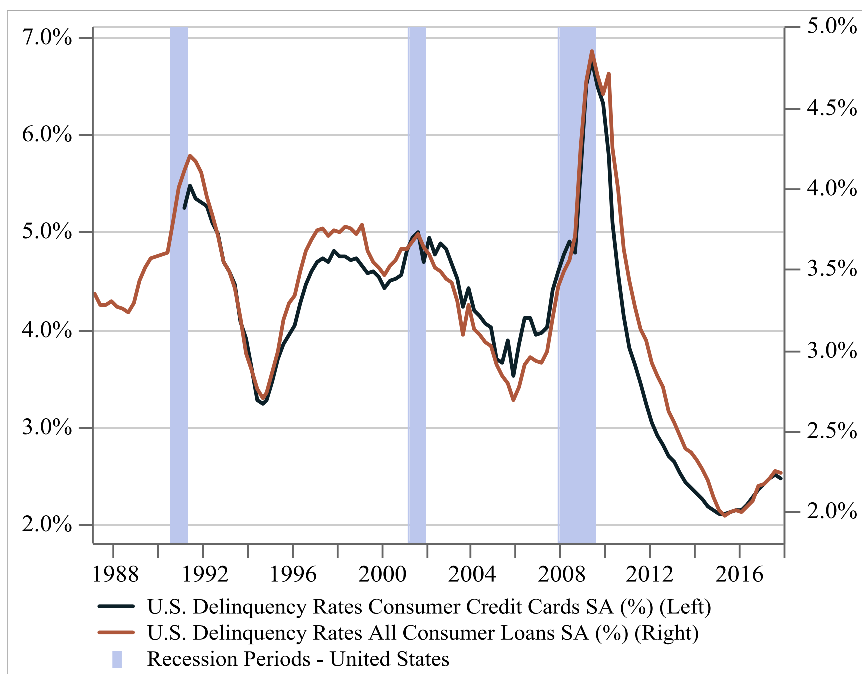
Consumer Credit Card Delinquencies on the Rise

As consumers become more confident in their spending, they also feel more comfortable adding debt to their personal balance sheets, which eventually results in increased delinquencies as consumers begin struggling to sustain higher debt levels. The Board of Governors of the Federal Reserve publishes quarterly data tracking the delinquency rates on several categories of loans and leases (e.g., real estate loans, commercial & industrial loans, etc.) made by all commercial banks in the U.S., including the delinquency rates on consumer credit cards. Delinquency rates on consumer loans, including credit card loans, in the U.S. tend to closely track the unemployment rate and can be informative in measuring the degree to which consumer spending has become extended relative to personal income and saving data.

Chart III: U.S. Consumer Delinquency Rates



Source: FactSet Research Systems, Inc.

As can be seen in Chart III, delinquency rates on consumer loans tend to peak at the end of an economic recession and decline rapidly, often abetted by an increase in personal bankruptcies that enable consumers to write off existing debt. As labor market conditions improve and consumers are able to pay off past-due credit card bills and other outstanding loans. As the economy recovers, delinquency rates approach a cyclical trough toward the midpoint of the economic cycle. In the later stages of the economic cycle, however, consumers increase discretionary spending, decrease their saving rates, and, once again, begin to take on additional debt as creditors ease lending standards and make debt more accessible. As a result, when the economy enters the forthcoming recession, consumers do not have sufficient savings to pay off accumulated credit card balances or other assumed debts, causing a corresponding spike in delinquency rates, signaling the economy's forthcoming descent into recession.

Unemployment Rate Approaching Prior Cyclical Lows

The BLS also publishes a monthly report on labor market conditions in the U.S. based on the most recent month's Current Population Survey ("CPS"). Included within this report is the monthly unemployment rate, measuring the ratio of unemployed persons (i.e., persons without a job actively seeking a job and available to perform work) to the civilian labor force (i.e., the sum of employed and unemployed persons older than 16 years). Historically, an unemployment rate of **±4.00%** has been associated with an economy operating at full employment.

