Rinehart
WEALTH & INVESTMENT
ADVISORY

September 2016

INSIGHTS

Investment Overview

ETF Etiquette

ETF 101

Exchange-traded funds ("ETFs") are pooled investment vehicles, typically structured as open-end funds that invest in a basket of securities, representative of an index or specified investment mandate, whose shares trade intraday on a stock exchange. ETFs have rapidly grown in popularity as investment vehicles because they offer investors access to inexpensive systematic risk (i.e., beta), as well as exposure to specific trends, sectors, or asset classes. Additionally, they can offer significant tax, cost, and trading advantages relative to mutual funds. We believe ETFs are a complementary portfolio management tool that, when used correctly, can accentuate risk-adjusted performance by reducing internal expenses, diversifying risk, and providing efficient access and exposure to particular sectors or trends across client portfolios. The proliferation and publicity of the ETF industry commands a deep analysis of the relative pros and cons of using ETFs, as well as our view on the appropriate role of ETFs in the portfolio construction process.

The first ETF, the SPDR® S&P 500 ETF ("SPY"), was launched on January 22nd 1993 with the straight-forward investment objective of providing "investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500® Index," according to State Street Global Advisors ("SSGA"), the issuer and investment advisor for SPY. Chart I on the next page shows the

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Wealth Advisory Overview

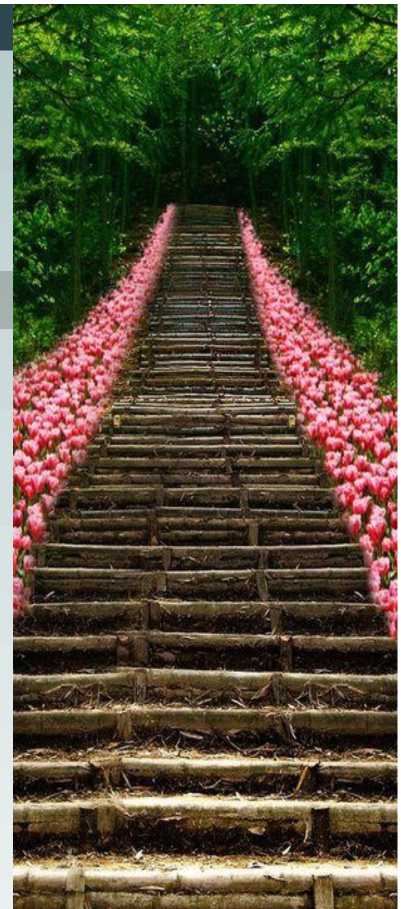
The Newest Rinehart Enhancement - The Client Portal

At Rinehart, we are always striving to bring you the very best in technological advances, whether it is from a planning perspective, or in regards to the investment advisory work. This has been evident in the recently introduced investment performance reports as well as our new website launched this July. Now, we are excited to share with you the product of these two upgrades...the client portal. Implementing a client portal has been a a long-term goal for us because of the inherent benefits it offers to our clients which is why we are excited to introduce this imminent offering.

What Is A Client Portal?

A client portal is a secure, private electronic gateway accessible over the Internet through a web browser to a collection of digital files and information pertaining to each specific Rinehart client. The portal will be used as a means of electronically sharing up-to-the-minute information on client account balances, performance, asset allocation, holdings, as well as an effective way for Rinehart's Wealth Advisors to manage an abundance of client information in a seamless and organized manner with our clients.

Continued on page 7



Investment Team

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

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Brandon Davis, CFP®
Wealth Advisor
Lorri Tomlin, RP®
Wealth Associate
Cynthia Sims, JD
Client Service Associate & Communications Manager
Jeremy Williamson
Client Service Associate

Special points of interest

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

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exponential growth of the ETF industry over the past 16 years, with over $2.22 trillion in net assets under management ("AUM") across 1,900 different ETFs, accounting for as much as a third of all publicly-traded stocks (*Source: New York Times, Feb. 22nd 2016*).

