MOULTON WEALTH MANAGEMENT INC.

"MOLTEN HOT" MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of January 4, 2021

Per a disaster declaration by Governor Inslee, all gatherings of 5 or more are suspended. If you were planning to attend a seminar and don't wish to wait until there is a change in the restrictions please call the office for a free Financial Physical.

HAPPY NEW YEAR!

FINANCIAL PHYSICAL

Due to the Lock Down, Seminars are on hold. If you'd like a phone based Financial Physical, please call…

509-922-3110

OUR FINANCIAL PHYSICALS REVIEW:

1. PROTECTION
2. ESTATE PLANNING
3. TAXES
4. RETIREMENT
5. INVESTMENTS

Trying to remain objective in a raging bull market driven by money printing can be trying. After all, maybe this time is different, maybe the market will never drop again, maybe we're in a new age… or not.

In a recent newsletter, David Hay of Evergreen Gavekal urged readers to "Take Profits". That could very well be sage advice for anyone who does not have a defensive strategy and instead just buys and hopes. But remember, the market can remain irrational longer than any of us can remain solvent. In other words, although we agree with David Hay's concerns 100%, we also acknowledge the market could continue higher before the day of reckoning. As such we'd rather "participate but protect" with a mechanical sell strategy geared towards limiting portfolio drawdowns vs randomly selling (or buying).

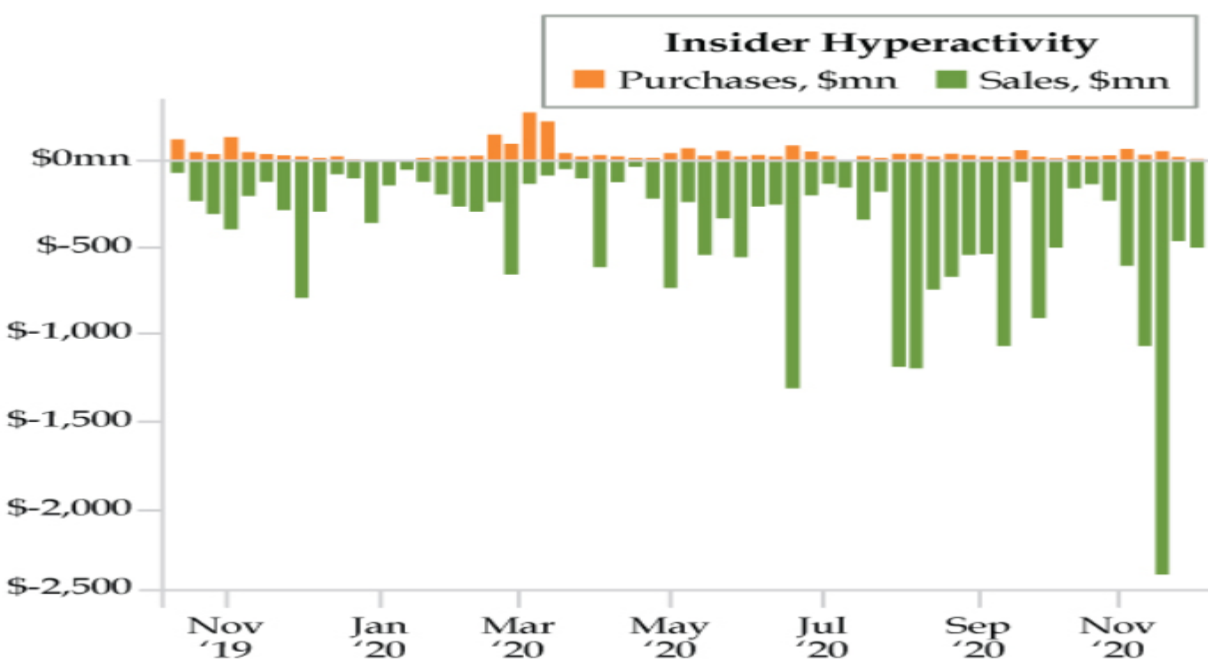
Here are some of the concerns:

Insider Selling

Insiders are corporate senior management types. Many people watch their behavior, which is publically reported, to garner what those with the most knowledge of their own company's prospects are telling us through their stock purchases and sales.

Normally, insiders tend to sell more than they buy. Why? They often earn stock as compensation and sell to diversify. When the ratio is 10 sales to every 1 purchase, it's considered bullish. When it's higher, like 20 sales or more to very 1 purchase, it's a sign that insiders are worried, which is a warning flag.

Economist David Rosenberg tells us that recently this ratio hit 58 sales to every 1 purchase! In fact Danielle DiMartino Booth provided the following chart which visually shows



Source: Bloomberg

that insiders seem to be yelling “get me out”.

Apparently, those with the most knowledge of how businesses are doing, are not as optimistic as Wall Street about our “V” shaped recovery.

I thought it telling to also pay attention to this same group’s higher than normal buys in March of 2020, a pretty timely move.

