# Moulton Wealth Management Inc.

# "Molten Hot" Minutes

*Specializing in Retirement and Tax Planning*

**Donald J. Moulton**
**CFP®, RFC**

*www.moultonwealth.com*

**Rial R. Moulton**
**CFP®, CPA/PFS, RFC**

## Week of September 20, 2021

I wrote this newsletter on Saturday. Of course when I checked futures this morning everything was red.

Go figure.

However, it doesn't really change what we're thinking. We can *(should?)* experience a 5 – 10% correction at any time without altering the overall path of a bull market. And despite having had better Monday mornings, the S&P-500 is still only down about -3.8% as of this

## *Seminars are Once Again on Hold!*

**Unfortunately renewed restrictions don't allow in person seminars. As such the September seminars have been postponed.**

*Everyone's health is our most important goal.*

***If you'd like a free financial physical to review your specific concerns, we can do so remotely.***

***Call 509-922-3110***

amendment from its all-time highs earlier this month. It's been so long since we've had a noticeable decline (almost 8 months since the S&P-500 has fallen 5%) that any decline seems catastrophic.

If you listened to the radio show on Saturday you heard us discuss the Chinese property developer Evergrande. They are threatening to default on over $300 billion of debt. The bigger concern is whether this becomes a "Lehman moment", spilling out of China to the rest of the world.

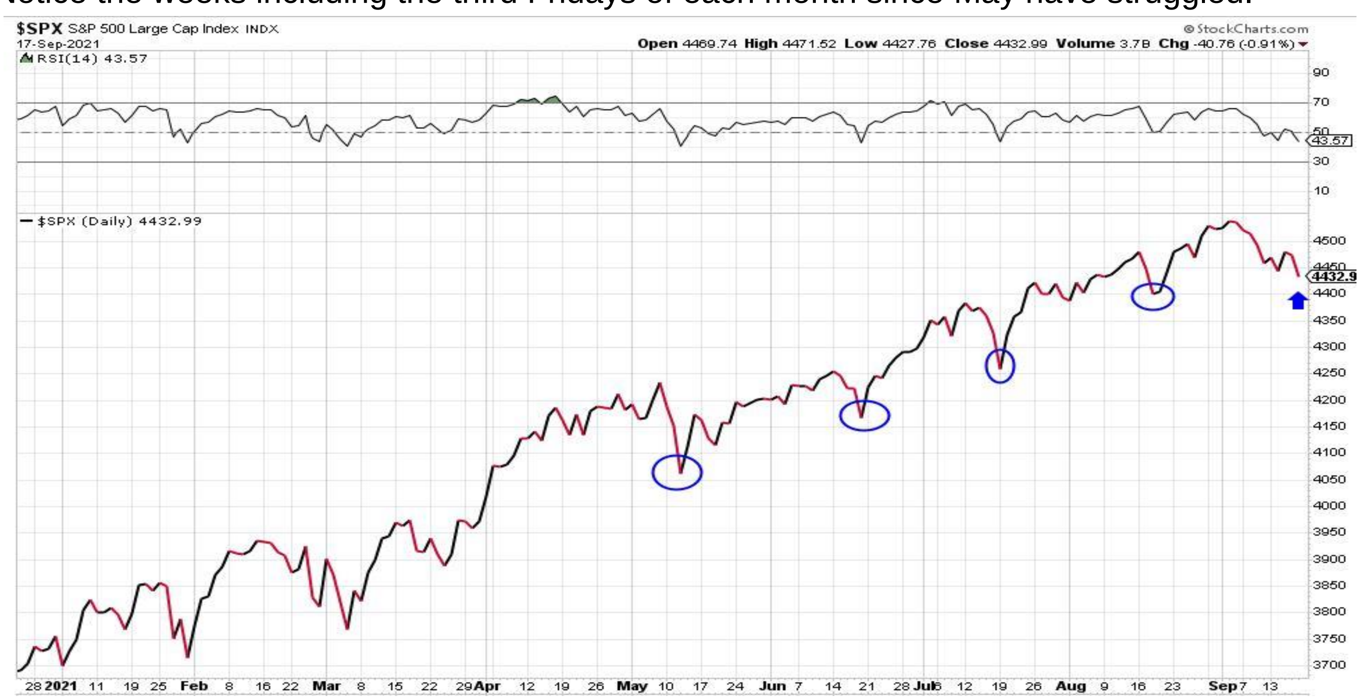
We think that unlikely for two reasons:

1. Unlike Lehman, Evergrande's issues have been known for some time. In fact their bonds are already trading at discounts indicating the market assumes default.
2. We think the Chinese government will likely step in. China's economy can be viewed as one company with the Communist Party owning everything. The vast majority of Evergrande's debt was likely loaned by Chinese banks that are implicitly backed by the Chinese government.