Benefits of Utilizing ETFs

In describing the benefits of ETFs, it is often useful, even necessary, to compare them to their predecessors: mutual funds. Table I provides a summary comparison of some principal differences between investing in and owning ETFs relative to mutual funds. For decades, the only way to access a diversified basket of stocks or bonds was through a mutual fund, while the advent of the ETF created another compelling tool to quickly access diversification and market exposure.

There is a cost for investing in ETFs, although the explicit expenses tend to be lower for ETFs, as represented by the "Average Net Expense Ratios" in Table I, below. ETFs typically

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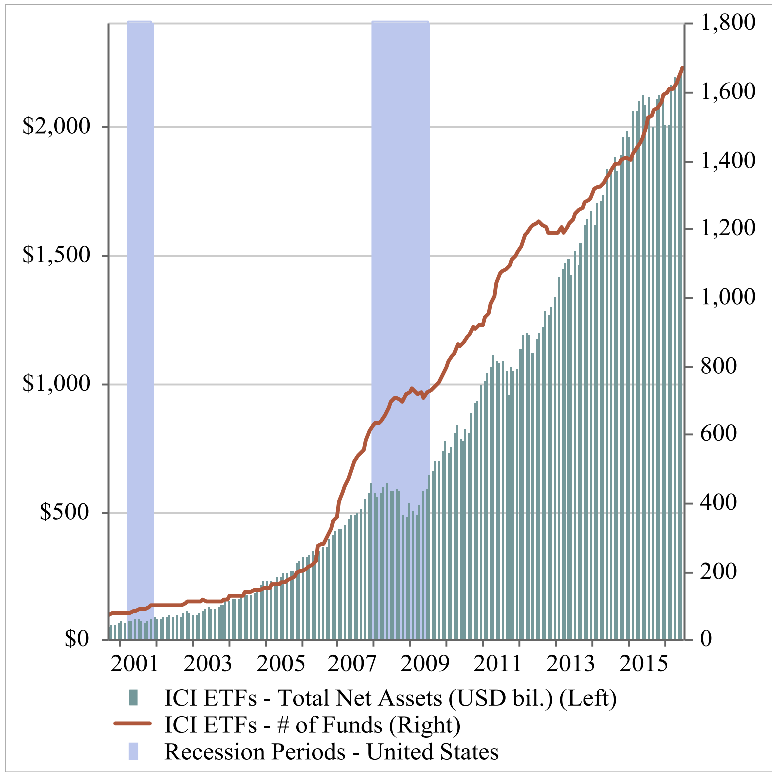
Chart I: The ETF Explosion



Source: FactSet Research Systems, Inc.

Table I: ETFs vs. Mutual Funds

	Average Net Expense Ratios*		Trading Fees	Sales/ Marketing Fees	Trading/ Pricing	Holdings Transparency	Shareholder Taxes
ETFs	0.18%	0.35%	Brokerage Fees	None	Intraday	Daily Posting of Creation Basket	Lower
Mutual Funds	0.89%	1.04%	Both	12b-1 and/or Load Fees	After-Market	Quarterly	Higher

**Based on US ETF & US Open-End Mutual Fund Category Averages for US Corporate Bond and US Large Cap Blend Strategies*
Source: Morningstar®

Monthly Index Review (USD Total Return)

Data as of August 31st 2016	August 2016	2016 YTD	2015	2014
S&P 500	+0.27%	+7.82%	+1.38%	+13.69%
Dow Jones Industrial Average	+0.41%	+7.65%	+0.21%	+10.04%
NASDAQ Composite	+0.74%	+5.04%	**+6.96%**	**+14.75%**
Russell 2000	**+1.84%**	+10.23%	-4.41%	+4.89%
MSCI Emerging Markets	+1.45%	**+14.84%**	**-14.60%**	-1.82%
MSCI EAFE	+0.49%	+0.92%	-0.39%	**-4.48%**
Barclays US Aggregate	+0.09%	+5.86%	+0.55%	+5.97%

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have lower expenses than their mutual fund counterparts because of the inherent efficiencies of the ETF structure, which eliminate several of the internal administrative and organizational costs of managing a mutual fund, as well as portfolio management fees, which often constitute the bulk of the expenses for actively-managed mutual funds.

