

## INSIGHTS

### INVESTMENT OVERVIEW

#### ECONOMIC OVERVIEW & ELECTION IMPLICATIONS

Election years are always controversial for the markets, and there has been considerable analysis performed on market behavior during election cycles. The historical data, however, often fails to demonstrate any conclusive or statistically-significant causal relationships. That being said, there are several generalities that are commonly regarded in the performance of the stock market during election years.

The current election cycle has been nothing if not atypical, creating a palpable sense of unease and anxiety in anticipation of the ultimate outcome of the 2016 Presidential Election. In addition to broader policy issues front and center during this year's election, such as tax reform and minimum wage, there has been significant dialog amongst this year's candidates regarding their plans to address health care, banking and financial services, and environmental and energy regulations, creating sector-specific stock market volatility over the past twelve months.

The Investment Team recognizes that the ongoing uncertainty surrounding these sector-specific issues may continue to result in elevated volatility, as the collective reaction to popular perceptions tend to supersede fundamental realities in dictating day-to-day market performance. The inherent limitations of the Executive Branch, however, make it extremely unlikely that any particular outcome of the 2016 Presidential Election will have a demonstrable impact on near-term policy itself, despite the market's attempt to signal otherwise.

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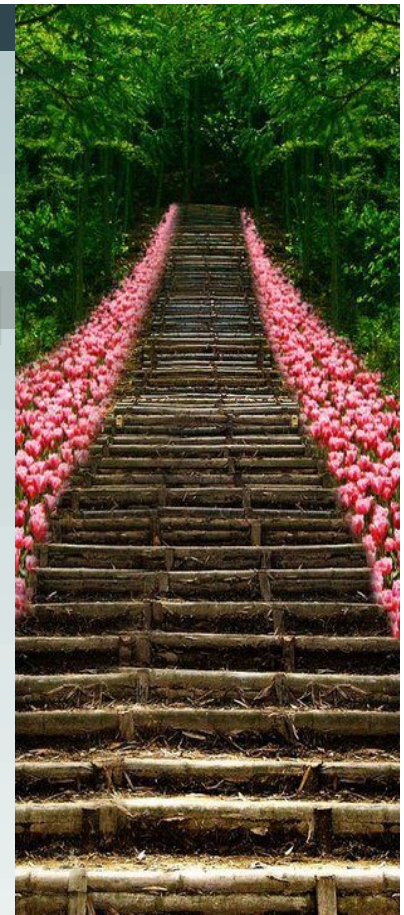
### WEALTH ADVISORY OVERVIEW

#### NEW LAW BRINGS PERMANENT TAX CHANGES

On December 18<sup>th</sup> 2015, the Protecting Americans from Tax Hikes Act of 2015 was enacted, extending more than 20 key provisions permanently for both individuals, as well as businesses. Here are some of the key provisions of the legislation:

##### PERMANENT EXTENSIONS FOR INDIVIDUALS

- **Charitable Contributions of IRA Proceeds** – For taxpayers 70 ½ and older, up to \$100,000 of Required Minimum Distributions can be made directly to charity allowing the individual to not take this distribution into income. This provision is especially beneficial for those living in states that do not allow deductions for charitable contributions (North Carolina does not place a limit on the amount of charitable contributions that can be claimed), those who do not itemize at the federal level, as well as those who are subject to a phase-out of itemized deductions.
- **State and Local Sales Tax Deduction** – this provision allows an individual to deduct state and local sales tax as an itemized deduction in lieu of deducting



#### INVESTMENT TEAM

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#### SPECIAL POINTS OF INTEREST

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

## INVESTMENT OVERVIEW

## ECONOMIC OVERVIEW &amp; ELECTION IMPLICATIONS

## STOCK MARKET BEHAVIOR DURING ELECTION YEARS

We have provided a detailed summary of the monthly, quarterly, and annual performance of the S&P 500® Price Index for the past 16 Presidential election years below in Table I. According to the data across all 16 samples (excluding 2016), June has delivered the second-highest average monthly return during the year of a Presidential election, while December, the first full month *after* the election, has generated the highest average monthly return. Moreover, October, the last full month *before* Election Day, has earned the lowest average monthly return. **It may also be worth noting that the worst annual returns occurred during election years**

**that did not include an incumbent President running for reelection** (i.e., 1960, 2000, and 2008): that being said, like much of the data surrounding elections, there are conflicting instances where this did not affect annual returns during an election year, such as 1976 and 1988.