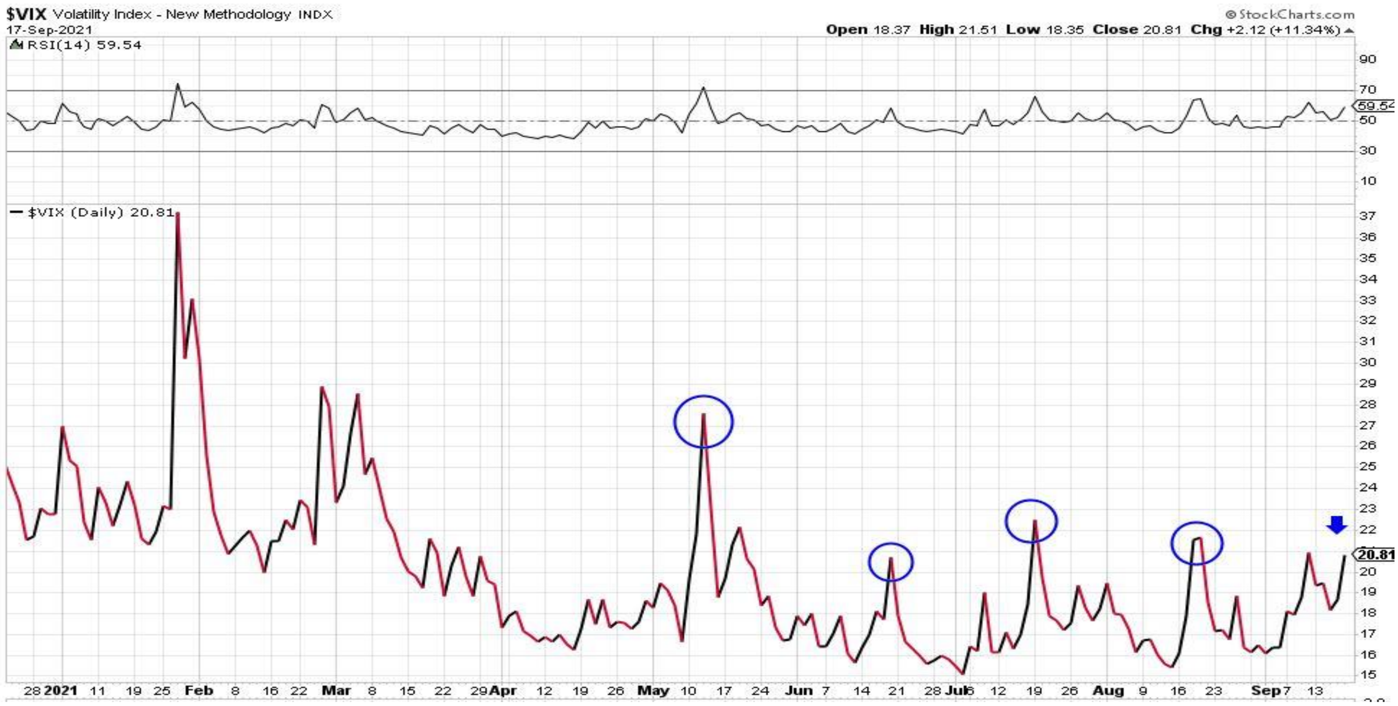
Of course, we need to stay abreast of the evolving situation. But unless something turns for the worse, we see today – and last week – as nothing more than a market correction.

The question is "how much more is there to come?"

First, don't let last week scare you too much as the days leading up to the third Friday of each month since at least May have been rocky. The third Friday of the month is when options expire and the big guys have to adjust their portfolios, meaning the market makers have to adjust their hedges. The following chart of the S&P-500 shows the market behavior in 2021. Notice the weeks including the third Fridays of each month since May have struggled.



