

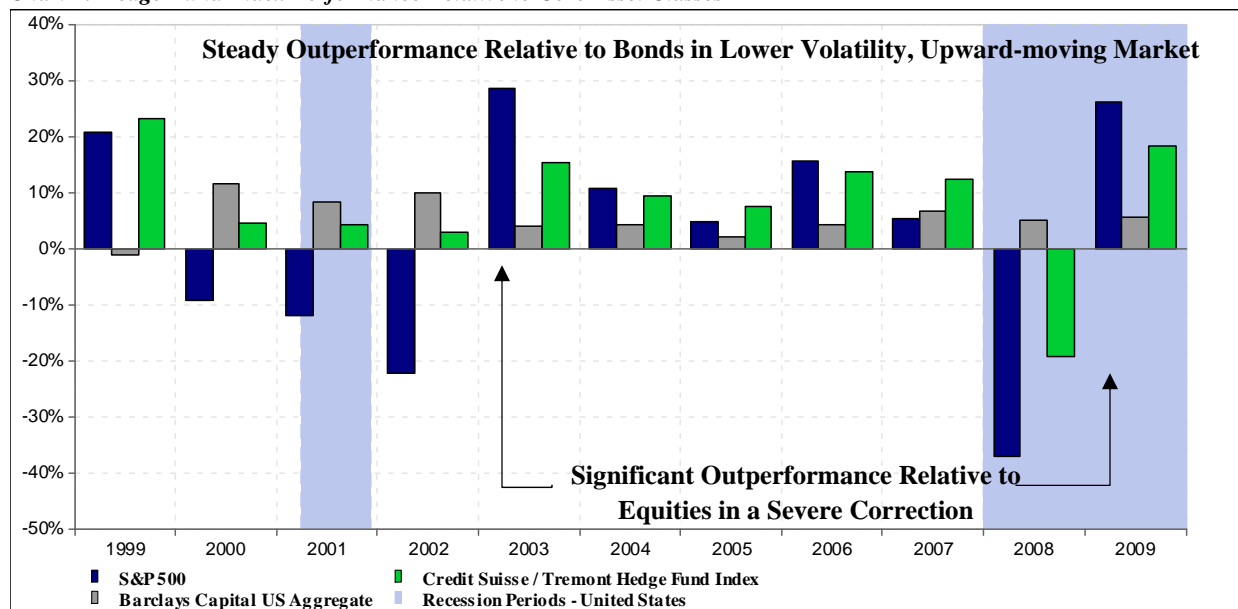
Hybrids – New Alternatives Accentuate Asset Allocation

Every portfolio at Rinehart Wealth Management has an allocation to hybrids because we believe that exposure to these alternative asset classes can accentuate return, reduce risk and mitigate volatility. The hybrid category contains hedge funds, utilities, real estate and hard assets; these asset classes perform differently than a core portfolio allocation of US Equity, International Equity and Fixed Income. Given that the concept of an allocation to certain alternative asset classes is novel, we thought we would take the time to outline each of the four strategies in the hybrid category.

Demystifying Hedge Funds

The basis for hedge fund investing is to provide a steady return while reducing volatility. Hedge fund strategies have a low correlation with the S&P 500 Index, as you can see in Chart I. The main conclusion to draw from the ten year performance is that during severe corrections, a diversified hedge fund strategy can meaningfully outperform equities, and that in a steady upward moving market, the hedge fund index can consistently beat the bond index and exhibit nice appreciation, albeit less than that of the equity indexes. It is possible that over a full market cycle successful hedge fund strategies can outperform both bonds and equities. Our expectation in using hedge fund strategies is not that they beat the S&P 500 Index each year, but that they will buffer volatility while providing capital appreciation in excess of fixed income.