Trading costs tend to be comparable, but the trading process itself is different for ETFs, which trade intraday like stocks, whereas mutual funds settle in the aftermarket. ETFs and mutual funds are both required to calculate the share-level net asset value ("NAV") at the end of each trading day, investors are able to buy and sell ETF shares at market-determined prices throughout the trading day. This offers increased flexibility to investors, while also lowering costs for ETF companies, who are not directly affected by the trading activity of individual investors trading ETF shares in secondary markets.

The construction and subsequent trading of an ETF is somewhat esoteric and often neglects to translate the underlying liquidity of the respective basket of assets into the aftermarket trading. ETF vendors claim that there is unlimited liquidity due to the in-kind creation and redemption mechanism outlined below in Chart II.

In the United States, Authorized Participants ("APs") are usually large financial institutions, registered as self-clearing broker-dealers, that enter into legal contracts with the fund or trust to create and redeem ETF shares and have the ability to process all required trading activity on their own accounts (*Source: 2016 ICI Fact Book*). In general, ETFs tend to be *more* tax efficient than mutual funds due to the aforementioned in-kind creation and redemption mechanism, which reduces internal portfolio turnover by giving ETF companies the ability to redeem ETF shares from APs in exchange for a comparable portfolio of underlying securities or cash.

Mutual funds tend to be relatively *less* tax efficient and generate *more* capital gains distributions than ETFs as a result of the mutual fund structure, which allows shareholder redemptions to force capital

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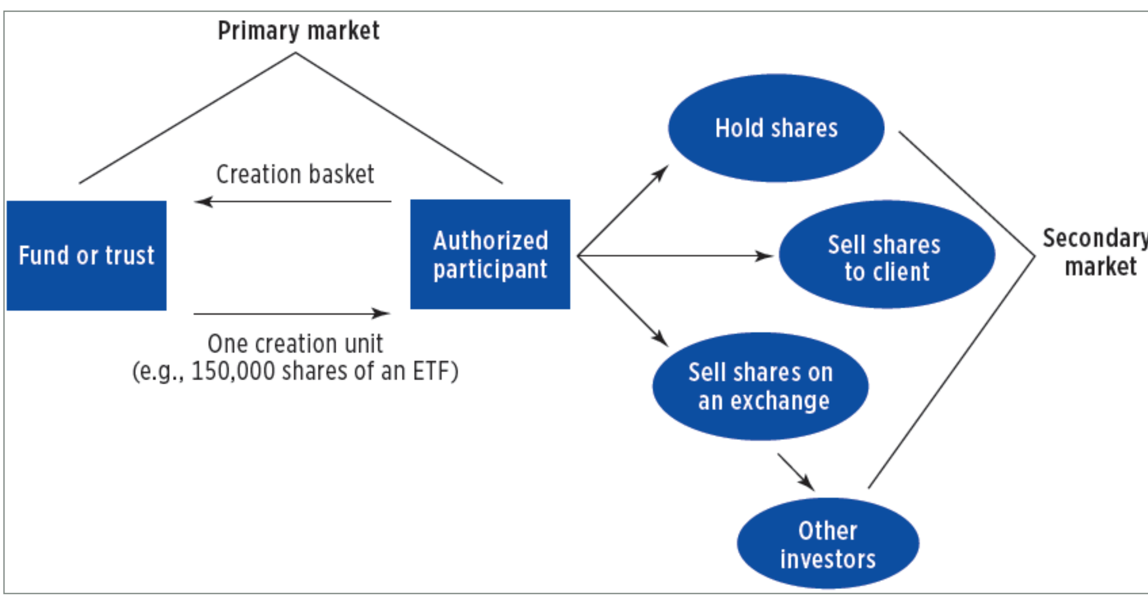
Chart II: In-Kind Creation & Redemption Mechanism



Source: 2016 Investment Company Fact Book, The Investment Company Institute®

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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gains distributions as the portfolio manager must sell assets to meet redemptions: one shareholder's trading activities can trigger capital gains for other shareholders. This can be inconvenient, especially when investors are hit with capital gains distributions, despite experiencing considerable unrealized losses in the market, as was the case in 2008. The long-term cost of mutual fund capital gain distributions can be considerable, which can be an incentive for tax-sensitive investors to utilize ETFs instead of mutual funds.