Additionally, if this were the beginning of a concerning decline in the S&P-500 we'd expect the VIX to be higher. The VIX measures market volatility. High volatility equals high danger. The following chart shows the VIX. Notice the jumps in volatility matching the third Friday weekly declines, including the current decline. For context you can see that the January decline coincided with VIX jumping over 37 and the March 2020 Covid decline saw it jump north of 85. We are currently only just under 21. (As of Monday morning it jumped to 25).




Further, big declines normally happen when everyone thinks them unlikely. As investors all pile into the markets it creates a lack of new buyers (i.e. everyone already bought). Certainly individual investors are "all in" by many measures, but the big institutional traders are not, at least according to the CFTC Non Commercial Net Long Positioning. The chart on



the following page from Hedgeye Risk Management points out that current positioning of equity indices (top box, far left – latest) does not indicate institutions are overly bullish. In fact they are net short the S&P-500, the Dow Jones Industrial and the Russell 2000 (betting they will decline). The latter two are closer to the most net short they've been in 3 years than the most long they've been.

**CFTC Non-Commercial Net Long Positioning**
(Updated Weekly)

HEDGEYE TV
The Macro Show
September 17, 2021

CFTC NON-COMMERCIAL NET LONG POSITIONING

| | METRIC | Latest | W/W Chg | 3M Ave | 6M Ave | 1Y Ave | 3Y Max | 3Y Min | Z-Score 1Y | Z-Score 3Y |
|---|---|---|---|---|---|---|---|---|---|---|
| EQUITIES | SPX (Index + E-mini) | (22,822) | 4,984 | 30,081 | 5,264 | 7,251 | 245,514 | (318,850) | -0.71X | -0.24X |
| | VIX | (90,055) | (4,220) | (68,857) | (76,384) | (94,290) | 44,245 | (218,362) | 0.16X | 0.01X |
| | Russell 2000 (mini) | (56,321) | 9,982 | (53,164) | (39,237) | (11,141) | 58,474 | (88,708) | -1.32X | -1.29X |
| | Dow Jones (mini) | (10,222) | (7,645) | (1,842) | (5,875) | (7,551) | 54,635 | (28,732) | -0.36X | -0.89X |
| | Nasdaq (mini) | 6,199 | 7,006 | (3,696) | (6,459) | (515) | 47,085 | (133,005) | 0.22X | -0.05X |
| | Nikkei Index | (8,494) | (4,491) | (5,313) | (4,747) | (2,582) | 4,738 | (16,298) | -1.89X | -0.43X |
| RATES | 10Y UST | 44,467 | 39,593 | 132,614 | 111,210 | 86,214 | 238,882 | (758,490) | -0.54X | 0.63X |
| | 2Y UST | (63,565) | (44,713) | (70,285) | (150,758) | (197,119) | 34,641 | (421,551) | 1.20X | 1.55X |
| | 5Y UST | (51,238) | (32,103) | (64,180) | (53,556) | (126,602) | 148,962 | (866,140) | 0.47X | 0.63X |
| | UST Bonds | (83,295) | 18,341 | (86,713) | (101,216) | (150,308) | 2,332 | (241,003) | 1.22X | 0.18X |
| | 30D Fed Funds | (87,939) | 12,346 | (147,503) | (175,013) | (68,994) | 488,558 | (320,917) | -0.12X | -0.68X |
| | Eurodollar | (163,006) | 145,585 | (301,826) | 37,568 | 314,214 | 2,134,274 | (2,431,766) | -1.04X | -0.36X |
| CURRENCIES | $USD | 21,458 | 773 | 12,636 | 8,265 | 311 | 43,033 | (15,000) | 1.96X | 0.40X |
| | JPY | (65,032) | (324) | (62,118) | (57,208) | (13,929) | 52,239 | (117,731) | -1.09X | -0.95X |
| | EUR | 27,629 | 15,690 | 54,574 | 69,374 | 105,205 | 212,535 | (123,765) | -1.64X | 0.03X |
