

INSIGHTS

INVESTMENT OVERVIEW

2Q17 ECONOMIC OVERVIEW: VEILED VOLATILITY

As equity markets continue to grind listlessly higher in 2017, building upon already impressive gains and repeatedly breaking record highs, investors appear increasingly desensitized to negative news, as represented by the CBOE Volatility Index® (“VIX”). The exhilaration of higher returns and growing portfolios leaves us oddly unsettled, as our contrarian disposition is inclined to reflect on the calm before the coming storm. In fact, it is worth noting that the S&P 500® has not experienced a peak-to-trough decline of **-20.0%** or more in over eight years (± 8.32 as of June 30th 2017), making the current equity bull market the second-longest in U.S. history vs. the average of less than two and a half years (± 2.44 years). As an indicator of broader market sentiment and investor expectations, equity market volatility has not only been noticeably absent in equity markets through the first seven months of 2017: it has been in continuous decline and reaching levels not seen since the euphoria of 2006, when the market continued to climb eerily higher alongside irrational housing prices, forming the largest financial market bubble since The Great Depression.

While this is not in and of itself cause for immediate concern, as the previous equity bull market went on to return **+29.61%** from January 1st 2006 through the prior cyclical peak on October 9th 2007, it is worth reviewing and analyzing recent financial market conditions and the muted responses to geopolitical risks that have contributed to the prevailing low-volatility regime, as well as revisiting and [Continued on next page](#)

WEALTH ADVISORY OVERVIEW

ADDING VALUE WITH NEW PLANNING SOFTWARE

In an effort to always offer cutting-edge solutions to clients, we are introducing a new financial planning software called eMoney Advisor. Adding eMoney to our software arsenal has been a long-term goal as it will offer more robust functionality to our clients.

WHAT IS eMONEY ADVISOR?

eMoney is an interactive financial planning platform accessible to both advisors and clients simultaneously with industry leading technology allowing for plans and reports to be built in collaboration with clients providing improved accuracy and detail. The ability for the client to quickly link accounts and personal data to eMoney is a major differentiating factor driving the software migration from NaviPlan to eMoney.

HOW WILL eMONEY ADVISOR AFFECT YOU?

As always, Rinehart Wealth & Investment Advisory will ensure a smooth software transition by strategically implementing eMoney throughout the remainder of 2017. Advisors will create and maintain client data, so nothing is immediately required while we slowly introduce the additional benefits eMoney has to offer over the next few months. As we meet with clients, we will provide the [Continued on page 7](#)

INVESTMENT TEAM

Daniele Donahoe, CFA
CEO & Chief Investment Officer
Elliott Van Ness, CFA
Director of Research & Portfolio Manager
Brittany Danahey, CFA
Portfolio Manager
Mary Rinehart, CFP®
Chairman & Portfolio Manager

WEALTH ADVISORY TEAM

Sandy Carlson, CFP®, CPA, CDEA™
President & Wealth Advisor
Leah Maybry, CPA
Wealth Advisor
Lorri Tomlin, RP®
Wealth Advisor
Michael Means, CPA
Wealth Advisor
Ryan Vaudrin, CFP®
Wealth Associate

SPECIAL POINTS OF INTEREST

- [Monthly Index Review](#)
- [Stock & Strategy Spotlight](#)
- [Around Rinehart](#)

INVESTMENT OVERVIEW

2Q17 ECONOMIC OVERVIEW: VEILED VOLATILITY

assessing historical trends in volatility, especially as they relate to long-term portfolio management strategies. Furthermore, we must recognize the associated risks of investing at a time when volatility is extremely low by acknowledging that, per historical trends, volatility is mean-reverting, and the conditional probability of rising volatility *increases* as investors and markets become ever more accustomed to the lack of volatility. In such a market environment, the Investment Team remains acutely focused on our primary investment and portfolio management directive: avoiding the permanent