Potential Pitfalls of ETFs

Lower expenses and relative tax efficiency are the primary reasons stated for using ETFs instead of mutual funds, but ETFs are not without their pitfalls, and investors should understand these risks. First, the in-kind creation and redemption mechanism between the APs and the ETF can breakdown, especially during times of market stress, when APs may not be willing or able to hold the underlying securities on their respective balance sheets and cannot accept in-kind redemptions from ETFs. Second, utilizing ETFs in illiquid (i.e., thinly-traded) asset classes can be risky because the lack of pricing information can cause significant and persistent price dislocations between the value of the underlying assets and the price of the ETF.

As markets have continued to climb steadily higher, investors have disregarded a number of the warnings in the form of ETF breakdowns. Such was the case in June 2013, when the ETF trading desk at Citigroup, Inc. ("C"), an AP, stopped accepting in-kind redemptions of the underlying securities from ETF issuers due to capital requirements and risk parameters. In such a scenario, if the ETF company does not have sufficient cash to fulfill an AP's request, they may be forced to raise cash by selling other assets in its portfolio, thereby triggering a taxable event that might result in a capital gain distribution to ETF shareholders - similar to mutual funds.

The ETF secondary market trading function has not been stress-tested during a systematic market collapse given that the majority of the ETFs currently trading in extremely illiquid assets did not exist in 2008. Even more disturbing was SSGA's announcement that it had suspended cash redemptions for municipal bond ETFs but would continue fulfilling in-kind redemptions, effectively creating an impasse for the aforementioned APs, whose ETF trading desks were no longer accepting in-kind redemptions. This structural, albeit temporary, breakdown in the creation and redemption mechanism between SSGA, one of the largest ETF issuers in the world, and its APs represents what we believe to be a critical factor in the portfolio construction process: going beyond a simple cost -benefit analysis to determine whether or not an ETF is *preferable*, given the corresponding asset class or investment strategy, and, subsequently, identifying an *appropriate* ETF.

Given the proliferation of ETFs, as illustrated in Chart I (see page 2), it is becoming increasingly difficult to navigate the ever-growing universe of ETFs, especially as the ETF industry continues to expand beyond the conventional passive, index-based strategies to include not only illiquid asset classes, but also relatively complex and exotic strategies. With over 1,900 different ETFs, the selection of the appropriate ETF is as complicated as determining which mutual fund manager to hire or constructing a portfolio of individual stocks - which, over the long term, we continue to believe is *less* expensive and *more* reassuring than owning an ETF because you have *direct* knowledge of each individual holding.

When pricing data are not readily available for the assets included in an ETF, shares of that ETF may trade at market-determined prices that deviate significantly from the intrinsic value of its underlying portfolio. This eliminates the benefit of intraday trading and pricing for ETFs because markets may be unable to establish a *rational* price for an underlying security, creating a price dislocation in the ETF, which could disrupt or halt trading, temporarily.

For example, during the summer of 2015, the Greek debt crisis roiled European financial markets, eventually resulting in the temporary closure of Greek stock markets for more than a month - June 29th through August 2nd - during bailout negotiations with European Central Bank ("ECB") officials. During this time, shares of the Global X MSCI Greece ETF ("GREK") continued to trade on the New York Stock Exchange ("NYSE"), despite the suspension of trading in the ETF's underlying securities on local Greek exchanges.[1] While two of

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[1] *"Can ETFs Increase Market Fragility? Effect of Information Linkages in ETF Markets" Ayan Bhattacharya & Maureen O'Hara, April 2016*