If you exclude monthly data from 2008, there are two noticeable changes in the analysis: first, the average returns for September and October heading into November go from negative to positive; second, November delivers the second-highest average monthly returns behind June.

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**TABLE I: S&P 500® PRICE INDEX DURING US PRESIDENTIAL ELECTION YEARS**

YEAR	S&P 500® PRICE INDEX PERFORMANCE																
	% CHG. (USD)																
	JAN.	FEB.	MAR.	1Q	APR.	MAY	JUN.	2Q	JUL.	AUG.	SEPT.	3Q	OCT.	NOV.	DEC.	4Q	ANNUAL
1952	1.56	(4.28)	4.77	2.52	(3.56)	2.98	4.61	3.23	1.11	(1.65)	(1.96)	(2.31)	0.16	4.65	3.47	8.54	11.78
1956	(3.65)	2.98	6.46	6.60	(0.21)	(6.15)	3.05	(3.11)	5.15	(3.86)	(4.55)	(3.45)	1.97	(3.10)	3.53	4.41	2.62
1960	(7.15)	0.29	(1.20)	(7.60)	(1.91)	2.69	1.84	2.69	(2.72)	2.58	(6.25)	(6.20)	(0.24)	2.97	5.08	8.58	(2.97)
1964	2.69	0.99	1.52	5.28	0.28	0.25	1.97	3.09	1.11	(1.62)	2.43	2.32	0.93	(0.52)	1.44	0.80	12.97
1968	(4.38)	(3.46)	1.22	(6.50)	5.53	0.72	0.91	7.68	(1.67)	1.62	3.85	3.29	0.53	5.15	(4.16)	0.97	7.66
1972	1.95	2.46	(0.14)	5.15	0.44	2.49	(2.32)	(0.06)	0.23	2.48	(0.86)	3.18	0.93	3.62	0.57	6.78	15.79
1976	11.83	(1.14)	2.75	13.95	(0.59)	(1.44)	4.44	2.00	(0.14)	(0.51)	1.13	1.59	(1.22)	(0.97)	4.85	3.16	19.15
1980	6.65	(1.27)	(10.18)	(5.42)	4.02	5.48	2.70	11.80	5.86	0.97	2.52	9.16	0.27	10.24	(1.06)	6.79	25.77
1984	(0.92)	(3.49)	0.63	(3.49)	0.55	(6.88)	(0.04)	(3.77)	(1.65)	8.18	(0.35)	8.43	0.89	(2.33)	2.24	1.59	1.40
1988	4.04	5.01	(3.12)	4.78	0.94	0.32	2.55	5.64	0.09	(3.93)	5.25	0.05	2.60	(1.92)	1.92	2.14	12.40
1992	(1.99)	0.96	(2.18)	(3.21)	2.65	0.68	(2.20)	0.97	2.74	(2.40)	0.42	1.19	0.57	3.03	1.14	4.67	4.46
1996	3.26	0.31	0.18	4.80	0.07	2.22	0.23	2.59	(5.32)	0.30	5.42	1.69	2.35	7.57	(2.15)	7.50	20.26
2000	(5.09)	(3.04)	8.66	2.00	(3.08)	(3.25)	0.40	(2.93)	(1.63)	5.53	(5.54)	(1.24)	(0.49)	(7.48)	0.38	(8.09)	(10.14)
2004	1.73	1.22	(2.57)	1.29	(2.20)	1.21	1.75	0.77	(2.41)	0.23	0.78	(1.27)	(0.12)	3.83	1.72	7.11	8.99
2008	(6.12)	(4.64)	(0.60)	(9.92)	1.12	(0.64)	(8.60)	(6.58)	(1.36)	1.79	(9.08)	(9.23)	(16.56)	(7.49)	10.66	(22.20)	(38.49)
2012	4.36	3.14	2.50	12.00	(0.75)	(6.79)	6.58	(3.29)	1.26	2.29	2.42	5.76	(2.24)	(0.80)	0.71	(1.27)	13.41
2016	(5.07)	(0.37)	4.11	0.77	(0.36)	-	-	(0.36)	-	-	-	-	-	-	-	-	1.05
AVG. (ex. 2016)	0.55	(0.25)	0.54	1.39	0.21	(0.38)	1.12	1.29	0.04	0.75	(0.27)	0.81	(0.60)	1.03	1.90	1.97	6.57
AVG. (ex. 2008 & 2016)	0.99	0.04	0.62	2.14	0.15	(0.36)	1.76	1.82	0.14	0.68	0.31	1.48	0.46	1.60	1.31	3.58	9.57

Source: FactSet Research Systems, Inc.

