MOULTON WEALTH MANAGEMENT INC.

"MOLTEN HOT" MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of July 19, 2021

We are in the process of scheduling new seminars for the fall, subject to (*please say it ain't so*) any new restrictions. Please stay tuned if you'd like to attend a free seminar.

As we venture further in the last half of 2021, what do investors expect? Survey data suggests investors think returns can only increase from here (more on that later), while history tells a different, and more wary, story.

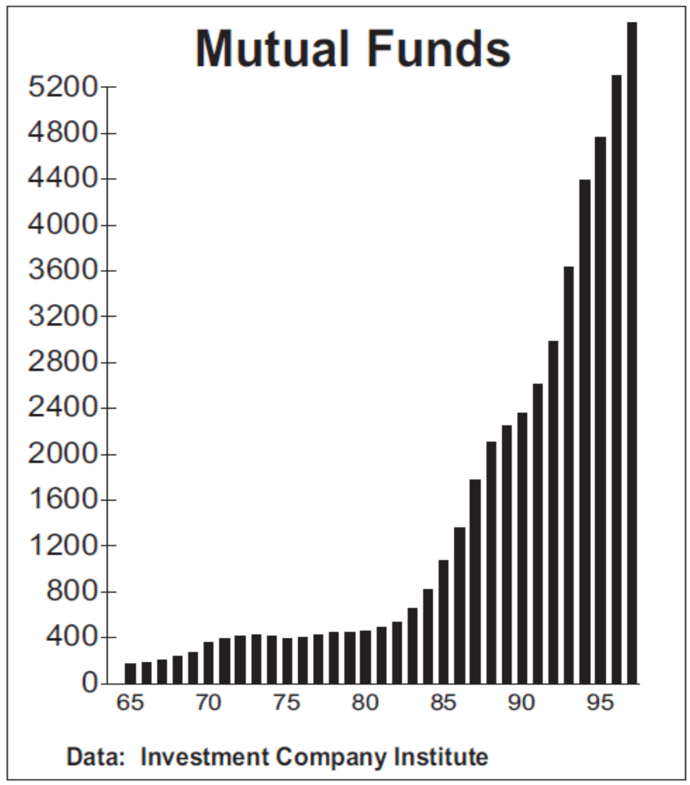
We have warned that the latter half of the year was likely to see growth and inflation ***slowing*** in rate of change (i.e. – growing less quickly). This is an important distinction because an economic environment of growth and inflation slowing is the least favorable to stocks. Luckily, we see this as a “shallow” or “narrow” version of growth and inflation slowing, which hopefully means no major damage to equities, but only time will tell. As of this writing on Monday morning, stock futures are solidly in the red while bond futures are solidly in the green.

The weight of the data as of this weekend leads us to believe we’ll enter the slowing phase a bit later and we should still get some upside. Having said that, lower stock prices and higher bond prices are what we’d expect in an economic environment of growth and inflation slowing.

Who agrees? Not most investors according to the data.

Since the pandemic, investors have become accustomed to a one way market – up – fueled by massive Fed and Fiscal monetary support (printing presses go *burrrrr*). It harkens back to a time many seasoned investors remember all too well – the dot.com bubble – in terms of investor psychology, if not for the same reasons.

This graph from InvesTech Research shows the meteoric rise in new mutual fund launches during the run up to the dot.com bubble bust, as investment companies raced to take advantage of investor optimism.

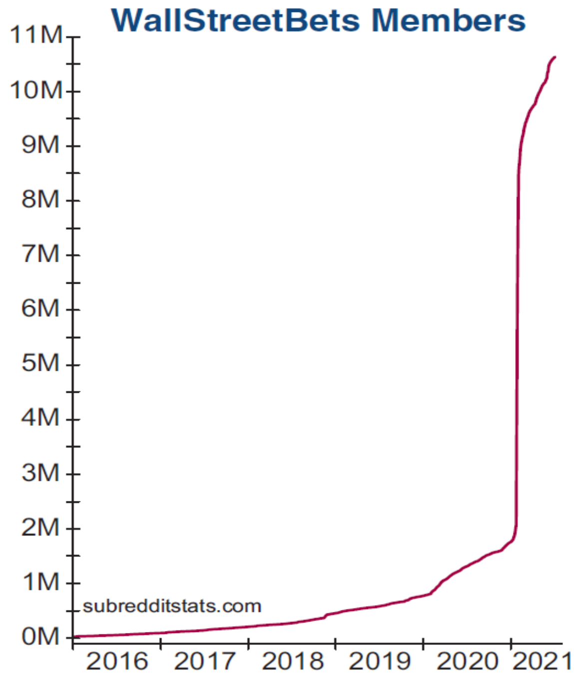


Should we be concerned about similar frothiness today?