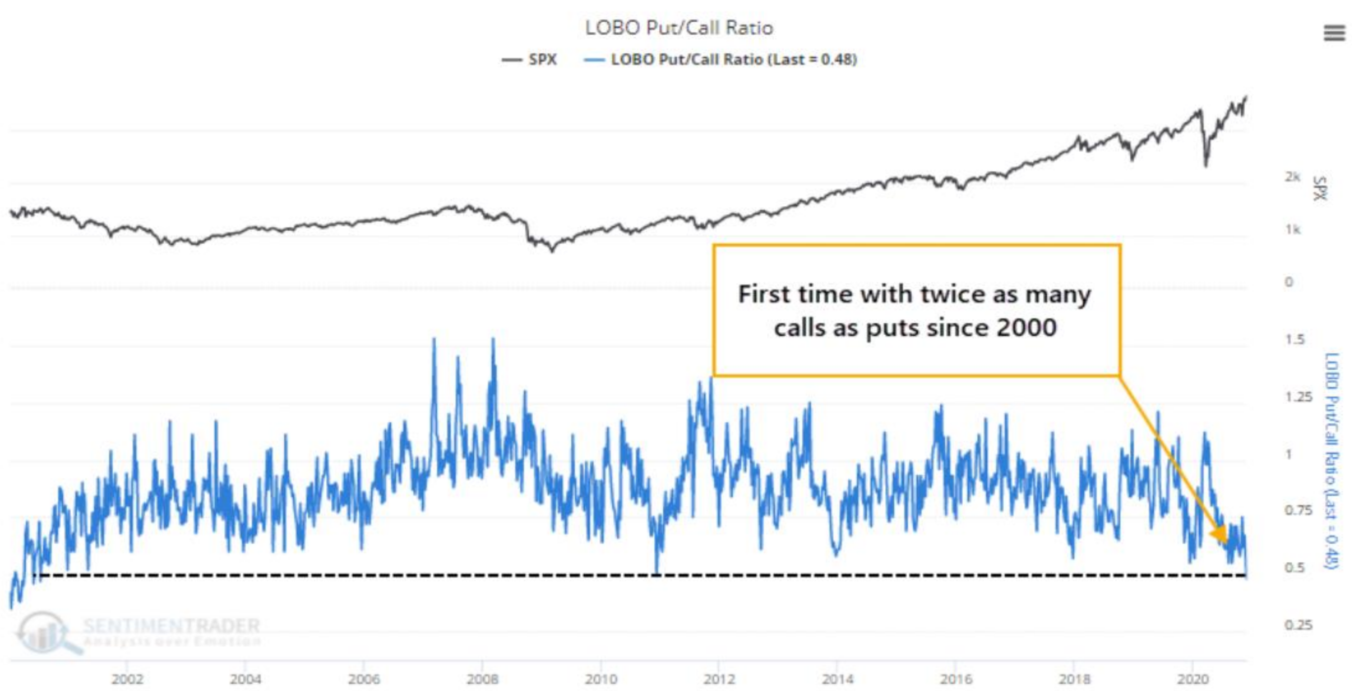
Extreme Bullishness

Extreme bullishness or bearishness is often a contrarian indicator. After all, if investors universally think markets will go higher (bullish) they’ve likely already purchased stocks, leaving fewer new buyers. Of course the opposite effect can come from investors being universally bearish.

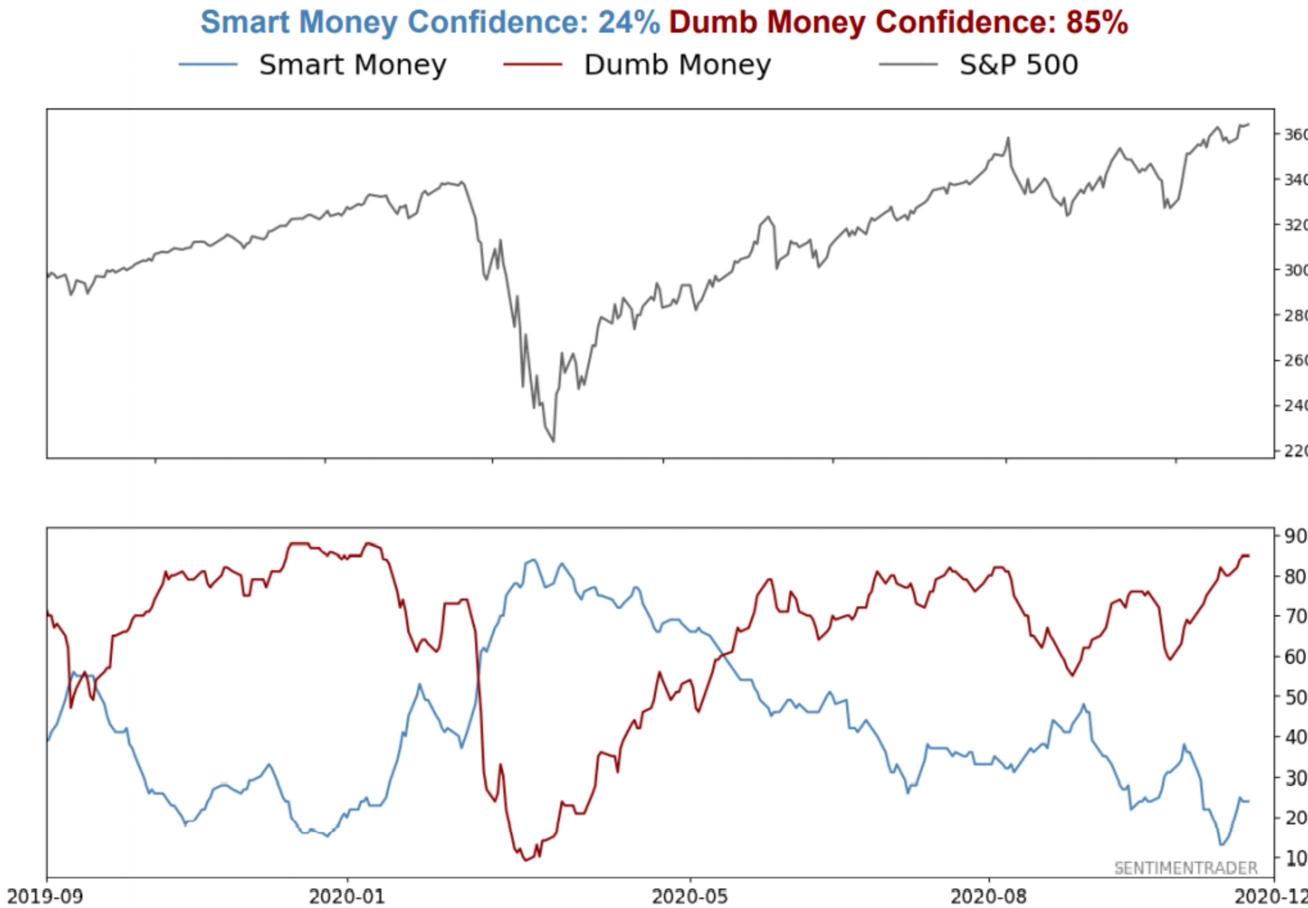
We don’t have a way to measure all investors, but there are indirect markers to give us a clue.

