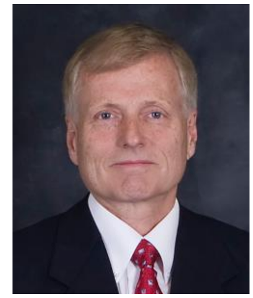
MOULTON WEALTH MANAGEMENT INC.

"MOLTEN HOT" MINUTES



SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of February 8, 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.

By numerous measures this bull market is both highly valued and long in the tooth.

What's the risk?

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

First, the more highly overvalued the stock market, the farther it could fall to return to fair market value. Second, although the length of bull markets are not determined by a calendar, the more time since the last bear market the closer we are to the next one.

Everyone should decide how to protect themselves, in our opinion, but particularly if you're retired or close to retirement.

Wall Street generally tells investors to ignore risks because even if the market falls, it eventually will come back *(although Japanese investors might beg to differ since their market is still down from 1989)*.

Of course what that ignores is the time lost while you wait.

But there's even a more pressing concern for those retired or close to retirement and it's called ***"sequence of return risk"***.

What is sequence of return risk?

It's the risk that lower or negative returns early in a period when withdrawals are taken, can result in you outliving your portfolio.

How?

Let's consider a hypothetical portfolio scenario for two investors; Mr. Grown and Mr. Brown with identical starting balances of $1,000,000.

The table to the right courtesy of Baird Financial shows what their theoretical portfolios do over

	"Up" Market—Mr. Green		"Down" Market—Mr. Brown	
Age	Annual Return	Year End Value	Annual Return	Year End Value
65		$1,000,000		$1,000,000
66	5%	$1,050,000	-25%	$750,000
67	28%	$1,344,000	-14%	$645,000
68	22%	$1,639,680	-10%	$580,500
69	-5%	$1,557,696	16%	$673,380
70	20%	$1,869,235	21%	$814,790
71	19%	$2,224,390	5%	$855,529
72	23%	$2,736,000	-16%	$718,645
73	9%	$2,982,240	8%	$776,136
74	16%	$3,459,398	14%	$884,795
75	23%	$4,255,059	24%	$1,097,146
76	22%	$5,191,172	14%	$1,250,747
77	-26%	$3,841,468	5%	$1,313,284
78	-15%	$3,265,247	-15%	$1,116,291
79	5%	$3,428,510	-26%	$826,056
80	14%	$3,908,501	22%	$1,007,788
81	24%	$4,846,541	23%	$1,239,579
82	14%	$5,525,057	16%	$1,437,912
83	8%	$5,967,062	9%	$1,567,324
84	-16%	$5,012,332	23%	$1,927,808
85	5%	$5,262,949	19%	$2,294,092
86	21%	$6,368,168	20%	$2,752,910
87	16%	$7,387,075	-5%	$2,615,264
88	-10%	$6,648,367	22%	$3,190,623
89	-14%	$5,717,596	28%	$4,083,997
90	-25%	**$4,288,197**	5%	**$4,288,197**
Average Return	6%		6%	

25 years of retirement. Notice that their returns are the same over the 25 years but exactly opposite year to year, with year 1 providing the same return for Mr. Green as year 25 does for Mr. Brown. Year 2 return for Mr. Green is the same as year 24 for Mr. Brown. Year 3 return for Mr. Green is the same as year 23 for Mr. Brown. Etcetera.

Over the 25 years their average returns are identical and since they aren't taking withdrawals, so are their ending balances.

Now let's use all of the same information but with each retiree taking a $50,000 withdrawal per year. Note that taking $50,000 from a $1,000,000 portfolio is aggressive and not what we recommend, but the math would work similarly even if the withdrawals were smaller.