Record Everything in U.S. Stock Market, Including Retail Froth – Bloomberg 7/6/21

Retail Investors Power the Trading Wave With Record Cash Inflows – Wall Street Journal 7/5/21

This kind of parabolic race into investing by the public has historically been a hallmark of speculative frenzies.

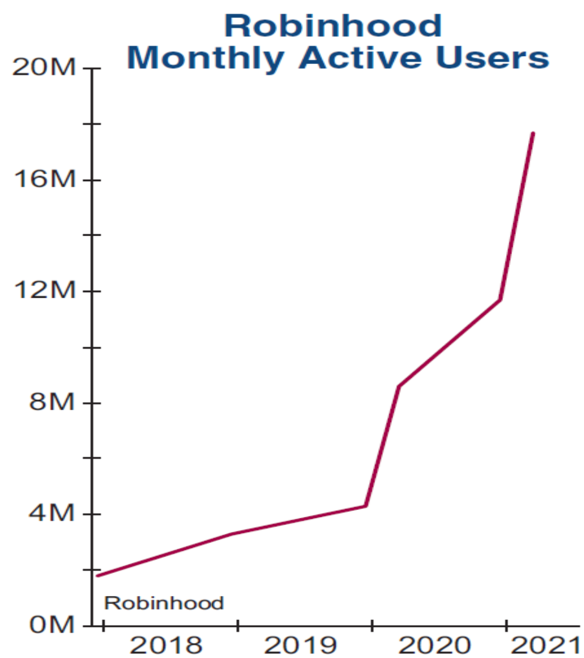


WallStreetBets is a Reddit investing forum, alternately credited and blamed for the rise in speculative investment gains and losses, such as seen in AMC theater stocks. At one point earlier this year, AMC stock was trading 8 times higher than before the pandemic, even as it's gross box office receipts were down -80%.

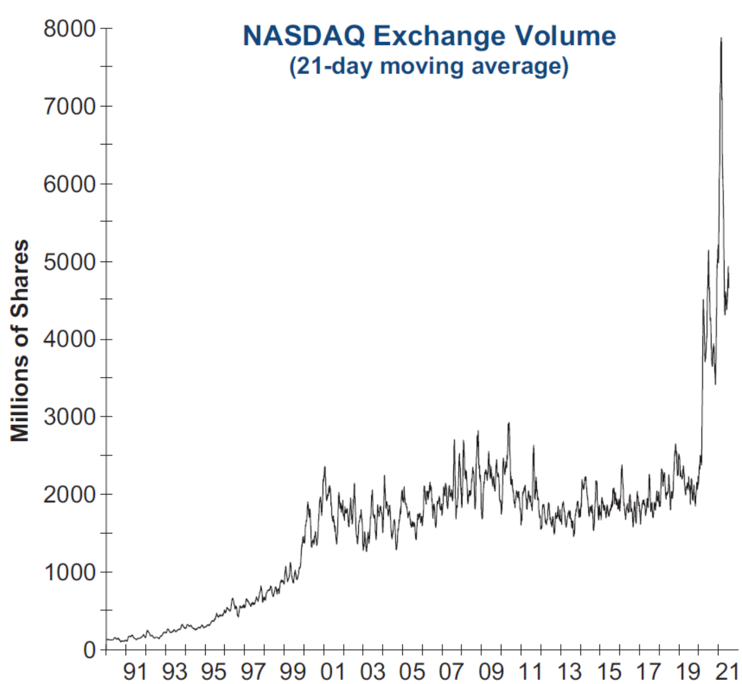
The forum's membership is now near 11 million members vs. 1.3 million a year ago. Does the chart on the left remind you of the mutual fund launch chart of the late 1990's?

And it isn't just about posting ideas. Investors are putting their money where their mouths are.

Robinhood is an app that markets itself as an easy way for newbies to start investing. It has been vilified by some for making investing akin to a video game, including fanfare such as balloons falling across the screen after a purchase is made. To the right is a chart of active users. Notice the explosion higher after the first round of stimulus checks.



It also shows up in the exchanges, especially the NASDAQ where many of the high flying tech stocks trade.