Chart I: Hedge Fund Index Performance Relative to Core Asset Classes



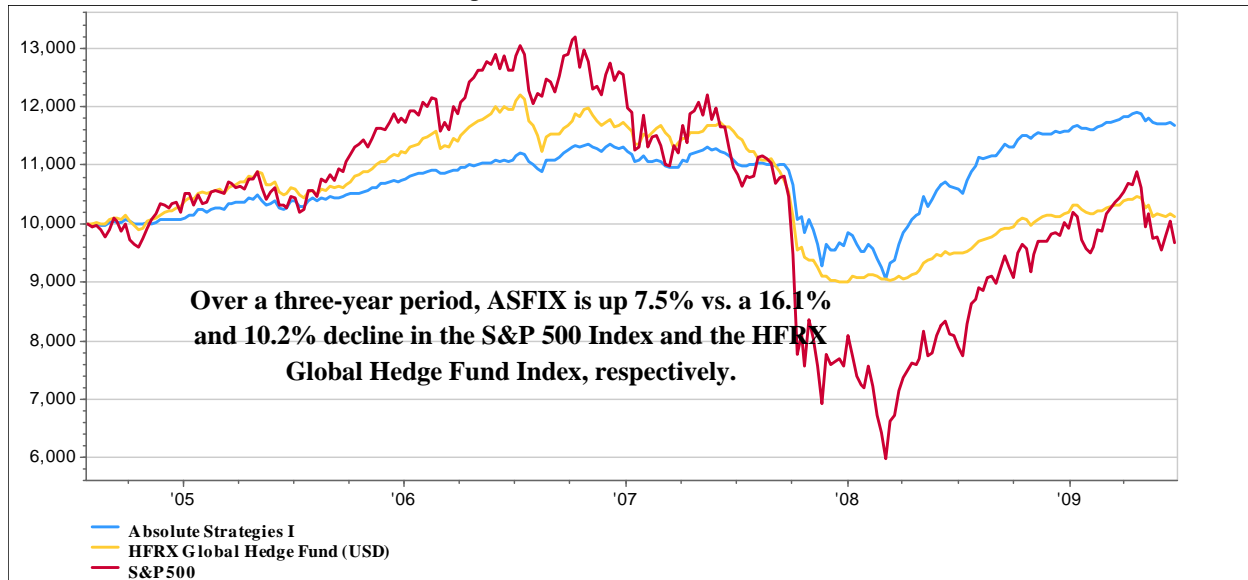
Source: Rinehart Wealth Management – FactSet Research Systems, Inc

Historically, hedge fund strategies have not been an option for individual investors because of such factors as restrictive lock-up periods, lack of a transparent reporting system, the K-1 tax reporting structure, high fee structure and exclusionary minimum investment requirements. Recently, however, certain investment firms have removed many of these constraints by providing hedge fund-like investment options in a mutual fund vehicle. As more of these vehicles come to market, we have been analyzing different products to ascertain the best option for our clients.

Currently, we use Absolute Strategies, which is a diversified way to gain access to the hedge fund market. Two portfolio managers construct the Absolute Strategies fund by combining twelve different hedge fund strategies, each with their own

specific managers, into one mutual fund. Based on extensive research, these two managers will weigh the exposures to the various strategies differently depending on varying market conditions. Chart 2 provides an overview of the performance of the Absolute Strategies fund (ASFIX) relative to the S&P 500 Index and the HFRX Global Hedge Fund index.

Chart 2: ASFIX Relative to HFRX Global Hedge Fund Index and S&P 500 Index



Source: Rinehart Wealth Management – FactSet Research Systems, Inc.

Utilities – Inflation Hedge?

Utilities act differently than a traditional equity or fixed income investment because they have components of both: utilities trade like equities and exhibit more volatility than a bond, however, they provide a robust and reliable dividend income stream. When we do see inflation creep into the picture, utilities should perform better than bonds and can serve as somewhat of an inflation hedge, similar to other infrastructure and hard asset investments.

Given the underperformance in utilities relative to the S&P 500 Index earlier this year and the mass movement to bonds in 2009, we started moving clients to more utility exposure in April 2010. Because of the valuations in the market at that time, we felt utilities offered an attractive risk/reward relative to bonds or equities for investors focused on income. Despite the pullback in the equity market since that time, we still believe investors should own regulated utility names for protection in a down market and unregulated/less regulated utilities in order to participate in upside from an economic recovery. Our belief is that we should identify utilities with a favorable regulatory environment (accommodative government policy), a pro-alternative energy portfolio (limited coal exposure) and a robust dividend policy (steady increases over time).

We are currently recommending Piedmont Natural Gas (PNY) as we believe gas utilities have a better regulatory/rate environment than electric utilities. PNY has a regulatory structure that is very accommodating, such that the company earns its allowed return despite usage patterns, which is very conservative and contributes to the stocks resilience during market corrections. PNY was only down 4.5% from the top of the market until the bottom in March 2009, compared to a loss of 40.5% for the Utility iShares. This outperformance in a down market is attractive when constructing a portfolio.

On the less-regulated side, we like PPL Corp (PPL). It is in a solid regulatory position given its hydroelectric and nuclear exposure, in addition to the fact that the coal that they have has already undergone industry-leading clean up. The stock is trading at the low end of its trading range due to concerns about hedges rolling off next year, but we feel this apprehension is overblown and has excessively discounted the stock price to this level.

