MOULTON WEALTH MANAGEMENT INC.

"MOLTEN HOT" MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of December 6, 2021

Last week saw increased market volatility, likely due to news of the Omicron Covid variant. Although one could look at this as a "black swan", something very unusual and unlikely to repeat, we would argue it's more of a "warning pin".

First, to be clear, we don't think this is the beginning of a bear market. The economic construct doesn't point to one right now, with growth and inflation still rising in rate of change. We should all get nervous when growth and inflation begin to fall in rate of change; what we call quad 4 or deflation. Right now that looks likely in the latter half of quarter 1, 2022. Having said that it also looks like it could be a shallow quad 4 and as such maybe not as dangerous to stocks – unless of course the Fed continues to tighten into it and creates a deeper quad 4. Time and new data will tell.

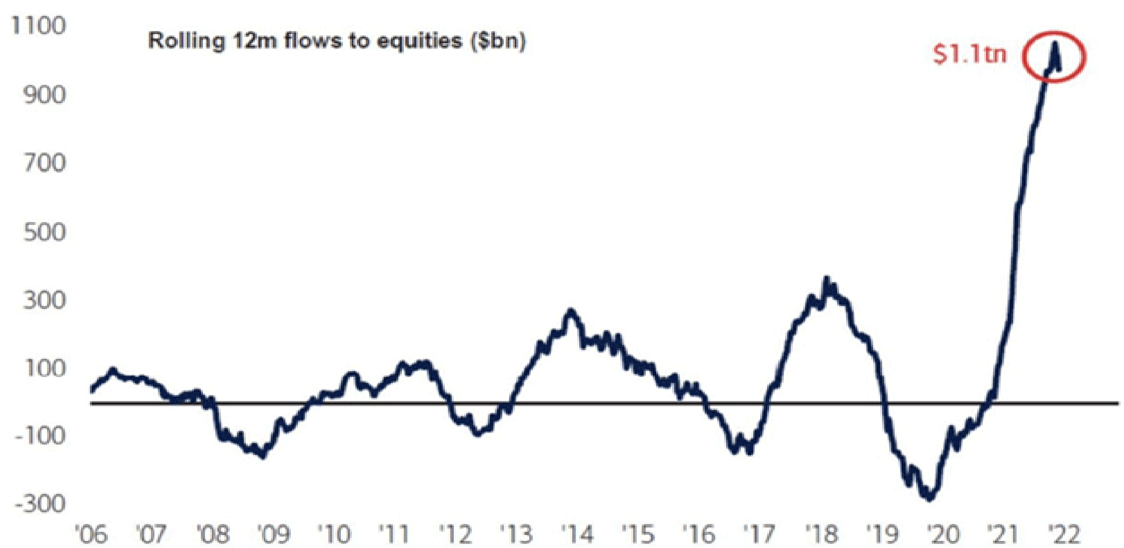
Regardless, the market is a bug searching for a windshield.

Could that windshield be Omicron? Certainly, but not assuredly. Again, time will tell.

So many aspects of today's market mirror, or exceed, past bubbles it's astounding.

- Largely due to Federal Reserve money printing and checks being handed out (many of which were sorely needed but many of which went to people who didn't need them, and instead put them into the stock market) cash inflows to the stock market in the last 12 months exceeded the last 19 years… *COMBINED*. What happens when that much money chases stocks – especially via index funds that blindly buy? Valuations sky rocket.

Chart 6: Inflow to equities exceeds combined inflow of past 19 years
Rolling 12m flows to equities ($bn)