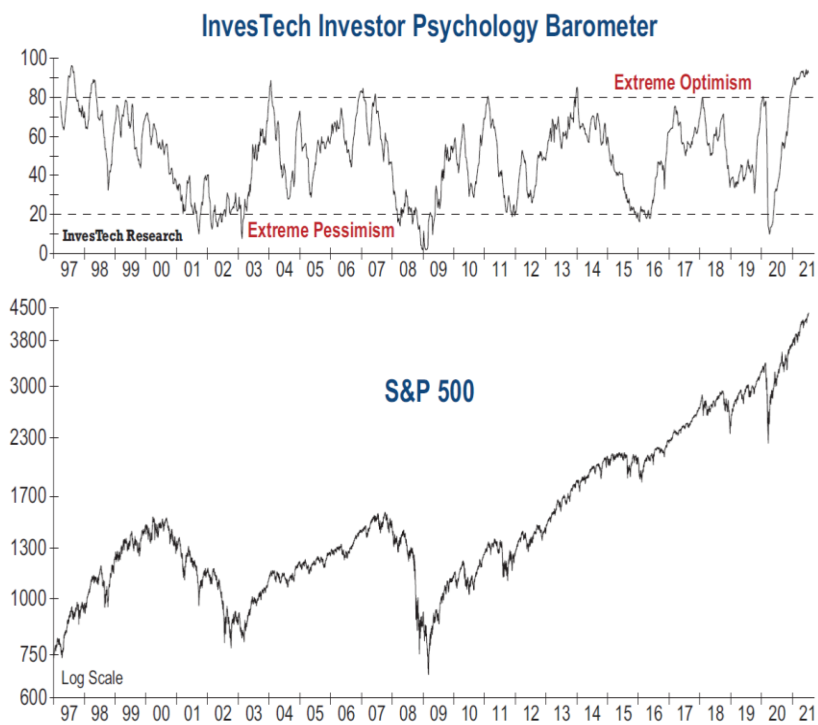


None of this means the market will crash today, tomorrow, next week, next month of even during the next 12 months. However seasoned investors understand that when everyone is on one side of the boat, it sometimes flips.

And logically this should make sense.

If many (or most?) investors are optimistic about future stock market gains, they're likely already invested. Very high levels of optimism means more money is already holding stocks (*potential future sellers*) than is on the sidelines waiting to buy (*potential future buyers*). This supply / demand mismatch alone can cause market declines.

But are investors really that optimistic or is this just a blip due to government free money?



Again we defer to InvesTech Research and their Psychology Barometer. Based on their models, investors have not been this optimistic since (again) the dot.com bubble.

For those who may not remember, the dot.com bubble was largely fueled by the promise of the internet (along with some Fed free money due to Y2K fears). While the S&P-500 fell about -50% over three years (which we would suggest is bad enough), the NASDAQ, which was the beneficiary of much of the internet hype (and love), fell closer to -80%.

As discussed previously, a recent Natixis Investment Management survey showed wealthy individual investors expected current long term returns of +17.5% per year versus the expectations of financial advisors of +6.7% average returns per year.

Yet again, the last time we've seen investors expect these kind of returns was near the end of the dot.com bubble when many were quitting their day jobs to day trade stocks.

Frankly for buy and hold investors we'd expect both return targets over the next 10 years to be too high. Based on valuations, future returns over the next decade could very well be closer to +3% or lower as the markets (and buy and hold investors) may very well use many of those years trying to recover from an inevitable bear market.

Unless of course, *"this time is different"* and instead *"bear markets are a thing of the past".* We suspect all these new investors who have never seen a real bear market may come to the sad realization that things aren't different, and that we'll always have bear markets.

Participate but protect.

Does the investment plan include a sell strategy to protect your downside?

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.

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.

In the markets:

U.S. Markets: The major U.S. indexes finished the week lower, but the large cap S&P 500 and NASDAQ Composite hit new intraday highs mid-week before falling back. The small-cap Russell 2000 underperformed for a third consecutive week. The Dow Jones Industrial Average shed 182 points finishing the week at 34,688—a decline of -0.5%. The technology-heavy NASDAQ retraced all of last week's gain ending the week down -1.9%. By market cap, the large cap S&P 500 retreated -1.0%, while the mid cap S&P 400 and small cap Russell 2000 indexes experienced much larger declines of -3.3% and -5.1%, respectively.

International Markets: Canada's TSX finished the week down -1.3%, while the United Kingdom's FTSE 100 gave up -1.6%. On Europe's mainland, France's CAC 40 declined -1.1% and Germany's DAX retreated -0.9%. In Asia, China's Shanghai Composite rose 0.4% along with Japan's Nikkei which added 0.2%. As grouped by Morgan Stanley Capital International, developed markets declined -1.6% while emerging markets ticked up 0.1%.