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GREK's three largest holdings at that time - Coca Cola HBC and National Bank of Greece - continued to trade over alternate exchanges, an analysis of the daily price performance from June 29th through August 2nd shows that the correlation between GREK and its two major holdings *increased*, despite these two companies being representative of two extremely different industries and economic sectors, indicating that the ETF was dictating movements in those stocks more than the underlying, company-specific fundamentals.[2] When the Greek stock exchanges reopened on August 3rd, a corresponding daily price performance analysis conducted through year-end 2015 showed a *decline* in correlations, strongly suggesting that trading activity in GREK served as a conduit through which pricing dislocations were transmitted to GREK's underlying securities instead of the ETF share price being reflective of the price performance of its portfolio holdings.[3]

As a result of the aforementioned pitfalls, ETF behavior and trading activity have been concering during times of market stress or turmoil, such as the steep sell-off across fixed income markets in 2013 or the dramatic declines across equity markets in August 2015. In particular, when US markets opened on the morning of August 24th, shares of popular domestic equity ETFs fell *significantly* more than the shares of the underlying securities those ETFs held. For example, as can be seen in Chart III below, while the S&P 500® fell as much as -5.3% in early trading, shares of the iShares Core S&P 500® ETF ("IVV") fell as much as -21.9%!

While the example from June 2013 highlights the fundamental importance of liquidity for the proper functioning of the ETF structure, the flash crash of August 2015 highlights how financial markets are

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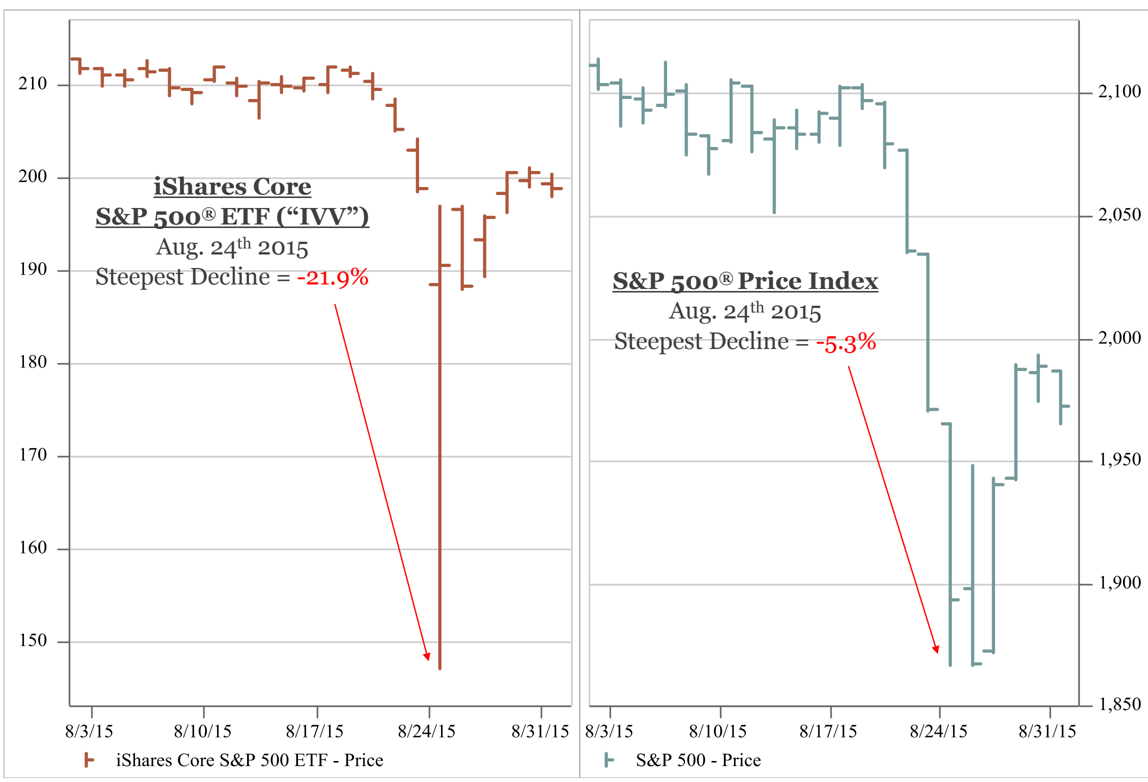
Chart III: Price Performance Differential - ETF vs. Index



Source: FactSet Research Systems, Inc.