As it relates to the business cycle, the unemployment rate is a standard, commonly-used gauge of the health of the broader economy, with a declining unemployment rate implying robust economic conditions, and a rising unemployment rate reflecting deterioration in underlying economic conditions. Within the context of the business cycle, the unemployment rate tends to bottom out prior to the economy entering a recession, coinciding with robust gross domestic product ("GDP") growth, as labor market conditions reflect an economy operating near or at full employment. As such, we view the unemployment rate as a lagging economic indicator: in theory, an economy at full employment is already operating at or near full capacity, and, as a result, the rate of economic

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growth will eventually decelerate from a lack of additional productive resources and corresponding inflationary pressures. Essentially, utilizing the backward-looking data reflected in the unemployment rate is akin to looking into the rearview mirror.

As can be seen in Chart IV, the U.S. unemployment rate hit a post-Global Financial Crisis low of **4.1%** for the month of January 2018: its lowest level in ***±18 years*** (January 2000 = 4.0%). Looking at business cycles in the U.S. over the past ±40 years , the average time between the unemployment rate hitting its cyclical trough and the U.S. economy entering a recession is approximately **±9.1 months**, ranging from ±3.1 to ±16.0 months: the real question, however, is whether or not the U.S. economy has reached the point in the current economic cycle at which it is effectively operating at full employment, or do prevailing secular labor force adjustments make historical analogies less relevant.

Within the aforementioned monthly employment report, the BLS provides accompanying data on temporary help services employees (i.e., temporary staffing), who are employed by a temporary help firm to provide labor and services to outside, independent employers across various industries: these temporary workers are reported as employees of the temporary help firm - not as employees of the outside firms utilizing the temporary employees. Consequently, temporary help services employees provide much-needed flexibility and critical cost advantages to employers, which, in turn, makes the industry-level data for temporary help services employees informative as a leading economic indicator ("LEI") because as economic growth picks up, employee workloads increase, but employers are reluctant to commit to permanent, full-time employees. Therefore, employers rely on temporary staffing in the initial stages of an acceleration or recovery in economic growth, making this a leading indicator with predictive potential.

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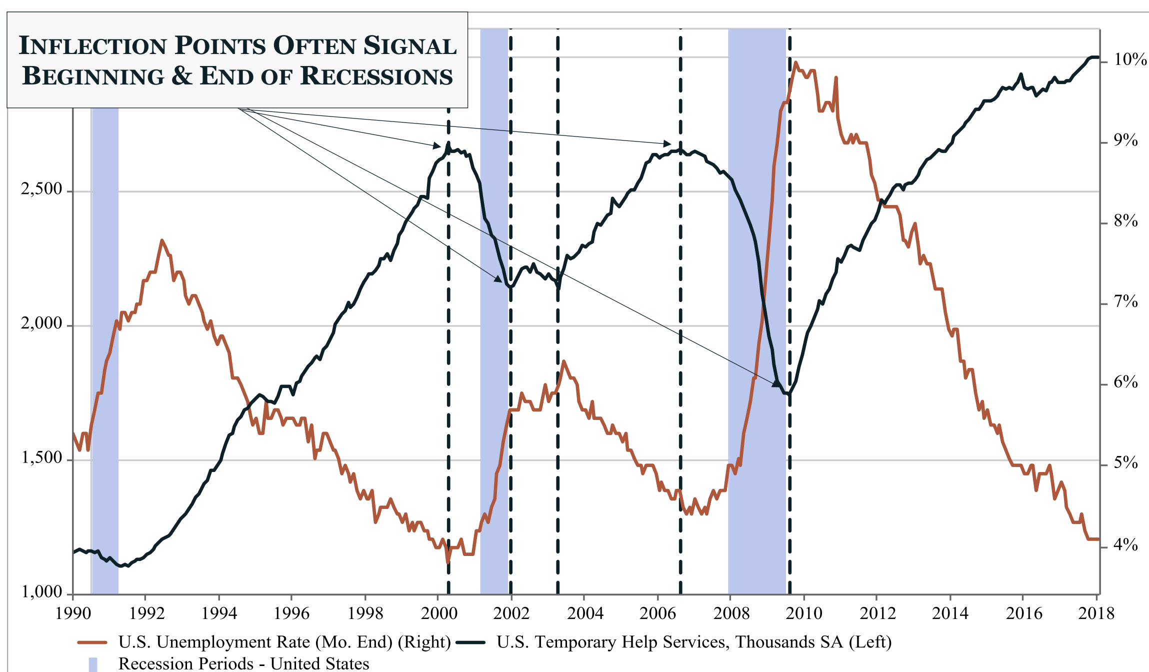
Chart IV: U.S. Unemployment Rate vs. Temporary Employment