## MONTHLY INDEX REVIEW (USD TOTAL RETURN)

Data as of April 30 <sup>th</sup> 2016	April 2016	2016 YTD	2015	2014
S&P 500	-0.26%	+1.74%	+1.38%	+13.69%
Dow Jones Industrial Average	+0.01%	+2.83%	+0.21%	+10.04%
NASDAQ Composite	-2.78%	-4.27%	+6.96%	+14.75%
Russell 2000	+1.24%	+0.03%	-4.41%	+4.89%
MSCI Emerging Markets	+1.84%	+6.35%	-14.60%	-1.82%
MSCI EAFE	+5.25%	+0.04%	-0.39%	-4.48%
Barclays US Aggregate	+0.43%	+3.43%	+0.55%	+5.97%

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## ECONOMIC OVERVIEW &amp; ELECTION IMPLICATIONS

Within the available data set, we can see that, on average, the second and third quarters of an election year tend to deliver lower average returns relative to the first and fourth quarters, which have generated higher average returns, albeit with a wider range of results. While this may reflect some inherent equity market seasonality, it may also be a sign of increased anxiety or uncertainty heading into the final months before the Presidential election.

During the first quarter of 2016, however, equity markets did not benefit from any obvious seasonality and may have ultimately struggled *more* than in prior election years. This relative underperformance no doubt reflects several negative effects, which may include the impact of the market's lack of clarity regarding party nominees due to the continued success of the "less-than-conventional" candidates within both the Republican and Democratic Parties.

Going beyond the performance of the equity markets, we can see that, using the data on the CBOE Market Volatility Index ("VIX") provided below in Table II, market volatility tends to increase during the third and fourth quarters, with the most pronounced and consistent average monthly increases in volatility occurring in October.

As fundamental equity analysts, the nuances of the political rhetoric swaying individual sectors is of more concern to us than the analytical abnormalities that may or may not occur during an election year. We tend to focus more on policy issues that may have a sector-level or stock-specific impact where we invest. The main sectors where we see implications of the current election are health care, banking and financial services, and energy. Given the drastic developments across these sectors since the last

election, we believe that the renewed focus on the economic policies affecting these industries could portend increased uncertainty and elevated volatility over the next several months.

## HEALTH CARE

Since July 2015, the S&P 500® Health Care Price Index is down **-9.63%**, underperforming the S&P 500® Price Index by more than 660 basis points, as candidates in both parties take aim at a sector that outperformed handedly for several years on the heels of The Affordable Care Act ("ACA") and rapid rises in branded and specialty drug prices.

The primary point of contention for Democratic candidates has been recent concerns surrounding the drug pricing practices of the pharmaceutical and biotechnology industries. The sharp sell-off that occurred during September 2015 was precipitated by Hillary Clinton's outspoken criticism, as well as increased Congressional scrutiny, of recent drug price increases by certain pharmaceutical and biotechnology companies.

Conversely, the Republican candidates' continued criticism of the ACA and outspoken directive to repeal the ACA as it currently stands could create headwinds for companies in the managed health care industry, including hospitals, which have the perceived benefit of increased enrollment and lower bad debts due to patient coverage.

## BANKING &amp; FINANCIAL SERVICES

Democratic candidates broadly support reinforcing several provisions of The Dodd-Frank Act ("DFA"). In particular, Democratic candidates have proposed increased oversight, regulation, and taxation of systemically important financial institutions ("SIFIs"), which

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**TABLE II: CBOE MARKET VOLATILITY INDEX DURING US PRESIDENTIAL ELECTION YEARS**