First options are essentially leveraged bets on the direction of equities. An investor has to be right on the direction of the stock, how far it will move, and also the time it will take. If they’re right they can make a lot of money but if they’re wrong on any three (direction, how far the move or time) they can lose all of their money. Call options are bets the direction will be “up” and put options are bets the direction will be “down”. If we look at the ratio of the two we can get an idea of how bullish or bearish these traders are.

The following chart from Sentiment Trader shows that this ratio has not been so lopsided to calls since the end of the dot.com bubble, after which the NASDAQ dropped over 80%.



Meanwhile smart money *(or professional investors)* confidence is subdued while dumb money *(or retail investors)* confidence is extremely optimistic. This isn't meant to be insulting, but the track record of smart money tends to be more accurate than dumb money. The following chart shows where we stand but also note where each stood in March at the market lows.



<u>Companies Rush to Cash In</u>

Finally, in another echo of the dot.com bubble, companies are rushing to complete IPOs or Initial Public Offerings to cash in on the stock market while it's hot. And many of these companies, like during the dot.com bubble, aren't even making money.

The chart on the following page is from Bloomberg and Rosenberg Research. Notice the blue line shows IPOs in the four years ending July 15, 1999. The red line shows IPOs ending December 11, 2020.

Remember, during the dot.com bubble, the NASDAQ peaked in March of 2000 and fell over 80%. The S&P-500 peaked shortly after and eventually fell about 50%.

CHART 1: The Current IPO Frenzy is a Replica of the 1999 Internet Craze

United States
(red line; ratio of Renaissance IPO index to S&P 500; percent appreciation; January 3, 2017 to December 11, 2020)
(blue line; ratio of Bloomberg IPO index to S&P 500; percent appreciation; August 1, 1995 to July 15, 1999)

Source: Bloomberg, Rosenberg Research

We could go on of course.

- This market is the most expensive ever by most measures and second by the others.
- Institutional investors are holding close to the least cash ever in portfolios.
- Margin debt (where investors borrow money to invest even more than they own) is at record highs.
- Fear / Greed measures are universally pointing towards greed.

It may not be time to sell everything and go to cash, but it certainly is time to decide how you will react to the next bear market because by all measures, it could be a doozy.

When investors should be most focused of risk management they are currently least concerned.

We continue to be vigilant.

We also wish everyone a prosperous New Year.

Do you have a defensive plan?

Protect your health and your wealth.

Where are you getting your advice?

Are they fiduciaries?

Are they a Certified Financial Planner™?

Do they have a background in accounting, tax, finance?

Do they review all areas of your financial life (like income taxes, risk management, estate planning) or just talk about stocks?

Who benefits most from their “advice”?

We are in the early stages of a financial crisis, fueled by massive leverage (debt) that could make 2008 look tame in comparison.

The virus was not predictable, but it is just the pin that pricked the bubble.

Don’t let anyone tell you that “no one saw this coming”.

Anyone paying attention should have seen this coming.

If you’re not a client, what is your advisor telling you about our current situation? If your advisor is not discussing these issues with you, shouldn’t (s)he be? How much work do you think it takes to keep up on all of this as we try to do, and how much easier do you think it would be to simply repeat over and over…

- Never sell
- You can’t time the market
- You’re a long term investor
- The market always comes back
- Etc., etc., etc.

Are you being told to stay invested after thoughtful analysis of world events, stock valuations, economic considerations, etc.? Or are you being told to stay invested due to a lack of thoughtful analysis of world events, stock valuations, economic considerations, etc.?

It’s your money and it’s your retirement.

Being told after the fact that ‘everyone lost money’ may make you feel better but it won’t help pay your utilities.

Be careful.