	"Up" Market—Mr. Green			"Down" Market—Mr. Brown		
Age	5% Annual Withdrawals	Annual Return	Year End Value	5% Annual Withdrawals	Annual Return	Year End Value
65			$1,000,000			$1,000,000
66	$50,000	5%	$1,000,000	$50,000	-25%	$700,000
67	$50,000	28%	$1,230,000	$50,000	-14%	$552,000
68	$50,000	22%	$1,450,600	$50,000	-10%	$446,800
69	$50,000	-5%	$1,328,070	$50,000	16%	$468,288
70	$50,000	20%	$1,543,684	$50,000	21%	$516,628
71	$50,000	19%	$1,786,984	$50,000	5%	$492,460
72	$50,000	23%	$2,147,990	$50,000	-16%	$363,666
73	$50,000	9%	$2,291,309	$50,000	8%	$342,760
74	$50,000	16%	$2,607,919	$50,000	14%	$340,746
75	$50,000	23%	$3,157,740	$50,000	24%	$372,525
76	$50,000	22%	$3,802,443	$50,000	14%	$374,679
77	$50,000	-26%	$2,763,808	$50,000	5%	$343,412
78	$50,000	-15%	$2,299,237	$50,000	-15%	$241,901
79	$50,000	5%	$2,364,199	$50,000	-26%	$129,006
80	$50,000	14%	$2,645,186	$50,000	22%	$107,388
81	$50,000	24%	$3,230,031	$50,000	23%	$82,087
82	$50,000	14%	$3,632,235	$50,000	16%	$45,221
83	$50,000	8%	$3,872,814	$50,000	9%	$0
84	$50,000	-16%	$3,203,164	$50,000	23%	$0
85	$50,000	5%	$3,313,322	$50,000	19%	$0
86	$50,000	21%	$3,959,120	$50,000	20%	$0
87	$50,000	16%	$4,542,579	$50,000	-5%	$0
88	$50,000	-10%	$4,038,321	$50,000	22%	$0
89	$50,000	-14%	$3,422,956	$50,000	28%	$0
90	$50,000	-25%	**$2,517,217**	$50,000	5%	**$0**
Average Return		6%			6%	

Although both portfolios again averaged a 6% return, Mr. Brown never benefited from it because he ran out of money at age 83.

Mr. Green, on the other hand, not only didn't run out of money, he grew his portfolio nicely.

Why such a dramatic difference?

Because Mr. Brown's portfolio saw significant market *(and therefore portfolio)* declines early in retirement while Mr. Green saw market and portfolio gains early in retirement.

The answer to this dilemma, again according to much of Wall Street, is to stop withdrawals when your portfolio declines. That might work for some, but not for most who still need to eat and pay the mortgage.

What else can an investor do?

Employ an effective defense to limit drawdowns.

The goal of retirees shouldn't be to see if they can "beat" or "keep up with" the market. The goal of retirees should be to earn the return required to fund their particular financial situation and ultimate goals with the least risk possible.

In other words, the goal of retirees should be to ***not outlive their money***.

Would an effective defensive strategy have made a difference?

Quite possibly, yes.

In years 1-3 of Mr. Brown's retirement the market was down for a total decline of 42% excluding withdrawals (less than either the dot.com or financial crisis bear markets). An effective defense should have kept Mr. Brown from suffering most of that decline, keeping losses manageable instead of letting them become devastating.

An effective defensive strategy might also allow an investor to stay invested even as risks rise since they know there's a strategy for managing inevitable future market declines.

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"?

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

What's Your Risk Number?

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 U.S. equity benchmarks rebounded from the previous week's steep losses, helped by plans for a new fiscal stimulus and improving vaccine distribution. The large-cap S&P 500, Nasdaq Composite, and small-cap Russell 2000 indexes all reached record highs. The Dow Jones Industrial Average soared over 1100 points finishing the week at 31,138, a gain of 3.9%. The technology-heavy NASDAQ surged 6% to 13,856. By market cap, the large cap S&P 500 added 4.6%, while the mid cap S&P 400 and small cap Russell 2000 rallied 5.8% and 7.7%, respectively.