YEAR	CBOE MARKET VOLATILITY INDEX PERFORMANCE																
	JAN.	FEB.	MAR.	1Q	APR.	MAY	JUN.	2Q	JUL.	AUG.	SEPT.	3Q	OCT.	NOV.	DEC.	4Q	ANNUAL
1992	(9.89)	(4.14)	(3.00)	(16.21)	(5.76)	(16.56)	(7.48)	(18.99)	(1.27)	3.11	6.57	7.05	(0.98)	(19.44)	(1.80)	(22.93)	(34.90)
1996	0.08	34.70	12.92	50.80	(11.56)	-	(14.87)	(23.58)	41.22	(9.33)	(0.35)	23.00	6.22	(4.19)	22.05	22.70	67.09
2000	1.26	(0.34)	11.41	(2.15)	8.67	(8.62)	(12.61)	(18.95)	6.14	(18.05)	17.34	5.27	14.88	22.12	(2.29)	30.53	8.97
2004	(9.18)	(12.51)	15.93	(8.57)	3.24	(9.83)	(12.02)	(13.87)	0.79	(0.20)	(10.53)	(12.24)	27.61	(18.62)	2.47	4.24	(27.42)
2008	16.44	10.49	(3.50)	13.82	(8.33)	(5.56)	34.32	5.60	(3.00)	(8.51)	90.75	66.55	50.44	(7.70)	(41.61)	0.48	77.78
2012	(16.92)	(0.65)	(10.20)	(33.76)	10.65	44.94	(35.93)	10.19	10.83	(7.86)	(9.96)	(7.90)	13.97	(4.91)	13.55	10.42	(22.99)
2016	10.93	2.85	(21.19)	(23.39)	19.85	(1.66)	-	17.86	-	-	-	-	-	-	-	-	(15.21)
AVG. (ex. 2016)	(3.03)	4.59	3.93	0.65	(0.52)	0.73	(8.10)	(9.93)	9.12	(6.81)	15.64	13.62	18.69	(5.46)	(1.27)	7.57	11.42
AVG. (ex. 2008 & 2016)	(6.93)	3.41	5.41	(1.98)	1.05	1.99	(16.59)	(13.04)	11.54	(6.46)	0.61	3.04	12.34	(5.01)	6.80	8.99	(1.85)

Source: FactSet Research Systems, Inc.

## INVESTMENT OVERVIEW

## ECONOMIC OVERVIEW &amp; ELECTION IMPLICATIONS

could create additional headwinds to the banking and financial services industries.

Meanwhile, the Republican candidates advocate repealing those articles of the DFA deemed to be overly-restrictive to economic growth, which could reduce the “regulatory burden” and constitute a tailwind to broader bank profitability. Should the Republican Party win the election this year, the perception would be largely positive for banking and financial services stocks.

## ENVIRONMENTAL &amp; ENERGY

The energy sector is suffering from several structural and cyclical headwinds since peaking in June 2014, evidenced by the S&P 500<sup>®</sup> Energy Price Index precipitous decline of **-30.94%** over the past 22 months. Recent legislation passed at the end of 2015 marked a compromise between Democrats and Republicans that included the following: a

renewal of tax credits for wind and solar investments; a five-year extension of bonus depreciation for capital-intensive industries; and, finally, a repeal of the 40-year old ban on crude oil exploration.

Republican candidates, including Donald Trump and Ted Cruz, have argued in favor of expanding oil and gas exploration and drilling activities, while the Democratic candidates, Hillary Clinton and Bernie Sanders, advocate increasing investments in renewable energy initiatives in order to reduce the economy’s overall reliance on fossil fuels.

These obviously conflicting policies have dramatically different implications for stocks in related industries, with a Democratic win potentially sparking a headline-driven rally in shares of companies with exposure to alternative and renewable energy.

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## 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.

## STOCK &amp; STRATEGY SPOTLIGHT

Company Name	Ticker	2016 YTD
Pfizer, Inc.	PFE	<b>+8.89%</b>

## Company Description &amp; Investment Thesis

Earlier this month, after careful research and thorough fundamental analysis, the Investment Team reaffirmed our long-standing “Buy” rating on Pfizer, Inc. (“PFE”) and added it to our RWIA “Core 20” Equity Portfolios, given what we considered to be significant dislocation between how the market was valuing shares of PFE relative to the underlying, fundamental value of the company itself. We believe that the then-pending acquisition of Allergan PLC (“AGN”) created undue technical pressure from merger arbitrage and event-driven investors seeking to capitalize on the deal spread between PFE and AGN by taking short positions in PFE, while owning AGN long. Since new inversion rules announced by the US Treasury on April 5<sup>th</sup> effectively blocked the PFE/AGN transaction, shares of PFE have rallied **+4.30%**, outperforming the S&P 500<sup>®</sup> Price Index by over 320 bps.

Source: FactSet Research Systems, Inc.

ECONOMIC OVERVIEW & ELECTION IMPLICATIONS

## FIRST 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: the details and registration information are provided below.

Please contact Cynthia Sims at 980-585-3368 or [csims@rinehartwealthmanagement.com](mailto:csims@rinehartwealthmanagement.com) if you have any questions.