If you didn't like what happened to your portfolio in the dot.com bubble or the financial crisis bubble, but you've made no moves to change the way you invest, now may be the time to seriously consider your process – NOT after the market, and your portfolio, have crashed.

Break the cycle and make your portfolio decision based on where we are likely headed, not on where we've recently been.

If we can help, call our office now and set up a no obligation review.

We think investing today must include a defensive strategy and system. It's this system that helps us decide when "enough is enough" and that it is time to protect your portfolio. If you don't have a system you should consider it now. Regardless of what happens over the next week, month or several months, stocks are overvalued in our opinion and eventually they will reset with a significant market decline.

Remember, we have a feature on our website: www.Moultonwealth.com to help you measure your risk tolerance. The problem with trying to decide how much risk to take is we all want to be aggressive when the market is going up, but conservative when it's going down. That's why a sell discipline is important. However, the first line of defense is always our allocation. This approach to measuring risk gives a number by making investors trade off gains and losses. Just click the button to see where you stand.

On to this week's data…

U.S. Markets: The major indexes hit all-time highs but ended the week mixed, with small and mid-caps recording losses. The Dow Jones Industrial Average added 407 points to finish the week at 30,606—a gain of 1.3%. The technology-heavy NASDAQ Composite rose for a third consecutive week, up 0.7%. By market cap, the large cap S&P 500 added 1.4%, while the mid cap S&P 400 and small cap Russell 2000 retreated -0.4% and -1.5%, respectively

International Markets: International markets were also mixed. Canada's TSX and the United Kingdom's FTSE 100 retreated -1.1% and -0.6%, respectively, but the rest of the major international markets finished to the upside. France's CAC 40 rose 0.5%, while Germany's DAX added 1.0%. Markets were particularly strong in Asia where China's Shanghai Composite surged 3.3% and Japan's Nikkei rallied 2.9%. As grouped by Morgan Stanley Capital International, developed markets tacked on 0.8% while emerging markets gained 3.1%.

Commodities: Precious metals retraced last week's decline rising 0.6% to $1895.10 per ounce while Silver rose 1.95% ending the week at $26.41. Crude oil continued to consolidate around the $50/barrel-level. West Texas Intermediate crude finished the week up 0.6% at $48.52 per barrel. The industrial metal copper, viewed by analysts as a barometer of world economic health due to its wide variety of uses, ended the week down a second consecutive week giving up -1.2%.

December Summary: For the month of December, the Dow rose 3.3%, the NASDAQ added 5.6% and the S&P 500 rose 3.7%. Mid-caps and small caps outpaced large caps, and rose 6.4% and 8.5% respectively. December was also a good month for international markets, with all major markets finishing in the green. Canada and the United Kingdom rose 1.4% and 3.1%, while France added 0.6% and Germany gained 3.2%. China rose 2.4% and Japan gained 3.8%. Developed markets rallied a respectable 5.0% and emerging markets surged an even larger 7.1%. Gold and Silver rose 6.4% and 16.9%, respectively, while Oil added 7.0% and Copper gained 2.4%.

4th Quarter Summary: In the fourth quarter, the Dow added 10.2%, the NASDAQ rose 15.4%, and large caps gained 11.7%. Mid-caps and small caps gained at a torrid pace, adding 23.9% and 31.0%. Canada added 8.1%, the UK gained 10.1%, and France and Germany rose 15.6% and 7.5%, respectively. China rose 7.9% and Japan gained 18.4%. Developed markets rose 14.7% while emerging markets added 17.9%. Gold was essentially unchanged on the quarter, but Silver gained a solid 12.4%. Oil and Copper were also strong in the quarter, surging 20.6% and 16.0%, respectively.

2020 Summary: The Dow gained 7.2% for the year, and the S&P 500 recorded a 16.3% gain. The big story in the U.S. was the NASDAQ Composite, which surged a whopping 43.6%. The S&P 500 recorded a 16.3% gain, while mid-caps added 11.8% and small caps rallied 18.4%. Smalls and mids overcame a year-to-date deficit by rallying strongly in the closing weeks of the year. Canada rose 2.2%, while European markets were mixed for the year. The United Kingdom fell -14.3%, France declined -7.1% and Germany added 3.5%. In Asian markets, double-digit gains were common, with China rallying 13.9% and Japan rising 16.0%. As grouped by Morgan Stanley Capital International, developed markets rose 7.6% while emerging markets more than doubled developed markets by jumping 17.0%. For commodities, 2020 was a pretty solid year overall with most sporting double-digit gains. Gold and Silver rallied 24.4% and 47.4%, respectively. Copper recorded a 25.8% gain. But Oil went the other way, finishing the year down -20.5% as the coronavirus pandemic brought world travel to a standstill for much of the year.

U.S. Economic News: The number of Americans filing for first-time unemployment benefits fell last week. The Labor Department reported initial jobless claims declined by 19,000 to 787,000. Economists had expected claims to rise to 828,000. The number of people receiving benefits across all unemployment programs dropped to 19.6 million, a reduction of 800,000. However, the four-week moving average of claims, smoothed to iron-out the weekly volatility, rose by 17,750 to 836,750. Analysts noted that the slow roll-out of the vaccine and the resurgence in cases continues to weigh on the economy. John Ryding, economic advisor at Brean Capital stated, “There is no real improvement in the data.”