| | GBP | (22,945) | (7,864) | 2,028 | 13,720 | 10,527 | 40,671 | (107,406) | -1.92X | [illegible] |
| | AUD | (69,236) | (9,316) | (40,910) | (21,134) | (11,418) | 15,665 | (74,181) | -2.80X | -1.56X |
| | CAD | (2,916) | (2,339) | 17,685 | 20,962 | 9,242 | 53,332 | (67,121) | -0.57X | 0.10X |
| | MXN | (17,507) | 3,796 | (23,414) | (16,426) | (4,505) | 170,379 | (29,510) | -0.72X | -1.11X |
| | NZD | 3,859 | 5,988 | 1,401 | 3,614 | 7,280 | 17,126 | (42,544) | -0.68X | 0.67X |
| | CHF | (542) | (3,731) | 6,652 | 3,442 | 7,826 | 17,848 | (40,715) | -1.41X | 0.23X |
| COMMODITIES | CRUDE OIL | 418,633 | (7,144) | 514,844 | 529,052 | 534,094 | 594,465 | 332,714 | -2.94X | [illegible] |
| | GOLD | 83,540 | (15,325) | 91,236 | 88,784 | 98,876 | 292,066 | (103,009) | -0.53X | -0.55X |
| | COPPER | 23,548 | 1,516 | 20,379 | 29,304 | 48,145 | 80,564 | (60,135) | -1.11X | 0.37X |
| | Natural Gas | (120,283) | 24,302 | (128,110) | (96,212) | (35,201) | 71,340 | (262,534) | -1.18X | -0.55X |
| | RBOB Gasoline | 38,864 | (2,332) | 44,032 | 47,891 | 54,970 | 129,000 | 29,497 | -1.22X | -1.53X |
| | ULSD Heating Oil | 37,407 | (903) | 28,854 | 20,997 | 16,620 | 48,330 | (27,674) | 2.11X | 2.08X |
| | Silver | 28,003 | 6,462 | 32,831 | 37,825 | 43,088 | 80,646 | (26,749) | -1.49X | -0.42X |
| | Platinum | 6,123 | (1,916) | 11,573 | 19,233 | 21,088 | 69,306 | (1,500) | -1.62X | -1.20X |
| | Corn | 285,265 | (32,413) | 325,161 | 393,235 | 420,418 | 557,581 | (270,560) | -1.38X | 0.68X |
| | Soybeans | 59,820 | (7,128) | 90,349 | 134,578 | 181,540 | 270,935 | (148,817) | -1.96X | -0.03X |
| | Wheat | 17,332 | (5,907) | 21,648 | 21,574 | 28,798 | 60,302 | (69,231) | -0.84X | 0.24X |
| | Live Cattle | 89,397 | (18,881) | 94,032 | 91,475 | 84,387 | 183,134 | 20,158 | 0.26X | 0.20X |
| | Lean Hogs | 95,823 | 1,731 | 91,833 | 91,212 | 75,017 | 101,947 | 4,913 | 1.06X | 1.59X |
| | Sugar | 280,255 | (10,507) | 270,294 | 261,097 | 262,706 | 316,046 | (205,161) | 0.55X | 1.23X |
| | Cotton | 111,643 | 3,076 | 87,213 | 79,821 | 81,536 | 111,643 | (37,827) | 2.35X | [illegible] |
| | Coffee | 53,253 | 190 | 50,373 | 48,751 | 43,786 | 64,466 | (106,651) | 0.81X | 1.12X |
| | Cocoa | 24,588 | 3,105 | 11,584 | 18,022 | 26,299 | 81,269 | (31,483) | -0.11X | 0.11X |
| | Orange Juice | 4,720 | (25) | 3,362 | 1,336 | 945 | 4,745 | (9,416) | 1.84X | 1.85X |

DATA SOURCE: BLOOMBERG

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All of this confirms what we see in IVOL Premium/Discounts across a variety of equity sectors. As of Friday, we saw premiums across the board meaning that investors were paying up for defense. Again this is not what we would expect to see if the market was about to take a meaningful dive.

Remember one of Bob Farrell's famous investment rules:

***When all the experts agree, something else tends to happen.***

Of course this week we'll hear Powell discuss taper plans. Think for a moment what that means. The Fed is discussing when they'll *begin to reduce* the *$120 billion per month* they are essentially printing and using to buy bonds. They're not discussing stopping the presses and far from raising interest rates, just discussing when to start slowing down. This will continue to be a big support for equity markets in terms of liquidity.