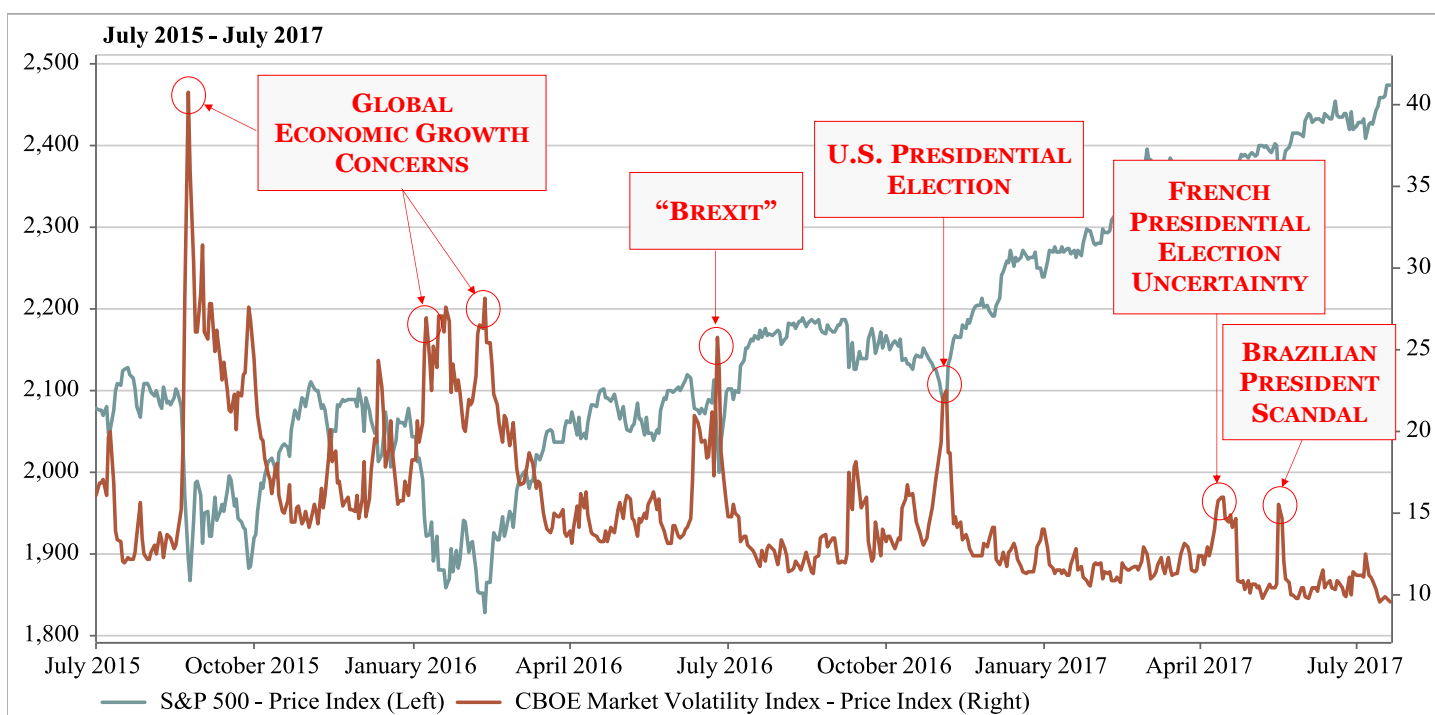
impairment of capital through proper diversification and diligent, high-quality security selection.

BEHAVIORAL FINANCE & VOLATILITY

From a behavior finance perspective, investors are exhibiting two pronounced behavioral biases: first, *availability bias*, which is when an investors' decision-making processes are primarily influenced by recent events, resulting in subjective estimates of risk and the probability of alternate scenarios; and second, *confirmation bias*, wherein investors only focus on

[Continued on next page](#)

CHART I: S&P 500® vs. VIX®



Source: FactSet Research Systems, Inc.