Home prices surged across the nation as more people fled the cities for the suburbs, a recent survey showed. The S&P CoreLogic Case-Shiller 20 large city home price index rose at a 7.9% annual pace in October—its fastest rate in six years. That’s up 1.3% from the prior month. A broader measure by Case-Shiller that covers the entire country, meanwhile, showed an even larger 8.4% increase in home prices over the past year. That’s also up sharply from 7.0% in the prior month. Prices have risen at the fastest clip since 2014 owing to record-low mortgage rates and a sharp rise in the number of people heading for the suburbs. A small supply of homes for sale has also been a contributing factor. The biggest yearly increases in home prices took place in Phoenix (12.7%), Seattle (11.7%) and San Diego (11.6%). The smallest increases occurred in New York (6.0%), Chicago (6.3%) and Las Vegas (6.4%).

An indicator of future home sales fell for a third consecutive month in November, data from the National Association of Realtors (NAR) showed. The NAR’s index of pending home sales, in which a contract has been signed but has not yet closed, dropped 2.6% in November. Still, compared to last year, pending sales are up more than 16%. Declines were seen across all major regions with the largest decrease occurring in the West. The Northeast was next, followed by the Midwest and South. The pending home sales index is the latest report to illustrate the difficulties home buyers are encountering in the housing market these days. Lawrence Yun, the NAR chief economist, said in the report, “The market is incredibly swift this winter with the listed homes going under contract on average at less than a month due to a backlog of buyers wanting to take advantage of record-low mortgage rates.”

A measure of business conditions in the Chicago region rose in December, bucking a trend in other parts of the country where growth slowed amid the resurgence in coronavirus cases. The Institute for Supply Management (ISM) reported its Purchasing Managers’ Index for Chicago edged up 1.3 points to 59.5—its first increase in three months. Readings above 50 indicate an expanding economy. The sub-indexes that measure employment and production both improved, but growth in new orders slipped. Most companies stated they were holding off on spending plans for the New Year until the effectiveness of the coronavirus vaccine is known.

International Economic News: After a tumultuous 2020, one expert says Canada’s economy can expect improvements in 2021. Ian Lee, associate professor at Carleton University’s Sprott School of Business remarked, “I actually think the economy is going to do very well in 2021. Not spectacularly, but much better than in 2020." Lee attributed his view in part to Canadians’ savings rate in 2020 which he said has “gone through the roof.” Statistics Canada reports that after the first quarter of 2020, Canadians saved an average of 7.6 per cent of disposable income. But by the second quarter Canadians were saving 28.2%--a dramatic increase from the 3.1% they were saving at the same time the year before.

Across the Atlantic, Britain left the European Union's trading bloc at 11pm London time on New Year's Eve - arguably the biggest single economic change the country has experienced since World War II. British Prime Minister Boris Johnson called it "an amazing moment for this country." The historic moment passed quietly, with U.K. lockdown measures against the coronavirus curtailing mass gatherings to celebrate - or protest. Brexit, which had dominated public debate in Britain for years, was even pushed off some newspaper front pages by news of the huge vaccination effort against COVID-19, which is once again surging across the country.

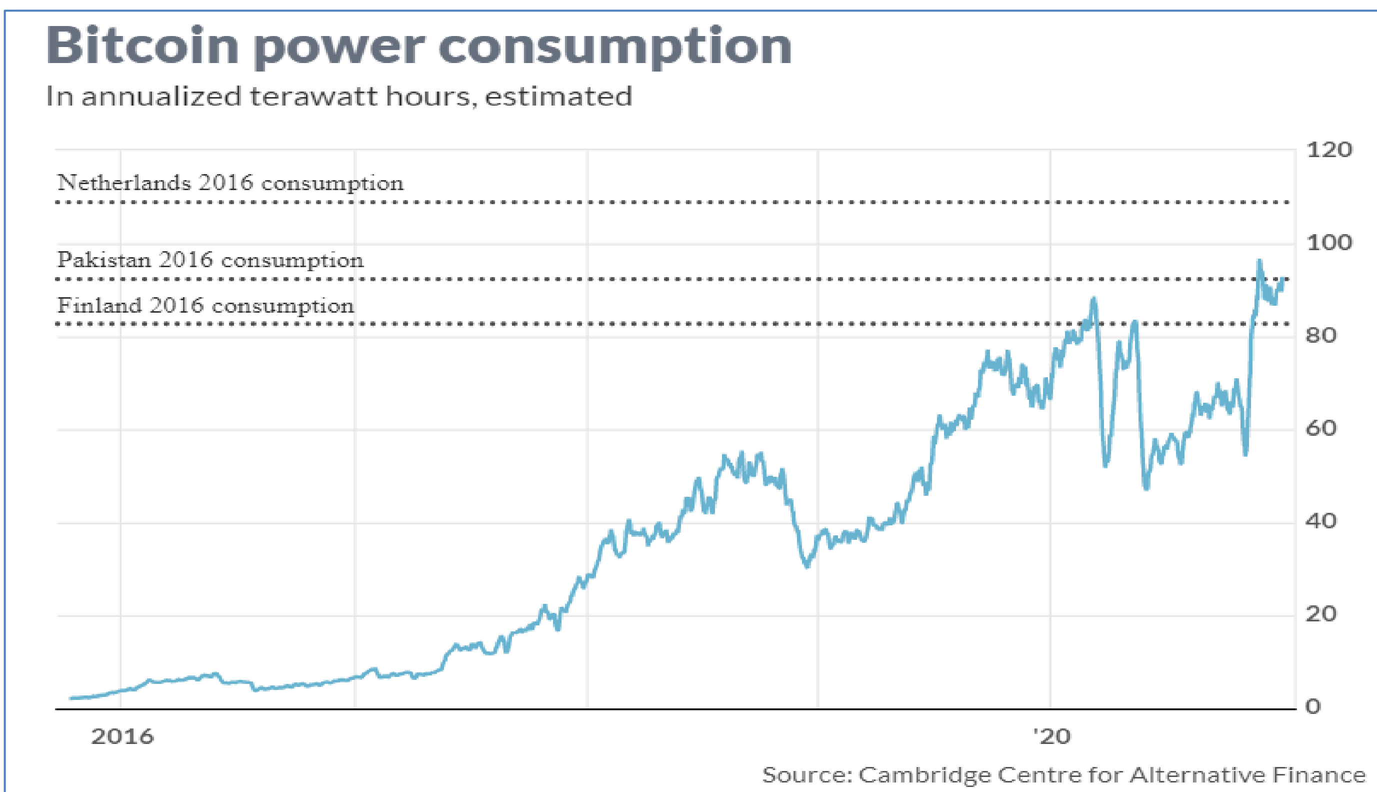
On Europe's mainland, the European Union and China agreed this week to an investment deal that will give European companies greater access to Chinese markets and help address what Europe sees as unbalanced economic ties. As part of the deal, European firms will gain permission to operate in China in sectors including electric cars, private hospitals, real estate, advertising, the maritime industry, telecom cloud services, airline reservation systems and ground handling. In return, China will ban the forced transfer of technology from foreign companies, and has pledged to be more transparent on subsidies and bar state-owned enterprises from discriminating against foreign investors. The deal brings Europe a degree of parity with the United States, which has struck a "Phase I" trade deal with China containing many similar provisions.