### FIRST QUARTER 2016 ECONOMIC OVERVIEW WEBINAR

**Date:** Thursday, May 26<sup>th</sup>

**Time:** 10:00 AM EST

**Registration:**

Please refer to the link included in the original email or look out for additional registration reminders that will be sent out prior to the webinar.

A recording will be available after May 26<sup>th</sup> in the Webinar Archive on our website.

## WEALTH ADVISORY OVERVIEW

## NEW LAW BRINGS PERMANENT TAX CHANGES

state and local income tax. It is especially beneficial for those living in states with no state income tax (such as Tennessee), or those with significant income not subject to state income tax, such as municipal bond interest and certain retirement benefits.

- **American Opportunity Tax Credit (AOTC)** – Beginning with 2016 tax returns, the taxpayer federal identification number of the school must be included on the return. This provision continues the AOTC for education costs for the first four years of post-secondary education. It is a maximum credit of \$2,500 annually, for a total of \$10,000 over the four-year period. The requirement to include the ID number of

individuals.

## ADDITIONAL PROVISIONS

- **Qualified Distributions from 529 Plans** – Beginning retroactively to 2015, distributions can now include computers, software, and Internet access. The legislation also removes certain distribution aggregation requirements and allows the redeposit into a 529 plan for refunded tuition.
- **Employers and Payers of Non-Employee Compensation** – Employers and payers of non-employee compensation are required to file W-2s and 1099s annually by January 31, effective for filings beginning in 2017. Thus, starting next year, copies of W-2s

*“When widely-followed public figures feel free to say anything, without any fact-checking, it becomes impossible for a democracy to think intelligently about big issues.”*

*Thomas L. Friedman*

the school is to help the IRS reduce the number of ineligible people claiming this education benefit.

- **Teacher’s Classroom Expense Deduction** – Beginning in 2016, the deduction will be indexed for inflation and can include professional development expenses. The 2015 deduction is \$250, and teachers can deduct this expense even if they do not itemize.

## INDIVIDUAL PROVISIONS EXTENDED THROUGH 2016

- **Qualified Tuition and Related Expenses** – Maximum \$4,000 above-the-line deduction (totally phased out at adjusted gross income of \$80,000 single/\$160,000 joint).
- **Deduction for mortgage insurance premiums** – This provision treats such amounts as deductible qualified residence interest and phases out for higher-income

and 1099s are required to be filed with the government at the same time they are due to employees/contractors on January 31. This is an effort to curb identity theft-related tax fraud.

These are some of the major provisions in the Protecting Americans from Tax Hikes Act that was enacted in December. Because many of these provisions are now permanent in the tax law, it will make planning throughout the year easier. As always, prior to engaging in any transactions that may be affected by the new tax bill provisions, you should consult with your Rinehart Wealth Advisor to determine the tax implications of any of the proposed transactions.

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*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.

### PLANNING FOR AGING PARENTS



Rinehart's next women's enrichment series, "Planning For Aging Parents"

will take place at our office this Thursday, May 5<sup>th</sup> from 5:30-7:00pm. We invite you to join us as guest speaker Susan Jamison discusses how the increase in life expectancy presents new challenges for children of aging parents that include healthcare decisions, financial decisions, and caregiver options. Susan will focus on the role reversal between children and parents and the importance of creating a Family Health Care Plan. To attend, please email Cynthia Sims at [csims@rinehartwealthmanagement.com](mailto:csims@rinehartwealthmanagement.com). Seating is limited.

### RWIA SUPPORTS LEVINE CENTER FOR THE ARTS COMMUNITY FESTIVAL



Rinehart is excited to be a part of a first-of-its-kind collaboration to host a community wide festival with the Mint Museum Uptown, Bechtler Museum of Modern Art and Harvey B. Gantt Center for African-American Arts + Culture. All three Levine Center for the Arts museums will open their galleries for free access during regular museum hours. Participants will enjoy a picnic, food trucks and a free plazacast of the Charlotte Symphony's collaboration with Charlotte Ballet for Romeo & Juliet.

### ESTATE PLANNER'S DAY

Rinehart is honored to sponsor the 2016 Estate Planners Day at Queens



University of Charlotte. The event will be held Thursday, May 19<sup>th</sup>, and will offer a comprehensive estate planning education program for professionals. Nationally recognized experts in the fields of estate planning, tax, accounting, insurance and state and federal law will cover topics of timely interest to all in the field of estate planning. Estate Planners Day is the longest continually running public event in Queens University's history.

NEW WEBSITE...  
Coming soon!

### Rinehart Wealth & Investment Advisory

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

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*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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