MONTHLY INDEX REVIEW (USD TOTAL RETURN)

DATA AS OF JULY 31 ST 2017	JULY 2017	2017 YTD	2016	2015
S&P 500	+2.06%	+11.59%	+11.96%	+1.38%
Dow Jones Industrial Average	+2.39%	+11.96%	+16.50%	+0.21%
NASDAQ Composite	+3.42%	+18.64%	+8.87%	+6.96%
Russell 2000	+0.74%	+5.77%	+21.31%	-4.41%
MSCI Emerging Markets	+6.04%	+25.77%	+11.60%	-14.60%
MSCI EAFE	+2.89%	+17.53%	+1.51%	-0.39%
Barclays US Aggregate	+0.43%	+2.71%	+2.65%	+0.55%

INVESTMENT OVERVIEW

2Q17 ECONOMIC OVERVIEW: VEILED VOLATILITY

evidence that supports or confirms their initial investment hypothesis, which may cause investors to ignore or underemphasize data that conflicts with prior beliefs, such as the increased likelihood of rising equity market volatility. Over the past 12-24 months, there have been isolated instances of equity market volatility reflecting increased investor concerns over global economic growth or specific geopolitical risk events; during this time, the VIX has exhibited a progressive, stair-step downward trend, as illustrated in Chart I, with investors appearing ready and willing to buy equities on the market dip, continuing to push markets higher. During this time, investors have been conditioned to view these spikes in the VIX as attractive buying opportunities in equity markets given constructive economic data, as volatility has repeatedly trended *lower* shortly after the spike, resulting in an expeditious market recovery. This pattern has been evident multiple times over the past 12-18 months, even during periods when broad equity market sentiment has been decidedly negative, such as the end of 2015 and beginning of 2016, as well as the various geopolitical risk events throughout 2016.

2015-2016 ECONOMIC GROWTH CONCERNS

Throughout the second half of 2015 and the beginning of 2016, escalating concerns over the stability of Chinese financial markets and the underlying health of global economic growth, as well as persistent declines in oil and energy commodity prices precipitated multiple sharp spikes in equity market volatility. On February 11th 2016, the S&P 500[®] closed at its lowest level in two years, falling **-10.51%** from the beginning of 2016; meanwhile, the VIX gained **+54.53%** over that same time but remained below levels seen 6-7 months previously in August-September of 2015. Investor concerns, however, were sufficiently mollified by incrementally-positive U.S. economic data, with the VIX declining to 2016 year-to-date (“YTD”) lows over the following weeks and months, as equity markets quickly reversed course and moved sharply higher, rewarding investors who bought opportunistically in January and early February.

Throughout March, April, and May of 2016, steady gains across equity markets were sustained by investors who believed that the markets were appropriately incorporating the

[Continued on next page](#)

STOCK & STRATEGY SPOTLIGHT

NAME	TICKER	2017 YTD
Whole Foods Market, Inc.	WFM	+37.26%

DESCRIPTION & INVESTMENT THESIS

On Friday June 16th, Amazon.com, Inc. (“AMZN”) announced that it had entered into a definitive agreement to purchase Whole Foods Market, Inc. (“WFM”) for \$42.00 per share in an all-cash transaction valued at approximately \$13.46 billion. Immediately following this announcement, shares of WFM, which have been on our firm-wide buy list since the Investment Team initiated coverage of WFM with a buy recommendation in September 2016, responded by surging as much as **+29.10%** from the prior-day’s closing price of \$33.06. Given the stubborn headwinds the grocery and consumer staples retail industry is currently facing, an equally attractive and competitive bid for WFM from one of the company’s peers appears unlikely, which means that shares of WFM are likely to remain range-bound as AMZN and WFM progress through the necessary regulatory and shareholder approval processes. With the exception of any unique client- or portfolio-specific constraints, the Investment Team recommends holding existing positions in WFM, as we are unable to identify any disconcerting hurdles to this deal, and shares of WFM are still yielding a relatively attractive **1.72%**. This recommendation is subject to change, however, should there risks regarding the aforementioned approval processes, or if the Investment Team is able to identify better long-term investment opportunities that we believe are capable and more likely of delivering more-attractive risk-adjusted returns for our investment portfolios.