German Chancellor Angela Merkel's New Year's speeches have typically touched on broad themes like immigration and climate change; however Ms. Merkel's speech this year - her 16th as Chancellor - was noticeably different. For what was almost certainly her last New Year's Eve speech as Germany's leader, she focused on a single topic—the coronavirus. "The coronavirus pandemic was and is a once-in-a-century political, social and economic challenge," Ms. Merkel said in the annual prerecorded televised speech. The pandemic has killed more than 33,000 people in Germany and sickened hundreds of thousands more. In her speech, Ms. Merkel made clear that the pandemic upended issues that she had hoped would have been her legacy such as climate change, digital transformation, and a robust social state.

In Asia, China was the first – and perhaps only - major economy to register positive economic growth in 2020 with its gross domestic product expected to exceed 100 trillion yuan ($14 trillion USD) for the year. The International Monetary Fund had forecast in October that China, the world's second-largest economy, would grow 1.9% in 2020, a sharp slowdown from its 6.1% gain in 2019, and then expand 8.2% in 2021. That compares with an IMF forecast for a global economic contraction of 4.4% for 2020, the worst plunge since the Great Depression of the 1930s. President Xi said in his New Year address that China had made major progress in developing its economy and eradicating rural poverty over the past year, despite the coronavirus pandemic.

Japanese business leaders pledged to revive their country's economy through digital and sustainable innovation. In its New Year's message, Chairman of the Japan Business Federation Hiroaki Nakanishi noted the importance of both the public and private sectors to jointly make all-out efforts to stem further virus infections and revive the economy. In order to make 2021 "the year of revival from the pandemic," Nakanishi said the key is digital transformation and deregulation in many sectors such as the administrative, medical and education systems in Japan. Furthermore, he pledged his organization will proactively move toward greener policies led by Prime Minister Yoshihide Suga, who has said Japan will aim to achieve carbon neutrality (net zero emissions of carbon dioxide) by 2050. "We need to refresh the current energy and electric power systems, and constantly create innovation," Nakanishi said.

Finally: Have the lights in your neighborhood been dimming from time to time recently? Maybe you've got a bitcoin "miner" next door! A bitcoin miner is one who produces a new bitcoin by applying immense computing power – requiring immense amounts of electricity - to the algorithms and formulas necessary to properly produce the digital entity that is bitcoin. The miner is then rewarded with…bitcoins. The University of Cambridge's Centre for Alternative Finance keeps track of just how much energy the Bitcoin network of miners consumes. While the exact amount cannot be known due to the wide variety of equipment employed in bitcoin mining, the Centre says that an educated guess can be produced by tracking the total number of hashes (a building block of bitcoin) produced by the miners and estimating the efficiency of the equipment employed in the production. By this estimation, bitcoin mining activity's power consumption is staggering - about 92.8 terawatt hours annualized. This is more than the entire nation of Pakistan's power consumption in 2016, and is heading toward the annual power consumption of the Netherlands! Interestingly, two-thirds



of bitcoin mining takes place in China, where most electricity is produced by coal-burning power plants – so although the currency might be virtual, its negative effect on the production of greenhouse gases is most certainly very real. (Chart from the Cambridge Centre for Alternative Finance)

GET A PHYSICAL! We invite you to attend a seminar and come in for a “financial physical”, even if you think your current approach is fine. Much like going to the doctor for a physical despite feeling great, you want to make sure any negative issues you may not be aware of are caught early and addressed. For example…

- Have you addressed your investment process and adjusted it for what is going on in the world?
- Do you need a process to help manage losses during the next bear market?
- If not, what are you waiting for?