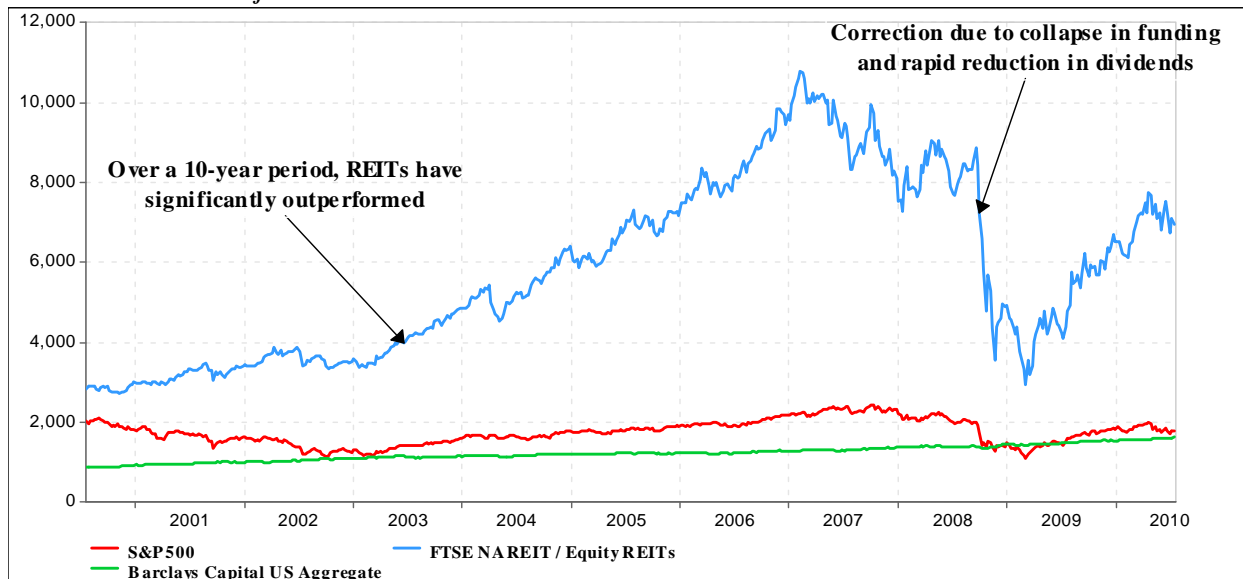
REITs – Liquid Real Estate

REIT, or real estate investment trust, refers to a company that owns and operates income-producing real estate. There is a tax break afforded a REIT structure that reduces corporate income taxes, and as a result REITs are required to distribute 90% of income to investors, normally in the form of a dividend. A REIT allows investors access to commercial property investment returns without the significant liquidity risks associated with traditional real estate investing.

Normally, the return profile falls between bonds and equities. There is bond-like visibility in the long-term lease structure as well as a high dividend yield, 4.74% versus a 1.98% average for the S&P 500 Index (Source: *Jefferies and Company Inc.*). However, as you can see from Chart 3 below, REITs are significantly more volatile than bonds and exhibited a severe correction during the most recent recession.

Due to the historically low correlation with the S&P 500 Index, at times REITs can serve as an attractive vehicle for portfolio diversification. Between 1995 and 2009, the RMZ index was less than 55% correlated to the S&P 500 Index while the majority of major equity indexes demonstrated over 90% correlation to the S&P 500 Index. Recently, the correlation and beta to the broader market have climbed above historical averages, and these high correlations coupled with lofty valuations leave us slightly less enthusiastic about REITs at this time. However, the rising dividend profile and potential inflation hedge keep us looking for new ideas in the sector.

Chart 3: REIT Index Performance Relative to Core Asset Classes



Source: Rinehart Wealth Management – FactSet Research Systems, Inc.

From December 1999 to December 2009, the FTSE NAREIT Equity REIT Index delivered an average annual total return of 10.63%, and the FTSE NAREIT All REITs Index provided an average annual return of 10.18%. Spanning the same period, the average annual total return from the S&P 500 Index was -0.95%, and from the NASDAQ Composite was -5.67% (Source: *OnWallStreet*).

Commodities and Hard Assets

Exposure to commodities and hard assets can mitigate portfolio volatility and hedge inflation, but in the past they were logistically difficult to incorporate into portfolios. With the introduction of exchange traded funds (ETFs) and mutual funds designed to provide liquid investment options for commodities and hard assets, investors have been able to take greater advantage of this asset class. We currently like Permanent Portfolio (PRPFX) for its steady return profile and consistent long-term strategy. This fund has a fixed allocation to gold (20%), silver (5%), Swiss francs (10%), US Treasuries (35%), real estate/natural resources (15%) and aggressive growth stocks (15%). This adherence to a consistent strategy, aided by an interest rate tailwind in treasuries, has produced top quartile performance for PRPFX eight of the last ten years. Given the increased importance of this asset class if inflation picks up, we are constantly exploring additional investment opportunities in this area.

Given its low correlation with the S&P 500 Index, the hybrid category is a nice complement to a core portfolio. We seek to increase client exposure to the hybrid category as a method for reducing volatility and improving risk-adjusted returns. Going forward you can expect to hear more from us regarding increased exposure to hybrids.

Regards,

Daniele Donahoe, CFA
Mary Rinehart, CFP®

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