Commodities: Precious metals finished the week mixed. Gold rose for a fourth consecutive week by rising 0.2% to $1815.00, while Silver retreated -1.7% or $25.80 per ounce. Energy retreated for a second week. West Texas Intermediate crude oil pulled back -4.0% to $71.56 per barrel. The industrial metal copper, viewed by some analysts as a barometer of global economic health due to its wide variety of uses, finished the week down -0.5%.

U.S. Economic News: The number of Americans filing first time unemployment benefits dropped to a new pandemic low of 360,000, but businesses still report difficulty finding qualified workers. The Labor Department reported initial jobless claims fell by 26,000 to 360,000 last week—matching forecasts. Claims had been running in the low 200,000's before the viral outbreak early last year. New jobless claims fell the most in Georgia, Rhode Island, Alabama and Maryland. The only states to report big increases were New York and Texas. Meanwhile, continuing claims, which counts the number of Americans already receiving benefits, fell by 126,000 to 3.24 million. Continuing claims also fell to new pandemic lows.

Across the country the nation's small business owners are raising wages, but skilled workers remain hard to find. The National Federation of Independent Businesses (NFIB), the nation's most prominent small business lobbying group, reports small businesses are more bullish on the U.S. economy, but continue to struggle to hire enough qualified workers to keep up with booming sales. The closely-watched NFIB index of small business confidence rose last month to its highest level in eight months. The index climbed 2.9 points to 102.5, topping 100 for the first time since November. It had pulled back in May for the first time this year. Some 46% of small businesses said they could not fill open jobs, down slightly from a record high in May. A record number of firms raised wages and benefits in an effort to lure new hires and to retain valued employees, but even that wasn't enough. Businesses say their biggest problem is a lack of qualified workers and higher labor costs.

The cost of living for Americans jumped by the largest amount in 13 years as price increases spread more widely across the U.S. economy. The government reported its Consumer Price Index climbed 0.9% last month. The increase easily blew away economists' expectations for just a 0.5% advance. The rate of inflation in the 12 months ended in June climbed to 5.4% from 5%. The last time prices rose that fast was in 2008, when oil hit a record $150 a barrel. Furthermore, core inflation, which measures price increases that omit the often-volatile food and energy categories, also rose 0.9% in June. The 12-month core rate increased to 4.5% from 3.8%--a 29-year high. So is the "it's transitory" debate over? Jennifer Lee, senior economist at BMO Capital Markets stated, "The answer is no, the transitory debate is far from over. In fact, it got a little hotter."

Prices surged at the wholesale level again in June, further evidence that inflation at the consumer level is unlikely to subside anytime soon. The Labor Department reported its Producer Price Index (PPI) jumped 1% last month, almost double the consensus forecast of 0.6%. The annualized pace of wholesale inflation surged to 7.3% from 6.6% in May. That's the highest level since the index was overhauled in 2010, and one of the highest readings since the early 1980s. About 60% of the increase in wholesale inflation reflected the higher cost of services, a volatile category that can swing sharply from month to month. The cost of goods also rose sharply last month. Wholesale food prices increased 0.8% in June, led by higher costs of beef, pork and chicken. The core rate of wholesale inflation, meanwhile, increased 0.5% last month. The core rate is a less volatile measure that strips out food, energy and trade margins. The increase in the core rate over the past 12 months edged up to

5.5% from 5.3%. That's the largest advance since the government first began reporting it in 2014.

A preliminary reading of sentiment among the nation's consumers fell to a 6-month low amid record concerns over inflation. The University of Michigan reported its preliminary reading of its consumer sentiment index fell to 80.8 in July from a final reading of 85.5 in June. The result missed economists' expectations of 86.3 by a significant margin. The sub-index that measures how consumers feel about the economy right now dipped to 84.5 from 88.6 in June, as consumers worried about the current pace of job gains. Consumer optimism about the next six months fell more sharply to 78.4 in July from 83.5 in June, as Americans have become more concerned about the effect of rising prices. Richard Curtin, the survey's chief economist noted that "Consumers' complaints about rising prices on homes, vehicles, and household durables have reached an all-time record."