International Markets: Major international markets finished the week with green across the board. Canada's TSX rose 4.6% while the United Kingdom's FTSE 100 gained 1.3%. On Europe's mainland, France's CAC 40 added 4.8% and Germany's DAX finished up 4.6%. In Asia, China's Shanghai Composite gained 0.4% while Japan's Nikkei closed up 4.0%. As grouped by Morgan Stanley Capital International, emerging markets finished the week up 5.5%, while developed markets rose 3.2%.

Commodities: Precious metals were mixed last week. Gold retreated for a second week, declining -2% to $1813.00 per ounce. After hitting a high of over $30 per ounce, Silver settled to close at $27.02, a gain of 0.4%. The big gainer among commodities was oil, surged almost 9% on renewed hopes that vaccination efforts would lead to a full reopening of the U.S. economy in the near future. West Texas Intermediate crude oil finished the week up $4.65 to close at $56.85 per barrel. Copper, viewed by some analysts as a barometer of world economic health due to its wide variety of industrial uses, retraced last week's decline finishing up 1.97%.

U.S. Economic News: The U.S. added just 49,000 jobs in January as the U.S. struggles to recover from a resurgence of coronavirus cases at the end of last year. The reading was in line with the consensus forecast of 50,000 new jobs. There were notable gains in professional and business services (97,000 jobs created, but nearly all were temporary help). Private education, wholesale trade, and mining also added jobs. However, leisure and hospitality, retail trade, health care, and transportation and warehousing all lost jobs. The unemployment rate tumbled to 6.3% from 6.7%, below expectations of an unchanged reading, but that decline was for the wrong reason: people abandoning job searches and thereby dropping out of the labor force. Economists say the true level of joblessness is several points higher. Curt Long, chief economist at the National Association of Federally-Insured Credit Unions stated, "There is still a long road ahead to full employment, and the case for fiscal stimulus got a bit stronger."

The number of Americans filing first-time claims for unemployment benefits fell to a nine-week low last week, suggesting hiring is slowly beginning to pick up again. The Labor Department reported initial jobless claims declined by 33,000 last week to 779,000. Economists had forecast claims to total 830,000. It was the third consecutive decline and a hopeful sign that layoffs have begun to taper amid more vaccinations and a rollover in the COVID curve. Continuing claims, which counts the number of Americans already receiving benefits, fell by 193,000 to 4.592 million. That number is reported with a one-week delay.

Activity among the nation's manufacturers pulled back but still remained strong. The Institute for Supply Management (ISM) reported its manufacturing index fell 1.8 points in January to 58.7. Economists had expected a reading of 60.0. Still, it was only the second pullback in the index since last April and the index remains close to its highest level since November 2018. Of the 18 industries tracked by ISM, 16 reported growth. Analysts note the breadth of the expansion supports continued gains in manufacturing output. The pullback was led by slower growth in new orders and production. A separate survey from the Markit organization reported its U.S. Manufacturing Purchasing Managers' Index (PMI) increased 2.1 points to 59.2—a record high. In contrast with the ISM report, the Markit survey indicated faster growth in output and new orders.

The much larger services side of the U.S. economy started the new year on a positive note, as well, according to ISM. ISM reported its non-manufacturing index (NMI) increased 1.0 point to 58.7. Economists were expecting a -0.7 point pullback to 57.0. The reading was its highest since February 2019. The latest reading is consistent with above-trend economic expansion. While survey respondents noted that various COVID restrictions continue to weigh on activity, they also expressed optimism about business conditions and the economic recovery. Of the 18 industries in the survey, 14 registered growth and four contracted. The net number indicates a broad-based expansion and is consistent with continued growth. Separately, the Markit Services PMI rebounded 3.6 points in January to 58.3, its second-best level since March 2015.