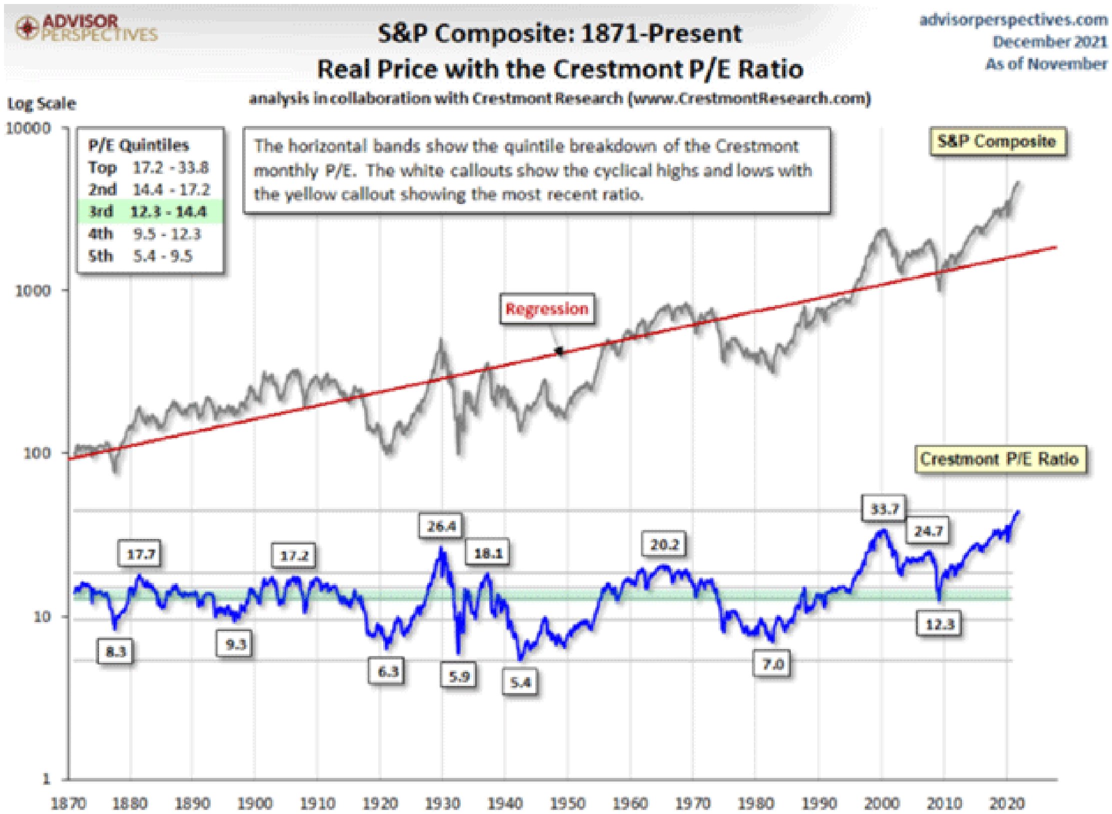


Source: BofA Global Investment Strategy, EPFR

- Speaking of valuations, Crestmont Research provides several valuation calculations but their P/E ratio is one of the best. (However, the results are the same with any of the major valuation calculations). What does it tell us? Let's let Jill Mislinski and Doug Short of Advisor Perspectives explain it…