The New York Fed's regional business conditions index surged to a record-high reading in July. The NY Fed's Empire State index shot up 25.6 points to 43. Economists had expected a reading of just 17.3. In the details of the report, the subcomponents were also strong. The new-orders index rose 16.9 points to 33.2 in July while shipments rose 29.6 points to 43.8. The index for number of employees rose 8 points to 20.6. Inflation pressures remained. The prices received index rose 6 points to 39.4, a new record. The prices paid index slipped slightly but also remained near a record high.

The Federal Reserve's "Beige Book", a collection of anecdotal reports from each of the Fed's member banks, stated the "robust" U.S. economy is "strengthening"—but it's also grappling with shortages and higher inflation. "The U.S. economy strengthened further from late May to early July, displaying moderate to robust growth," the Beige Book said. Furthermore, "Supply-side disruptions became more widespread, including shortages of materials and labor, delivery delays, and low inventories of many consumer goods," it said. Businesses told the Fed they're not sure when they'll be able to ramp up production to satisfy the demand. They still can't get many supplies on time and many open jobs are going unfilled. "The outlook for demand improved further, but many contacts expressed uncertainty or pessimism over the easing of supply constraints," the survey said.

International Economic News: The Bank of Canada stated it was willing to let inflation run hot on the road to "complete" recovery. Bank of Canada Governor Tiff Macklem stated he plans keep the bank's benchmark interest rate pinned near zero until at least the second half of next year. Canada's central bank published new forecasts this week predicting the country is on the verge of an impressive burst of economic growth that will offset a disappointing start to the year. The projections weren't strong enough to alter Macklem's plan to adjust its benchmark rate, but evidence of gathering momentum prompted policy-makers to pare their weekly purchases of Government of Canada bonds to $2 billion, from $3 billion previously.

Across the Atlantic, a Reuters' poll of economists showed they expect the United Kingdom's economic recovery to continue, although new strains of COVID-19 may threaten the rebound. Gross domestic product will grow 2.5% this quarter, the poll found, a touch better than the 2.4% predicted last month. But median forecasts showed that pace was expected to slow to 1.4% next quarter and then to 0.9% in early 2022, unchanged from last month's forecasts. Holger Schmieding, chief economist at Berenberg stated, “So far, the UK data look promising in two respects. First, vaccines seem to have significantly reduced the health risks from the virus. Second, the UK's GDP estimate for May shows that activity has rebounded with the easing of restrictions.” UK GDP expanded a monthly 0.8% in May, much faster than its typical pre-pandemic pace but down from April's 2.0% surge, official data showed last week.

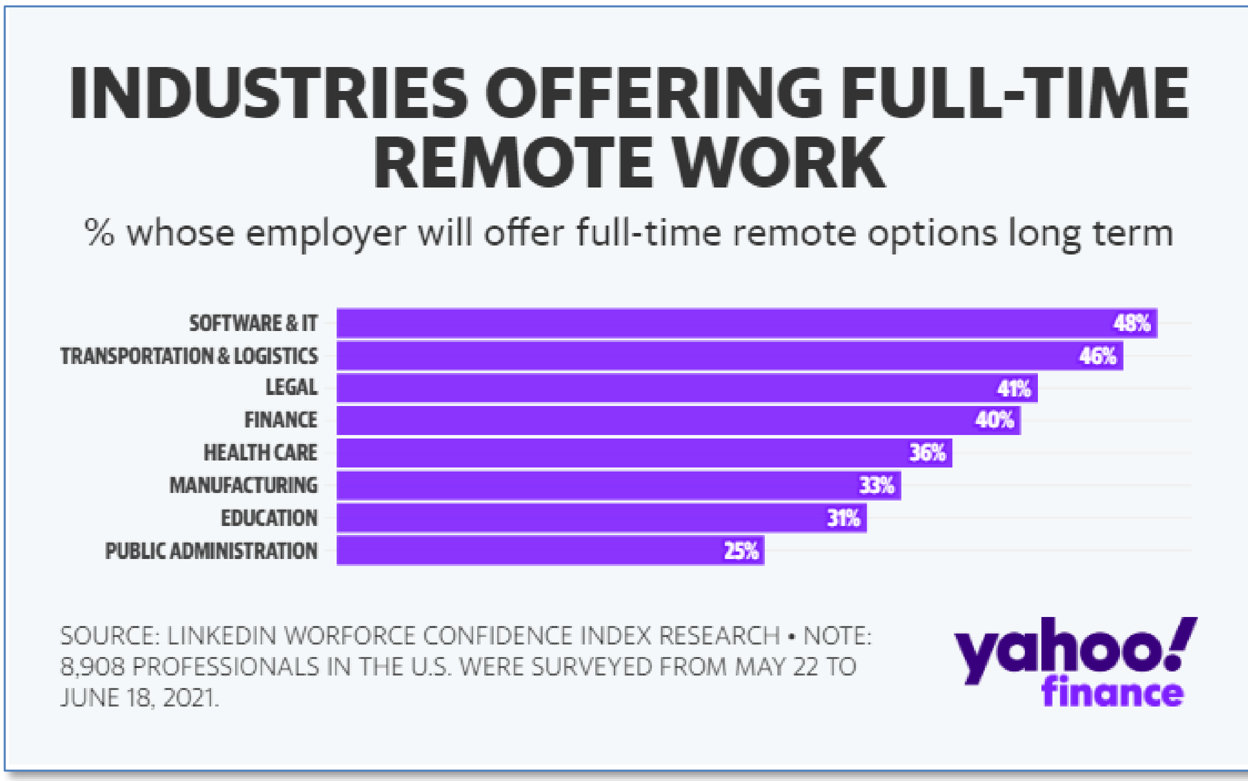
On Europe’s mainland, French President Emmanuel Macron stated that vaccination would not be compulsory for the public “for now”, but stressed that restrictions would focus on those who remain unvaccinated. The president said health workers had to get vaccinated by Sept. 15 or face unspecified consequences. France has given nearly 53% of its population at least one dose of the vaccine and 37% are fully vaccinated. Macron said on Monday that a health pass required to attend large-scale events would now be used much more widely, including gaining entry to restaurants, cinemas and theatres. It will also be required to board long-distance trains and planes from the beginning of August.