International Economic News: Canada's economy shed over 213,000 jobs in January as lockdowns forced more businesses to close their doors across the country. Statistics Canada reported the jobless rate ticked up 0.6% to 9.4%. That's the highest level since August. January's decline means that Canada now has 858,000 fewer jobs than it did in February of last year—just before the coronavirus crisis began. The reading was far higher than the 40,000 economists had expected. Almost all of the job losses came from Ontario and Quebec, which lost a combined 251,000 jobs — mostly in retail, accommodation and food services. That plunge was offset by slight job gains in Alberta, Manitoba, Nova Scotia and Prince Edward Island, while the jobs number held steady in British Columbia, Saskatchewan and New Brunswick.

Across the Atlantic, the Bank of England expects the United Kingdom's economy will "recover rapidly" as vaccines are rolled out this year. The bank expects GDP to shrink by around 4% in the first quarter as a result of the latest lockdown measures. However, its latest monetary policy report suggests a brighter outlook for much of the rest of the year. "GDP is projected to recover rapidly towards pre-COVID levels over 2021, as the vaccination program is assumed to lead to an easing of COVID-related restrictions and people's health concerns," it said. For 2022, the Bank predicts growth of 7.25%, up from a previously forecast 6.25%.

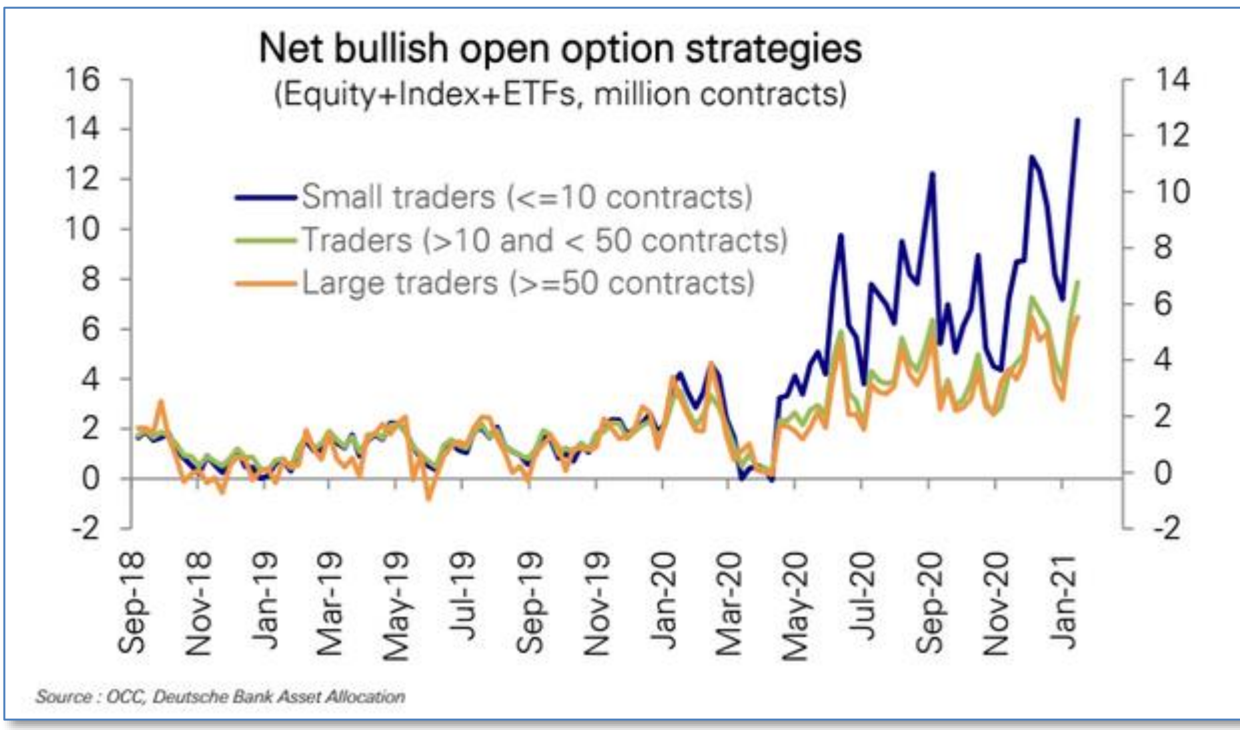
On Europe's mainland, French Prime Minister Jean Castex rejected calls for a third lockdown because the "economic, social and human costs can't be justified". During a press conference, Castex said stabilizing new infection rates and an impending vaccine roll-out means the government can hold off from imposing new nationwide measures. France's daily infection rate is just marginally lower than the UK's with the country reporting 316.47 cases of Covid per million people compared to Britain's 331.09. Castex said another lockdown could only be enacted "as a last resort". "The situation today does not justify such a move," he added.