At the bottom of the 2007 - 2009 bear market the S&P-500 index returned to levels last seen in 1996.

The drop didn’t retrace only a few months or even a couple years.

We discuss many of these issues on the weekly radio show and invite you to listen.

WEEKLY FOCUS – THINK ABOUT IT

“If this isn’t a bubble, there ain’t no such thing.”

Michael Lewitt – author of The Credit Strategist

Yours truly,

Rial R. Moulton, CFP®, CPA / PFS, RFC
Certified Financial Planner™

Donald J. Moulton, CFP®, RFC
Certified Financial Planner™

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

https://blog.evergreengavekal.com/take-profits/

The Barclays Capital Credit Index *is an unmanaged index composed of U.S. investment-grade corporate bonds.*

The Barclays Global Aggregate Bond Index *(formerly Lehman Brothers Global Aggregate Index), an unmanaged market-capitalization-weighted benchmark, tracks the performance of investment-grade fixed income securities denominated in 13 currencies. The index reflects reinvestment of all distributions and changes in market prices.*

The Barclays U.S. 1-10 Year TIPS Index *is an unmanaged index composed of inflation-protected public obligations of the U.S. Treasury that have a remaining maturity of one to ten years.*

The Barclays U.S. Aggregate Bond Index *is an unmanaged benchmark index composed of U.S. securities in Treasury, Government-Related, Corporate, and Securitized sectors. It includes securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $250 million.*

The Barclays U.S. TIPS Index *is an unmanaged index composed of all U.S. Treasury Inflation- Protected Securities rated investment grade, have at least one year to final maturity, and at least $250 million par amount outstanding.*

The Barclays U.S. Treasury Index *is an unmanaged index composed of U.S. Treasuries.*

The CDX IG 12 *is a benchmark high-grade derivatives index, which measures the cost of insuring a basket of U.S. investment-grade corporate debt against defaults.*

The Chicago Board Options Exchange Volatility Index (VIX) *tracks the expected volatility in the S&P 500 over the next 30 days. A higher number indicates greater expected volatility. Common usage: The Chicago Board Options Exchange Volatility Index (VIX), a barometer of market volatility.*

The Dow Jones Industrial Average *is a widely followed market indicator based on a price-weighted average of 30 blue-chip stocks that trade on the New York Stock Exchange which are selected by editors of The Wall Street Journal.*

The Dow Jones Wilshire Real Estate Securities Index (RESI) *is used to measure the U.S. real estate market and includes both real estate investment trusts (REITs) and real estate operating companies (REOCs). It is weighted by float-adjusted market capitalization.*

The JP Morgan Emerging Market Bond Index *is a total-return, unmanaged trade-weighted index for U.S. dollar-denominated emerging-market bonds, including sovereign debt, quasi-sovereign debt, Brady bonds, loans, and Eurobonds.*

The JP Morgan EMBI Global Diversified Index *tracks the performance of external debt instruments (including U.S.-dollar-denominated and other external-currency-denominated Brady bonds, loans, Eurobonds and local market instruments) in the emerging markets.*

The JP Morgan GBI-EM Global Diversified Index *tracks the performance of local-currency bonds issued by emerging market governments.*

The MSCI World Index *is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index represents 23 developed market countries.*

The MSCI All Country World Index *is a market-capitalization-weighted index composed of over 2,400 companies, and is representative of the market structure of 46 developed and emerging market countries. The index is calculated with net dividends reinvested in U.S. dollars.*

The MSCI EAFE Index *is an unmanaged, market-capitalization-weighted equity index that represents the developed world outside North America.*

The MSCI Emerging Markets Index *is a free float-adjusted market-capitalization-weighted index designed to measure the performance of global emerging market equities.*

The NASDAQ Composite Index *is a market-value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system.*

The Russell 1000 Index *includes 1000 of the largest U.S. equity securities based on market cap and current index membership; it is used to measure the activity of the U.S. large-cap equity market.*

The Russell 2000 Index *includes 2000 small-cap U.S. equity names and is used to measure the activity of the U.S. small-cap equity market.*

The S&P 500 Index *is a capitalization-weighted index made up of 500 widely held large-cap U.S. stocks in the Industrials, Transportation, Utilities and Financials sectors.*

Investing Terminology

Alpha *is a measure of a portfolio's return above a certain benchmarked return.*

Alternative Investments *are investments that are not one of the three traditional asset types (stocks, bonds and cash). Alternative investments include hedge funds, managed futures, real estate, commodities, and derivatives contracts.*

Asset-Backed Securities (ABS) *are bonds backed by a pool of loans or accounts receivable and commonly include payments from credit cards, auto loans and mortgage loans.*

Austerity *refers to measures taken by a country's government in an effort to reduce expenditures and a budget deficit.*

Beta *is a measure of the volatility or systematic risk of a security or a portfolio in comparison to the market as a whole.*