Germany's economic recovery from the COVID-19 crisis is at full swing, and the outlook for German industry remains positive despite supply bottlenecks for intermediate products, the German Economy Ministry said. In its monthly report the Ministry said, “The supply bottlenecks for intermediate products…have a dampening effect, however they do not impair the positive underlying dynamic of the overall economy.” The ministry said it expects inflation to reach 3% or more in the second half of 2021 due to a base effect from a temporary VAT cut last year that was part of the government's stimulus program to help the economy recover from the coronavirus shock. Inflation will ease significantly in 2022, it added.

Following a record start to the year, China’s economic growth slowed in the second quarter. China’s National Bureau of Statistics announced China’s economy grew by 7.9% in the second quarter of 2021 compared to the same time a year earlier. That was just below expectations of analysts which had predicted 8% growth in the second quarter. China’s first quarter growth rate was 18.3%. Overall, China’s government has set an economic growth target of “above 6 per cent” for 2021 after it grew by 2.3 per cent last year overall. Economists cautioned that China’s actual economy is not quite as strong as the numbers released might suggest. Inflation means that some of the statistics, like retail sales in June, overstate what is actually happening. Rising prices also suggest that the Chinese economy’s performance in the spring might not be sustainable.

A top government spokesman in Japan stated the country is ready to pump more money into its economy to ease the pain of the country’s prolonged pandemic. Less than two weeks before hosting the Olympics, Tokyo goes into its fourth COVID-19 state of emergency through Aug. 22, fueling fears of extended pain for restaurants hit by shorter hours and a ban on alcohol consumption. Lawmakers from Prime Minister Yoshihide Suga's Liberal Democratic Party have escalated calls for a new relief package, with party heavyweight Toshihiro Nikai saying an extra budget of around 30 trillion yen ($270 billion) is needed. The world's third-largest economy is expected to rebound from its annualized 3.9% contraction in the first quarter, but analysts expect the recovery to be gradual, with service sector consumption a particular weak spot.

Finally: With the worst of the coronavirus epidemic in the rear view mirror, many employers have begun pushing employees to return to the office. Surprising to perhaps no one, it turns out many workers would rather continue working from home. According to LinkedIn's Workforce Confidence Index, employers in the Software & IT, Transportation & Logistics and Legal sectors were most likely to allow employees to continue working from home. But workers in Public Administration and Education are most likely to be forced to return to the in-person daily grind. (Following chart from Yahoo! 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…

- Do you need a process to help manage losses during the next bear market?

- Have you addressed your investment process and adjusted it for what is going on in the world?
- 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

"The investor who says, this time is different, when in fact it's virtually a repeat of an earlier situation, has uttered among the four most costly words in the annals of investing."

Sir John Templeton – Investor and Fund Manager

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.

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https://www.investech.com/current_issues.php
https://www.awakenthegreatnesswithin.com/35-inspirational-john-templeton-quotes-on-success/

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, FactSet.)