None of this should be construed as a prediction that a larger correction can't happen – it can. We are just trying to weigh probabilities.

Having said that, the fact that no one knows the future – neither those saying a bear market is imminent or those saying it'll never come – is the exact reason we think incorporating *a fact based defensive system into your investment process* is so important.

Protect your health and your wealth.

# *What is your defensive plan?*

Call to hear about ours.

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: U.S. stocks ended the week mostly lower as investors weighed positive economic reports with concerns over global supply chains and an inevitable tightening in monetary policy. The small-cap Russell 2000 managed a slight gain, but the rest of the major indexes finished the week lower. The Dow Jones Industrial Average ticked down 0.1% to 34,585, while the technology-heavy NASDAQ Composite fell a half percent to 15,044. By market cap, the large cap S&P 500 gave up -0.6%, the mid cap S&P 400 fell -0.3%, and the Russell 2000 rose 0.4%.

International Markets: The vast majority of major international markets finished the week down as well. Canada's TSX declined for a second week, down -0.7%, while the United Kingdom's FTSE 100 retreated -0.9. On Europe's mainland, France's CAC 40 and Germany's DAX ended down -1.4% and -0.8%, respectively. In Asia, China's Shanghai Composite reversed most of last week's gains falling -2.4%, but Japan's Nikkei finished the week up 0.4%. As grouped by Morgan Stanley Capital International, emerging markets shed -2.1%. Developed markets fell -0.8%.

Commodities: Precious metals sold off despite clear signs of inflation in the economy. Gold ended the week down -2.3% to $1751.40 per ounce, while Silver dropped a larger -6.5% to $22.34. Energy moved higher. West Texas Intermediate crude oil rose 3% to $71.82 per barrel. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, plunged -4.6%--a four-week low.

U.S. Economic News: The number of Americans filing first-time applications for unemployment benefits rose last week, one week after hitting a pandemic low. Initial jobless claims rose 20,000 to 332,000 in the week ended September 11th. Economists had expected new claims to total 318,000. This latest report is the first since the extra federal benefits for the unemployed expired on September 6th. Meanwhile, the number of people already collecting benefits, known as "continuing claims", fell by 187,000 to 2.67 million. That number is currently at a pandemic era low. Other than taking into account Hurricane Ida analysts were at a loss for the slight uptick in claims. Thomas Simons of Jefferies LLC wrote in a note, "Demand for labor remains extremely strong, so there is no fundamental reason why we would see claims move higher."

Small businesses continue to struggle with major shortages of both labor and supplies according to a closely-followed survey. The National Federation of Independent Business (NFIB) reported small-business owners were a bit more optimistic about the economy last month, but record shortages of materials and workers are having a significant impact on sales and profits hindering the economic recovery from the pandemic. The NFIB reported its optimism index rose 0.4 point to 100.1. Economists were expecting a reading of 99.0. The lack of supplies stems from major disruptions in global trade tied to clogged ports and rail stations coping with large backlogs. While the supply bottlenecks are expected to ease, the labor shortage could prove to be a more difficult issue. Half of all small-business owners said they could not fill open positions—the highest level in the 48-year history of the survey.

The recent surge in prices at the consumer level leveled off in August, however analysts don't believe Americans are going to get much relief from higher prices anytime soon. The Bureau of Labor Statistics reported its index of consumer prices climbed 0.3% last month. Economists had estimated a 0.4% rise. Over the past year, the rate of inflation stands at 5.3% in August—down a tick from July. It was the first slowdown since last October. Aside from the brief oil-driven spike in 2008, consumer prices have risen this year at the fastest pace in three decades. Another closely watched measure of inflation that omits food and energy, so-called "core inflation", rose just 0.1%. That was the smallest increase since February.

Sales at U.S. retailers rose sharply in August, a sign that consumers continued to spend despite the media reports of an uptick in the spread of the 'delta-variant' coronavirus. The Census Bureau reported retail sales increased 0.7% last month. The consensus forecast was for a -0.7% decline. Sales advanced in almost every major retail category in August, and they rose an even stronger 1.8% if autos are excluded. Compared to the same time last year, retail sales were up 15%. Some analysts were quick to point out that part of the increase reflects the higher prices consumers are paying, particularly for groceries and building materials. Chris Low at FHN Financial summed up the report noting, “All in all, this was a solid showing by U.S. consumers, expected by no one, suggesting the economy continued to hum in August.”