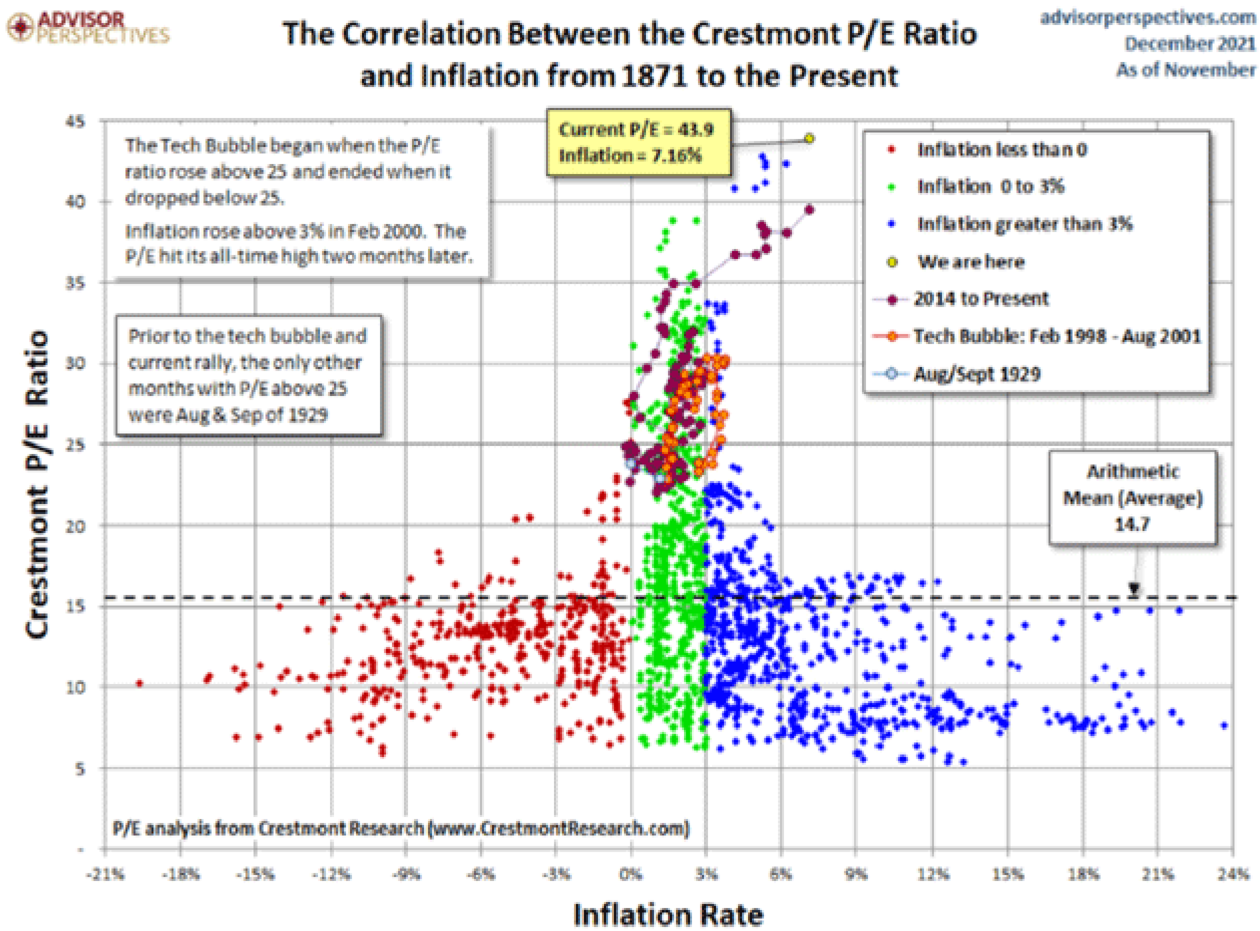
> *"The **Crestmont P/E of 43.9 is 198% above its average** (arithmetic mean) and at the 100th percentile of this fourteen-plus-decade series. We've highlighted a couple more level-driven periods in this chart: the current rally, which started in early 2014, and the two months in 1929 with P/E above the 25 level. Note the current period is within the same neighborhood as both the tech bubble and the 1929 periods (although*

higher than both), all with P/E above 25 and is certainly in the zone of 'irrational exuberance."



I'm sure many out there are thinking "Guys, you've been warning about this for years but nothing ever comes of it." And that's a valid observation. But I would argue it's like a smoker telling you that his four pack habit isn't dangerous because so far he hasn't got lung cancer.

- Beyond that, could "this time be different?" Although we loath the idea of justifying risky behavior by contending "this time is different", in terms of risk management it may be. One of the hallmarks of the U.S. economy for at least the last 13 years and arguably the last 20 has been low inflation. Low inflation allowed the Fed to step in and pump up stocks every time they even hinted at a material decline. How were they able to do that? Money printing. But money printing has the side effect of pushing inflation higher and right now the Fed is trying to bring inflation down. Again from Crestmont Research via Advisor Perspective, let's review a scatter plot of equity valuation across various inflation scenarios. In the following chart, the horizontal line is the inflation rate and the vertical line is stock valuations. The dots represent periods in history since 1871, comparing inflation rates to equity valuations. Higher valuations allow higher stock prices (like now) lower valuations reduce stock prices.



You'll notice that historically the highest valuations were during times of moderate inflation (0%-3%). Both higher inflation and deflation historically ended with lower valuations. We are currently above 6% inflation and yet have the highest valuation ever (see the yellow box at the very top of the chart).

It would seem that either inflation has to fall dramatically, the stock market has to decline significantly, or a combination of the two. *(And remember, the Fed will be much less able to save a falling market with 6% inflation).*

LISTEN TO RIAL AND DON'S RADIO SHOW, "YOUR MONEY MATTERS", EVERY SATURDAY MORNING AT 8:00 AM ON KXLY RADIO CHANNEL 920 AM IN SPOKANE AND AT 9:30 AM ON NEWSTALK RADIO CHANNEL 870 AM IN THE TRI-CITIES AREA OR LISTEN LIVE AT WWW.NEWSTALK870.AM AGAIN AT 9:30 EACH SATURDAY MORNING…

(BOTH SHOWS ARE ALSO AVAILABLE LIVE VIA THE INTERNET)

John Mauldin of Mauldin Economics sums it up succinctly:

> *"The question of the day, and it is truly a question that I don't have an answer to, is what will Jerome Powell do if the stock market falls 20% and inflation is still at 4%? And they haven't even begun to raise interest rates? Does he follow the Fed's mandate and lean into inflation, calling up his inner Volcker, or does he look to his unwritten mandate of giving the stock market what it wants?"*

Anyone who lived through the 1970's knows that the stock market did not do well under Volker, as he fought to slay inflation. We have no reason to think it would be different under Powell.