[2,3] *Ibid*

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still adjusting to the "new" reality of ETFs.

RWIA View on ETFs & the Portfolio Construction Process

Within an investment portfolio, ETFs can provide diversification benefits similar to a mutual fund, while also offering investors relatively lower management costs, intraday trading, and tax efficiency. When used appropriately, ETFs can reduce costs and improve overall portfolio performance - however, there are over a thousand ETFs, and selecting the correct one to accomplish specific goals is critical. Given the aforementioned pitfalls and still nascent nature of ETFs, a portfolio constructed solely of ETFs can have numerous unintended risks.

In order to avoid exposure to unintended risks, we believe that ETFs are best suited to serve as *passively-managed* index replication investment vehicles. The foundation of index replication (i.e., indexing) was predicated on the precept of *market efficiency*, wherein market-determined prices of the securities included in that market index will fully and instantaneously reflect the securities' intrinsic values due to the availability and incorporation of perfect information. Analyzing the informational transparency, as well as the daily liquidity of the underlying assets, helps to determine if a market is efficient and, consequently, a candidate for a passively-managed, index-based investment strategy, such as an ETF. Accordingly, a market is *inefficient* if there are impediments to information, giving active managers a competitive advantage with which they may be able to earn consistent excess returns through superior knowledge acquisition or technique.

Rinehart typically prefers to use passively-managed investments to gain broad exposure to efficient markets, such as large- and mid-cap US equities, while relying on *active management* (e.g., actively-managed mutual fund strategies) to gain exposure to relatively inefficient markets, where we feel an active manager has a higher probability of success, such as hedge fund strategies, alternative and high-yield fixed income, as well as emerging market equities.

While ETFs designed as passive, index-based investment strategies offer investors exposure to inexpensive beta, they, by definition, are not constructed to outperform their respective indexes and, therefore, should not constitute 100% of a long-term, well-diversified investment portfolio. As fee-only managers, we are very judicious about allocating assets to active managers, as it behooves us to minimize costs and maximize portfolio performance. An optimal blend of both passive and active management can maximize risk-adjusted returns and minimize underlying costs. The critical decision is not *if* passive management but *where* and *when*, as we believe optimizing these two factors successfully during the portfolio construction process can contribute to relative outperformance.

Stock & Strategy Spotlight

Name	Ticker	2016 YTD
Apple, Inc.	AAPL	**+2.38%**

Description & Investment Thesis

In mid-July 2016, after several years of being on the sidelines with regard to Apple, Inc. ("AAPL"), the Investment Team upgraded our long-term "Hold" recommendation on AAPL to a "Buy" and began initiating new positions across client portfolios, as well as adding shares of AAPL to our RWIA Core 20 Equity Portfolio. At the time of our initial recommendation, shares of AAPL had underperformed the S&P 500® and S&P 500® Information Technology Price Indexes by -24.41% and -27.39%, respectively, over the trailing 12-month ("TTM") period. Moreover, AAPL's next 12-month ("NTM") Non-GAAP price-to-earnings ("PE") multiple had compressed by -28.52% since peaking in November 2014, falling from 15.3x to 10.9x, despite AAPL averaging ±29.9% TTM earnings per share ("EPS") growth over the previous five fiscal quarters. The Investment Team believed that headline risks and near-term headwinds had pressured shares of AAPL to such a point where valuation was incredibly undemanding for such a high-quality company with significant long-term revenue and earnings growth potential. Given the shifting perception of AAPL from a traditional "growth" to a "value" company, we were more than happy to buy into a company that has been increasingly returning capital to shareholders ahead of an earnings release that ended up surprising to the upside of consensus estimates.

Wealth Advisory Overview

The Newest Rinehart Enhancement—The Client Portal

How Do Client Portals Work?

Rinehart will provide clients with a secure entry point that lets our clients log in to an area where they can view, download, and upload private information. The client portal has significant advantages over traditional static document vaults, such as Dropbox, and provide us with the ability to consolidate all account data, automatically update information, and post information to each client specific site.

What Are The Benefits Of A Client Portal?