Book-to-Price Ratio *is the inverse of the price-to-book ratio, which is calculated as the market value of a security divided by its book value. A lower the price-to-book ratio for a security may mean the security is undervalued, and vice versa (the higher the book-to-price ratio, the better the value).*

Commercial Mortgage-Backed Securities (CMBS) *are pools of commercial mortgage loans that are packaged together and sold to the public. They are usually structured in tranches, or classes of risk, so that investors can determine how much risk they want to take on. In general, CMBS carry less prepayment risk than loans backed by residential mortgages.*

Corporate Bonds *are debt securities issued by corporations to raise money; these bonds usually pay higher coupon rates than government or municipal bonds.*

Correlation Risk *refers to the change in the marked to market value of an asset when the correlation between the underlying assets changes over time.*

Credit Ratings *are an assessment of the risk of default of a company or country. The higher the credit quality (or rating), the lower the perceived risk of default.*

Cyclical Sectors or Stocks *are those whose performance is closely tied to the economic environment and business cycle. Managers with a pro-cyclical market view tend to favor stocks that are more sensitive to movements in the broad market and therefore tend to have more volatile performance.*

Debt-to-Equity Ratio *is calculated as long-term debt divided by common shareholders' equity, and measures the amount of a firm's leverage, or debt.*

Donor Advised Funds *are private funds administered by a third party and created for the purpose of managing charitable donations on behalf of an organization, family, or individual.*

Duration *is a measure of a security's price sensitivity to changes in interest rates. Specifically, duration measures the potential change in value of a bond that would result from a 1% change in interest rates. The shorter the duration of a bond, the less its price will potentially change as interest rates go up or down; conversely, the longer the duration of a bond, the more its price will potentially change.*

Excess Returns *are investment returns from a security or portfolio that exceed a benchmark or index with a similar level of risk.*

Grantor Retained Annuity Trust *is an estate planning technique that minimizes the tax liability existing when intergenerational transfers of estate assets occur. An irrevocable trust is created for a certain term or period of time. The individual establishing the trust pays a tax when the trust is established. Assets are placed under the trust and then an annuity is paid out every year. When the trust expires, the beneficiary receives the assets estate and gift tax free.*

High Yield Debt *is rated below investment grade and is considered to be riskier.*

Managed Futures *strategies use futures contracts as part of their overall investment strategy. They provide portfolio diversification among various types of investment styles and asset classes to help mitigate portfolio risk in a way that is not possible in direct equity investments.*

Market Capitalization *is calculated as the number of company shares outstanding multiplied by the share price, and is used to determine the total market value of a company.*

Momentum *is the rate of acceleration for an economic, price or volume movement; it is used to locate trends within the market.*

Mortgage-Backed Securities (MBS) *are pools of mortgage loans that are packaged together and sold to the public. They are usually structured in tranches, or classes of risk, so that investors can determine how much risk they want to take on.*

Option-adjusted spreads *estimate the difference in yield between a security or collection of securities and comparable Treasuries after removing the effects of any special features, such as provisions that allow an issuer to call a security before maturity.*

Peripheral Eurozone Countries *are those countries in the Eurozone with the smallest economies.*

Price-to-Book Ratio *is calculated as the market value of a security divided by its book value. A lower the price-to-book ratio for a security may mean the security is undervalued.*

Private Foundations *are charitable organizations that do not qualify as public charities by government standards. A private foundation is a nonprofit organization which is usually created via a single primary donation from an individual or a business and whose funds and programs are managed by its own trustees or directors.*

Quantitative Easing *refers to expansionary efforts by central banks to help increase the supply of money in the economy.*

Recapitalized/recapitalization *refers to injecting fresh equity into a company or a bank, which can be used to absorb future losses. This generally takes place through the company issuing new shares. In the case of a government or organization recapitalizing a bank, it usually results in the government or organization owning a stake in the bank.*

Spreads*: Yield spreads represents the difference in yields offered between corporate and government bonds. If they tighten, this means that the difference has decreased. If they widen, this means the difference has increased.*

Standard Deviation*: Statistical measure of historical volatility. A statistical measure of the distance a quantity is likely to lie from its average value. It is applied to the annual rate of return of an investment, to measure the investment's volatility (risk). Standard deviation is synonymous with volatility, in that the greater the standard deviation the more volatile an investment's return will be. A standard deviation of zero would mean an investment has a return rate that never varies.*

Treasuries *are U.S. government debt obligations that are backed by the full faith and credit of the government. Often, they are used as a proxy for a risk-free asset when comparing other risky assets.*

Yield Curves *illustrate the relationship between the interest rate, or cost of borrowing, and the time to maturity. Yields move inversely to prices. The Barclays Capital 1-10 Year US TIPS Index: Barclays Capital 1-10 Year US TIPS Index measures the performance of inflation-protected public obligations of the U.S. Treasury that have a remaining maturity of one to ten years.*

(Other Sources: All index- and returns-data from Yahoo Finance; news from Reuters, Barron's, Wall St. Journal, Bloomberg.com, ft.com, guggenheimpartners.com, zerohedge.com, ritholtz.com, markit.com, financialpost.com, Eurostat, Statistics Canada, Yahoo! Finance, stocksandnews.com, marketwatch.com, wantchinatimes.com, BBC, 361capital.com, pensionpartners.com, cnbc.com, CNBC, FactSet.)