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.

INVESTMENT OVERVIEW

2Q17 ECONOMIC OVERVIEW: VEILED VOLATILITY

probability of upcoming geopolitical risk events given the continuous coverage of these headline risks. What is perhaps most surprising, however, is how investors reacted to the unexpected outcomes of several of these geopolitical risk events and what their reactions say about investors' perception of equity market risk and how it's processed as part of their decision-making framework, as evidenced by the reaction of markets to the United Kingdom's referendum on continued membership in the European Union.

BREXIT

On June 24th 2016, global equity markets reeled following the news of the historic "Brexit" decision by the United Kingdom ("U.K.") to initiate its departure from the European Union ("EU"). At the time, the Investment Team noted that the long-term geopolitical and economic implications of the forthcoming Brexit would not be readily apparent for several months but that the near-term psychological impact was immediately apparent, as market expectations and the general consensus had discounted the probability of such an outcome, precipitating a sharp spike in volatility across global financial markets.

As can be seen below in Table I, this sharp spike in volatility proved transitory, as investors wasted little time dwelling on the lingering geopolitical uncertainty and broader economic implications. Instead, global equity markets continued their steady march higher with

relatively few interruptions over the remaining summer months. Table I illustrates how the FTSE U.K. and Euro STOXX indexes were able to recoup a significant percentage of their initial losses through September 30th 2016, while other indexes, including the S&P 500[®] and the MSCI Emerging Markets Index, were able to eek out net positive returns of +2.60% and +8.14%, respectively.

While the VIX jumped to its highest level in over five months, it quickly resumed its stair-step decline to new 2016 YTD lows. By looking beyond the short-term jump in volatility and not selling into the reactionary broad market weakness, long-term investors either benefitted by adhering to their strategic equity allocations or by taking advantage of tactical buying opportunities in high-quality individual stocks. In this context, investors appeared *more* concerned with participating in the next leg up in the ongoing equity bull market than with potentially exposing themselves to elevated equity market volatility.

U.S. PRESIDENTIAL ELECTION

Perhaps the strongest evidence of this market behavior was the run-up to and immediate aftermath of the 2016 U.S. presidential election cycle. The VIX began ticking up in the final weeks ahead of the U.S. presidential election, as news and headlines highlighted the latest polling data showing an increasingly tight race between the two candidates, exacerbating geopolitical uncertainty across global equity markets. After closing at a near-term low of 13.02 on October 24th, the VIX

[Continued on next page](#)

TABLE I: BREXIT-RELATED INDEX PERFORMANCE (USD TOTAL RETURN)

INDEX	BREXIT	POST-BREXIT	NET
	SELL-OFF	RALLY	
	JUN. 23 RD -27 TH	JUN. 27 TH - SEPT. 30 TH	RETURN
S&P 500	-5.34%	+8.99%	+3.18%
MSCI Europe	-13.41%	+14.05%	-1.25%
Euro STOXX	-13.83%	+15.26%	-0.68%
FTSE U.K.	-16.58%	+14.24%	-4.70%
MSCI EAFE	-9.84%	+12.71%	+1.62%
MSCI Emerging Markets	-4.73%	+14.79%	+9.36%
Gold NYMEX (USD/ozt)	+4.86%	-0.70%	+4.13%
U.S. Benchmark Bond (10-Yr.)	+3.00%	-2.18%	+0.76%
German Benchmark Bond (10-Yr.)	+1.98%	-4.49%	-2.59%
CBOE Volatility Index	+38.26%	-44.28%	-22.96%

Source: FactSet Research Systems, Inc.

INVESTMENT OVERVIEW

2Q17 ECONOMIC OVERVIEW: VEILED VOLATILITY

proceeded to increase **+72.89%** over the following week and a half before closing at a near-term high of 22.51 on Friday, November 4th 2016.