The benefits of a client portal are numerous and include some of the following:

- **Instant, 24/7 access -** The client portal will expand a client's access to information by providing instant access to all pertinent information including: Financial Plans, Legal Directives and Estate Planning Summary, Tax Returns, Insurance Documents, Contracts, and Account Forms, making it easy for clients to quickly find answers to many of their most common questions. Clients will no longer have to call the office to request a copy of a document, they will be able to access documents at their convenience.
- **Up-to-date account information and online reports -** When clients log in to their portal, they will get a quick snapshot of their overall account information anytime they need it. Performance reports are available online and in real time. Beginning with our 4th Quarter 2016 reporting, investment performance reports will be posted to the client portal so that clients will not have to wait to receive these reports in the mail. These reports will be stored for a period of two years so that they can easily be accessed for future reference.
- **No file size limitations** – A client portal offers clients the ability to upload documents of all sizes, which can often be a problem with e-mail.
- **Environmental awareness -** Our client portal allows us to decrease our usage of paper - something our clients appreciate as we continue to look for ways to help protect the environment.
- **Greater efficiency -** The conversion to a paperless operation creates greater worker efficiency because employees do not need to print and mail statements, and can instead work on value added benefits for clients.
- **An encrypted environment**. Client portals provide increased security that easily trumps unencrypted email. Our portal offers secure two-way communication. Clients can send sensitive documents online and feel confident knowing their data is protected.

The creation of a single centralized client portal will serve as the comprehensive interface for all of Rinehart's wealth and investment advisory information for clients. Our team will be able to spend less time exchanging information with clients who have on-demand access to their documents and account information, and spend more time on value added wealth and investment advisory needs. The intent is to streamline communications and enhance collaboration between you the client, and your Rinehart Wealth and Investment Advisory team. The rollout of this enhancement will occur over the next couple of months so please let us know if you have any questions. We look forward to continuing to elevate your Rinehart experience.

> *"The riskiest moment is when you're right. That's when you're in the most trouble, because you tend to overstay the good decisions."*
>
> *Peter Bernstein*

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Around Rinehart

Putt "Fore" Pups

Rinehart is excited to both sponsor and participate in the 4th Annual "Putt for Pups" golf tournament to benefit Project 2 Heal on September 19th at the Firethorne Country Club in Marvin, NC.

Project 2 Heal is the only non-profit organization of its kind that breeds and nurtures Labrador puppies specifically for use as Service or Therapy dogs. Project 2 Heal has the highest placement success rate in the industry.

Women, Wisdom, & Wealth

The first in an exclusive series of impactful monthly workshops kicks off this month. September's topic, presented by Rinehart's President Sandy Carlson, will focus on creating a budget and managing cash flow utilizing popular digital and web-based applications to improve and enhance the budgeting process.

The event takes place at our office Wednesday, September 7th from 5:30-7p.m. If interested, contact Cynthia Sims at csims@rinehartwia.com or 980-585-3368. For the complete workshop schedule, click here.

Maybry McShane Selects Advisory Board

Three accomplished business and civic leaders will serve on the Maybry McShane Family Offices Advisory Board. Board members include Dianne Chipps Bailey, attorney at Robinson Bradshaw & Hinson and leader of the firm's Nonprofit Organizations and Foundations Practices Group; Stephanie Lynch, former CIO of the Duke Endowment and currently a partner at Global Endowment Management (GEM); and Bob Toth, Managing Director of CCMP Capital Advisors, LLC and former CEO of Polypore and CP Kelco.

The board will provide Maybry McShane with experience-based insight on management, ethics, compliance and technology issues with meetings taking place semi-annually. Biographies of the Advisory Board Members can be found at www.rinehartwia.com/maybry-mcshane.

Lunch & Learn Financial Wellness Seminar Series

This Fall, Rinehart will offer a financial wellness lunch & learn series. The first seminar will take place at our office September 28th at noon. Reservations are required and lunch will be provided.

For more information and to register, please contact Cynthia Sims at csims@rinehartwia.com or 980-585-3368. For the complete lunch & learn schedule, click here.

Rinehart Wealth & Investment Advisory

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

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