Business activity in the New York-region soared this month according to the New York Federal Reserve. The NY Fed’s Empire State business conditions index surged 16 points to 34.3 the regional bank said this week. Economists were expecting a reading of only half that. The new orders index jumped 18.9 points to 33.7, while the shipments index soared 22.5 points to 26.9. Both prices paid and prices received were at or near record highs in September. And business leaders expect the strength to continue. The sub-index of what the business leaders expect for the next 6 months also came in very positive.

International Economic News: A study by the Fraser Institute this week reported Canada has dropped out of the top 10 most economically free countries in the world. Canada now ranks 14th out of 165 countries assessed in the annual survey, part of a continuing downward trend since 2016, says the report, *Economic Freedom of the World 2021.* “Due to higher taxes and increased regulation in Ottawa and the provinces, Canadians are less economically free, which means slower economic growth and less investment in Canada,” said study co-author Fred McMahon. “Where people are free to pursue their own opportunities and make their own choices, they lead more prosperous, happier and healthier lives.” The annual report is produced by the Fraser Institute, in co-operation with the Economic Freedom Network, a group of independent research and educational institutes.

Across the Atlantic, inflation in the United Kingdom soared to a nine year high last month, with consumer prices rising 3.2% over the past year. The Office for National Statistics reported August’s reading was an increase of 1.2% over the 2% annual rise in July. On a monthly basis, the increase was the sharpest since records began in 1997. Hugh Gimber, global market strategist at JPMorgan Asset Management wrote in a note to clients, “Following sharp spikes in inflation across the Atlantic in recent months, the UK economy has now come to the inflation party.” Furthermore, Gimber noted there were signs inflationary pressures were increasingly broad based across many sectors of the economy.

On Europe’s mainland, French Foreign Minister Jean-Yves Le Drian said France is immediately recalling its ambassadors to the United States and Australia as retaliation over Australia’s cancelled submarine deal. He said the cancellation by Australia of a big contract to buy French conventional submarines in favor of U.S. nuclear-powered subs is “unacceptable behavior”. France had been working on the deal since 2016 and is set to lose over $100 billion now that Australia has chosen to go in a different direction. A White House official said the Biden administration has been "in close touch with our French partners" on their decision.

The DIW Economic Institute reported the German economy will grow more slowly than expected this year as supply chain problems and shortages of raw materials keep a lid on the industrial recovery. However, its economists expect a strong rebound next year. The DIW trimmed its growth forecast for this year to 2.1% from a previous 3.2%, but predicted a jump to 4.9% in 2022 assuming production constraints lift towards the end of the year. The institute expects growth to normalize at 1.5% in 2023.

As Evergrande's troubles continue to grow, the pressure on China's real estate sector is being felt far beyond just a single developer. August data released this week suggested national home sales by value had tumbled 19.7% year-over-year, the largest drop since April 2020. Michael Pettis, a professor of finance at Peking University stated, "It seems that we may have already started the financial distress process. As the risk of insolvency increases, the behavior of sales agents, homebuyers, suppliers and other stakeholders changes in ways that further undermine revenues and raise expenses." To the shock and dismay of bond holders, the Beijing government has not stepped in to save Evergrande (yet), causing many to reassess their prior belief that the government would be there as a backstop.

Japan cut its economic outlook for the first time in four months as broken global supply chains dampened the confidence of the nation's consumers. In its monthly assessment, Japan's Cabinet pointed to domestic and overseas virus situations as evident downside risks to the country's economic recovery. Among key economic elements, the authorities downgraded their view of production for the first time in 17 months, and private consumption for the first time in four months. Together with chip shortages and slowing recoveries in major economies such as China, the government report raised the possibility of production cuts spreading to other sectors beyond carmakers.

**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

*"In investing, what is comfortable is rarely profitable."*

Robert Arnott – American Businessman / Investor

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.



*www.stockcharts.com*
*https://app.hedgeye.com/mu/he_tms_km_dj_9-17-2021?encoded_data=f4vo!4eQTPUPuuisS2Q7hYmduiYCWKHQ=!*
*https://www.investopedia.com/financial-edge/0511/the-top-17-investing-quotes-of-all-time.aspx*

*__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.)*