Source: FactSet Research Systems, Inc.

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As broader demand for goods and services decreases (increases), employers quickly adjust their workforce by decreasing (increasing) their use of indirect, temporary workers prior to firing (hiring) permanent personnel. In this way, it provides a prognosis of the labor market and business owners' appetites for hiring full-time employees, which tends to happen when the economy is already in full recovery mode. According to a report published by the U.S. Department of Commerce in July 2015: "Firms might be reluctant to bring on permanent employees until the recovery is well-established." When employers experience a slight uptick in demand, they quickly need additional labor capacity and engage temporary workers. As such, this metric has consistently signaled the end of multiple recessions, as illustrated in Chart IV on the previous page. Alongside the U.S. unemployment rate, Chart IV shows how U.S. temporary help services as a percentage of total U.S. non-farm payrolls tends to peak **±12-24 months** ahead of a recession, while an upward inflection in that ratio also tends to signal the end of a recession. As is often the case with LEIs, the rate of change in the trend of the data series is more significant than the absolute percentage as a leading indicator for broader economic conditions and the overall business cycle.

Conclusion & Final Reminder for Fourth Quarter 2017 Economic Overview Webinar

Past performance of the S&P 500® Consumer Discretionary Sector Index relative to that of the broader market (i.e., the S&P 500® Index), as well as the performance of other late-cycle sectors, supports the theory that the consumer can serve as a crystal ball for the market. Consumer Discretionary has been a relatively consistent underperformer during the prior three interest rate hike cycles, suggesting that evidence of underperformance in this sector could indicate an inflection point in the economic cycle, as well as a near-term topping of the current equity bull market. This has yet to manifest but is something to monitor closely and constantly given that the market has been flashing signs of increasing froth/volatility, overvaluation, and maturity.

As always, we look forward to discussing these topics, as well as other pressing investment and economic issues, during our Quarterly Economic Overview webinar.

Please feel free to contact us at (980) 585-3390 or evanness@rinehartwia.com if you have any questions.

RWIA Fourth Quarter 2017
Economic Overview Webinar

Date: Friday, March 2nd

Time: 10:00 AM EST

Registration

To register for the webinar, please click here.

A recording will be available on our website by Tuesday, March 6th.

Stock & Strategy Spotlight

Name	Ticker	February 2018	2018 YTD
LSI Industries, Inc.	LYTS	-0.51%	+14.24%

Description & Investment Thesis

Last year, in our October 2017 edition of INSIGHTS (October 2017 INSIGHTS), the Investment Team provided an update on and reiterated our buy recommendation for LSI Industries, Inc. ("LYTS"), following an extremely informative and productive in-person meeting with members of the LYTS management team. As we mentioned in that newsletter, the Investment Team believed that LYTS was well-positioned to benefit from an uptick in sales and bookings activity given the continued strength of the company's quoting activity, which was likely to translate into margin expansion as a result of the company's efforts in implementing operational efficiencies and productivity-enhancing initiatives over the prior 12-18 months. On January 25th, LYTS reported 2Q18 earnings and operating results that came in ahead of consensus expectations and, more importantly, reflected continued improvements in the company's operating margins: specifically, LYTS' adjusted operating margin improved **±90** basis points ("bps") year-over-year in 2Q18 vs. 2Q17. While industry-wide headwinds are likely to continue to weigh on top-line results in the near term, the Investment Team continues to recommend LYTS across long-term investment portfolios, as the company is likely to reap significant benefits from a late-cycle recovery in demand across industrial and commercial markets.