While the final results of the presidential election took many investors and market commentators by surprise, the performance of the VIX in the immediate aftermath of the election was not reflective of a sharp increase in investor concern or anxiety. In fact, unlike the spike in volatility experienced in response to Brexit, the VIX actually *declined* **-23.27%** from Tuesday, November 8th through Wednesday, November 9th 2016. Despite intense media coverage and relatively consistent indications that markets broadly favored one candidate over another,

market consensus expectations, it is likely more reflective of investor complacency in an upward-trending equity market. For example, as we discussed in last month's edition of INSIGHTS ([July 2017 INSIGHTS](#)) the U.S. Consumer Confidence Index[®] ("CCI") has been consistently above prior-cycle peak levels, while survey data of investor sentiment are relatively neutral, if not incrementally bullish.

POTENTIAL IMPLICATIONS

In an environment where investors have been conditioned to perceive increased volatility as transitory, investment portfolios may be unintentionally assuming excessive market risks. In other words, as investors continue to exhibit behavioral biases,

"For most people, the decision to sell depends more on what a stock has done than on what it is likely to do."

- Terrance Odean

investors quickly moved past any reservations or residual uncertainty by rotating into underperforming sectors and industries (e.g., Financials), pushing broader equity markets higher into new record territories. Moreover, equity market volatility, as measured by the VIX, has remained consistently below pre-U.S. election levels and has continued to decline to levels not seen since 1993.

POST-TRUMP GEOPOLITICAL RISK EVENTS

Since the unexpected victory of President Trump, subsequent global geopolitical risk events, such as the 2017 French presidential election cycle and the surprise results of the U.K. Parliamentary elections, have failed to trigger significant increases in equity market volatility. Even more importantly, post-event volatility has consistently stabilized *below* pre-event volatility, indicting a decline in perceived equity market risk amongst investors. While this may be attributable to increased investor skepticism with regards to

especially in relation to developing their investment outlook by relying on incomplete data or by focusing on data that supports their preexisting beliefs, the reemergence of elevated volatility is likely to have a larger impact on financial markets and portfolio-level performance at some point.

Volatility could rise as a result of one or several concurrent factors, such as a discernable change in investor perception of geopolitical events, which would likely precipitate a broad-based increase in geopolitical equity risk premiums across global financial markets, accompanied by a correction in the markets.

Another potential catalyst could be disappointing or negative earnings surprises, which would pressure equity market valuations and call into question the health of the underlying economy. However, the current earnings season is well underway, and the results thus far

[Continued on next page](#)

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.

INVESTMENT OVERVIEW

2Q17 ECONOMIC OVERVIEW: VEILED VOLATILITY

have been largely positive.

One factor that the Investment Team is paying close attention to is the potential impact of exchange-traded funds (“ETFs”) on equity market volatility. Recent research suggests that the trading activity associated with the growth and proliferation of ETFs has artificially suppressed volatility in the years following the Global Financial Crisis. Should assets start to leave ETFs as quickly as investors have been pouring money into them, we would have significant concerns regarding the impact this might have on market volatility - especially as it relates to relatively illiquid asset classes, wherein ETF-level trading volume misrepresents the liquidity of the underlying securities.

SECOND QUARTER ECONOMIC OVERVIEW

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

<p>DATE: Thursday, August 10th</p> <p>TIME: 10:00 AM EST</p> <p>REGISTRATION INFORMATION</p> <p>Please refer to the following link or look for additional registration reminders, which will be sent out via email prior to the webinar.</p> <p>To register for the webinar, please click here.</p> <p>A recording will be available on our website after August 11th.</p>

WEALTH ADVISORY OVERVIEW

ADDING VALUE WITH NEW PLANNING SOFTWARE

necessary eMoney login details and tutorial on how financial information can be viewed, downloaded, and tracked. eMoney's most unique feature is the integration of accounts not managed by Rinehart providing the entire picture for financial planning purposes while minimizing the client's need to continuously update static data. The initial initiative will be to link eMoney to outside financial accounts during upcoming meetings with advisors, and we will provide easy instructions for conducting this activity.