Germany's governing parties have agreed on more help for families with children and people on benefits, as well as tax help for companies, as they try to keep Europe's biggest economy on course to grow out of the pandemic. Leaders of Chancellor Angela Merkel's governing coalition agreed to give a one-time 150-euro ($180) bonus to families that receive child benefit, following a 300-euro bonus last year. There also will be a 150-euro payment for people on welfare benefits. Restaurants, cafes and bars have been closed, except for take-outs and deliveries since early November as part of a lockdown that was expanded in mid-December and is still in force. Merkel and state governors will confer next week to decide what, if any, restrictions can be loosened.

In Asia, China's growth is expected to moderate in the coming months as the country faces risks on two fronts according to Goldman Sachs chief economist Andrew Tilton. China is expected to show "spectacular" gross domestic product numbers in the first quarter of the year, Tilton said. That growth may lead Chinese policymakers to pull back on economic stimulus. Furthermore, China is experiencing a resurgence of local coronavirus outbreaks. Chinese authorities have recently imposed new restrictions in an effort to suppress a series of outbreaks in and around Beijing. Ultimately, Tilton expects the Chinese economy to stay in the relatively "happy middle of these two scenarios" over the next six to nine months. "But I think markets will probably worry at times about one or both of those," he noted.

Unable to rein in a third wave of coronavirus infections after a month-long state of emergency, Japan announced it is the extending the emergency for another month. The move comes despite the mounting toll on the economy and poses a threat of impacting the country's Summer Olympics preparations. Japanese Prime Minister Yoshihide Suga told Parliament that thanks to the current state of emergency "the number of new COVID-19 patients nationwide is heading downward." "But we need to continue this trend," he added. The state of emergency requests residents to cut unnecessary outings and businesses to shorten hours.

Finally: Individual investors are entering the market in droves and their newfound passion for options is making some market veterans nervous. Garrett DeSimone, head of quantitative research at OptionMetrics stated, “What we have seen is a focus on short-term, out-of-the-money call options because they have these lottery-like payoffs.” Buying deeply out-of-the-money calls is usually a losing proposition. But some of those bets have paid off in dramatic fashion, with the buyers posting their gains on sites such as Reddit, Twitter and Instagram. Average daily call volumes over the past three months have hit a new peak, with the bulk of the increase driven by “very small” contract sizes, according to analysts at Deutsche Bank. A combination of YOLO (You Only Live Once – the battle cry of many on reddit’s wallstreetbets forum), and FOMO (Fear of Missing Out – a powerful motivator in its own right) seem to be the ingredients of this powerful cocktail of market froth. The chart below, from Deutsche Bank, shows that “Small traders” overtook all others in April of last year, and never looked back. By January of this year, there were twice as many “small trader” bullish options contracts outstanding compared to the other categories.



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

"Investing is for wealth preservation, not wealth creation..."

James Altucher – Author

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.

Investment services offered through Moulton Wealth Management, Inc., an independent Registered Investment Advisor. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. Yahoo! Finance is the source for any reference to the performance of an index between two specific periods. Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Consult your financial professional before making any investment decision. You cannot invest directly in an index. Past performance does not guarantee future results. Investments in securities do not offer a fixed rate of return. Principal, yield and / or share price will fluctuate with changes in market conditions and, when sold or redeemed, you may receive more or less than originally invested. No system or financial planning strategy can guarantee future results.

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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.)