Wealth Advisory Overview

Evaluating Continuing Care Retirement Communities

resident will have access to a pre-defined number of days in the health care center at no cost and/or healthcare services are offered at a discounted rate.

3. **Type C or a Fee-for-Service Contract:** A fee for service contract typically requires the lowest monthly fees and possibly the lowest entry fees compared to the other types of contracts described above. However, if assisted living or skilled nursing care is required, the resident's monthly fee will increase to reflect the market rate for the cost of care.

"Nobody ever lost money taking a profit."

- Bernard Baruch

Which contract type should be elected depends on your expected future needs and analyzed on a case by case basis. It is important to understand what health services, if any, are included.

- How much do the fees rise over time?
- How much is the entrance fee and is it refundable? About half of CCRCs have a refundable entrance fee that will go to the resident if they move or to their estate when they die. The refundable options can range from 50% to 90%. Ask how much is refundable and under what conditions.
- What if my spouse or partner needs a different level of care? One of the advantages of CCRCs for couples is that they can continue living in the same place if, for instance, one needs skilled nursing care and the other is able to live independently.
- Who lives there and what do they do? Ask the age of the average resident and the type of programs the CCRC offers.
- What is the occupancy rate? Look for an occupancy rate of 85% or higher unless it is a new development.
- Is the CCRC financially sound? Ask to look at the CCRC's financial records, and look for anything unusual, such as a large amount of debt, failure to meet bond obligations or evidence of liabilities exceeding assets.
- Who regulates the CCRC? Find out which agency regulates the CCRC and check to be sure the company is in good standing. In most states, CCRCs are regulated by the insurance commissioner, but it can be another agency.

When is the Best Time to Move into a CCRC?

Planning for our decline is something than none of us enjoy. It is more pleasing to focus on the positive aspects of our life in retirement: opportunities to follow new paths, travel, etc. than planning for our own mortality. Therefore, we tend to delay the more difficult tasks such as downsizing our home and changing our living arrangements.

Generally, CCRCs require prospective residents to be in good health and able to live independently. Some might even ask for a health exam. Too often, retirees who are in good health think that it is too early to transition to a CCRC. However, all too often retirees wait too long to apply; their health declines and limits their housing options.

If you have made the decision to enter a CCRC, or need help deciding whether a CCRC would be a good fit for your life situation, please contact your Rinehart Wealth Advisor to assist you through your maze of options.

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Around Rinehart

Infrastructure Portfolio Manager Panel

Thank you to everyone who was able to join us for our 4th Annual Portfolio Manager Panel Event this year! Also, we would like to thank our four prominent panelists who provided and shared their infrastructure investment expertise! The discussion was timely and the insight proprietary, with positive feedback from presenters and attendees alike.

We hope that those of you who were unable to make the event will join us next year, and we will start to assemble the program and have details regarding next year's event later in 2018.

Rinehart Supports YWCA

Daniele Donahoe and Leah Maybry attended the 2018 "We Believe" Luncheon for YWCA of the Central Carolinas. This popular event took place February 22nd at the Westin Uptown and supports the YWCA's mission to empower women and eliminate racism.

Rinehart Proud Sponsor of Foundation For The Carolinas Annual Luncheon

Rinehart is honored to sponsor the 2018 Foundation For The Carolinas Annual Meeting on March 22nd at the Charlotte Convention Center. This is one of our region's premier nonprofit events, the Annual Meeting convenes nearly 1,500 leaders each year from the corporate, nonprofit and civic sectors, providing an unmatched opportunity for networking and fellowship.

This year's keynote speaker for is Robert Muggah, a political scientist and expert on cities, security, and new technology. His visually powerful and thought-provoking TED Talks on the greatest challenges and opportunities facing modern cities have received more than a million views.

Rinehart Wealth & Investment Advisory

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

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