WHAT ARE THE BENEFITS OF USING EMONEY ADVISOR?

The benefits of using eMoney are numerous and include some of the following:

- **Planning:** eMoney has created one of the best financial planning platforms available. The software can be used to project, plan, and monitor one's financial life using tools for cash flow, goals, estates, investments, retirement, insurance, etc.
- **Reports:** Better reports and presentations can be created, shared, and automatically updated for all accounts linked with eMoney, not just those directly managed by Rinehart.
- **Screen Sharing:** If necessary, eMoney allows us to connect with our clients' computer screens directly without the hassles of having to use additional software.
- **Client Experience:** Unlike most wealth management platforms, clients can utilize this software as a one-stop source for their wealth management needs. The client dashboard is updated daily for all linked accounts and offers a consolidated view of everything owned or owed.
- **Spending:** Tracking spending habits, monitoring cash flow and helping clients stay on the right financial path is another option available. This attribute is

automatically made private, but it can be shared with your Rinehart advisor if desired.

- **Budgeting:** Another attractive aspect of this software is the ability to set budgets and keep track of progress to help reach savings goals.
- **Investments:** A comprehensive understanding of investment holdings is obtained with interactive charts and detailed summaries for all financial accounts including those not managed by Rinehart.
- **Education:** An extensive library of videos, articles and other resources to increase clients' financial knowledge are available.
- **Alerts:** Clients and advisors can easily create alerts to make sure everyone is actively involved in the wealth management process. These alerts can be created when additional information is needed, a certain activity has occurred, or for a variety of other situations.

Over the past several years, Rinehart Wealth and Investment Advisory has sought out technology to improve the client experience. Our policy is to constantly deliver the highest functionality with the most security, and eMoney accomplishes that. As we migrate to the new software, there will be numerous opportunities for training sessions. During this transition to eMoney, please let us know if you have any questions. We look forward to continuing to elevate your Rinehart experience.

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.

AROUND RINEHART

BRITTANY JOINS CFA SOCIETY NORTH CAROLINA BOARD OF DIRECTORS

Brittany Priester was recently elected to the CFA Society North Carolina Board of Directors as the Regional Director for the Charlotte area.



MICHAEL MEANS PASSES SERIES 65

With only a few short weeks to study following a busy tax season, the birth of his third child, and changing jobs shortly thereafter, our newest Wealth Advisor recently passed this milestone test with flying colors!

Michael has already been adding tremendous value through strategic tax planning for several of our clients, so please feel free to contact him directly as a resource for any and all tax-related questions you may have.



Email: mmeans@rinehartwia.com

PGA CHAMPIONSHIP & ECONOMIC OVERVIEW

As many of you know, the 99th PGA Championship is being held in Charlotte this year at Quail Hollow Club. While several of us are excited to be attending the event in support of our favorite players, as well as the Queen City economy, we will also be busy preparing for the Second Quarter 2017 Economic Overview webinar on Thursday, August 10th at 10:00 AM EST.

Please refer to [page 6](#) for additional details, or feel free to reach out to your Wealth Advisor or Portfolio Manager for more information.

LOOK FOR UPDATED RWIA WEBSITE

The team recently endured a grueling early-morning photo shoot in the summer heat so that we could update and revamp our website. Be on the lookout for our new pictures and team member bios on the new and improved website over the next few weeks!



MOURNING THE LOSS OF PEGGY CARLSON

Sandy Carlson recently lost her beloved mother-in-law, Peggy Carlson, to an aggressive form of cancer, which took her from her family far too soon.

Please join us in extending support and sympathy to Sandy, her husband Justin, and the rest of their family during this difficult time.

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.

CIRCULAR 230 NOTICE: To comply with requirements imposed by the United States Treasury Department, any information regarding any U.S. federal tax matters contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, as advice for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

This newsletter is for discussion purposes only and represents the opinions of Rinehart Wealth Management.

Rinehart Wealth & Investment Advisory is a Registered Investment Advisor.