Having said that, if Powell pivots to support stock prices and disregards inflation, it might be good for stock prices in the short run but it would likely push inflation even higher and set up an even bigger bust.

This is why we fear the market is a bug seeking a windshield. If it's not Omicron it will likely be something else. And afterwards all the buy and hold pundits will cry "no one could have seen this coming". Meanwhile the buy and hold investors who listened to them will wonder how many years before they get back to where they started.

Ignoring market risks is no more a strategy for success than ignoring health risks is a strategy for longevity.

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: All of the major U.S. indexes finished the week to the downside. The Dow Jones Industrial Average fell 319 points finishing the week at 34,580—a decline of -0.9%. The technology-heavy NASDAQ Composite declined a second week giving up -2.6%. By market cap, the large cap S&P 500 retreated -1.2%, while the mid cap S&P 400 and small cap Russell 2000 declined -2.8% and -3.9%, respectively.

International Markets: International markets finished the week mixed. Canada's TSX fell -2.3%, while the United Kingdom's FTSE 100 rose 1.1%. France's CAC 40 rose 0.4%, but Germany's DAX declined -0.6%. China's Shanghai Composite added 1.2%, but Japan's Nikkei declined -2.5%. As grouped by Morgan Stanley Capital International developed markets ticked down -0.1%, while emerging markets finished the week up 0.5%.

Commodities: Major commodities finished the week to the downside. Gold ticked down -0.1% to $1783.90 per ounce, while Silver fell a steeper -2.7% to $22.48. Oil fell for a sixth consecutive week. West Texas Intermediate crude oil declined -2.8% to $66.26 per barrel. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, ended the week down -0.6%.

November Summary: For the month of November all but 1 of the major U.S. indexes finished in the red. The Dow Jones Industrial Average shed -3.7%, while the Nasdaq Composite managed a 0.3% gain. The large cap S&P 500 declined -0.8%, while mid caps and small caps were the hardest hit, declining -3.1% and -4.3% respectively. Almost all major international indexes finished the month of November to the downside. Canada's TSX declined -1.8% and the United Kingdom's FTSE 100 gave up -2.5%. France's CAC 40 and Germany's DAX ended down -1.6% and -3.8%, respectively, while in Asia, China's Shanghai Composite was the lone gainer, adding 0.5%. Japan's Nikkei ended November down -3.7%. Developed markets and emerging markets ended the month down -4.5% and -4.1%, respectively. Like equities, November was a difficult month for commodities. Gold and silver declined -0.4% and -4.7%, respectively, while copper pulled back 2%. Oil finished the month down a huge -20.8%.

U.S. Economic News: The number of Americans filing first-time unemployment benefits jumped in late November; however analysts are questioning the validity of the reading given the volatility of these reports around holidays like Thanksgiving. The Labor Department reported new claims for benefits jumped by 28,000 to 220,000 last week. Still, claims remain near their pandemic lows in the low 200,000's. Meanwhile, continuing claims, which counts the number of people already collecting benefits, fell by 107,000 to 1.96 million. This is the first time that number has fallen below 2 million during the pandemic. Robert Frick, corporate economist at Navy Federal Credit Union stated, "Factoring out the previous week's adjustment noise, which pushed the count artificially low, today's release of initial unemployment claims puts us almost back to pre-pandemic levels."

The U.S. gained a meager 210,000 new jobs in November, a disappointing increase that shows the worst labor shortage in decades is still weighing on the economic recovery. The increase in hiring was far below economists' forecasts. The consensus was for 573,000 new jobs. The U.S. jobless rate, meanwhile, fell to 4.2% from 4.6% and touched a new pandemic low. Also in the report, the size of the labor force grew substantially as some 594,000 people rejoined the labor force in November. The so-called rate of participation rose two ticks to 61.8% and reached the highest level since the start of the pandemic. The biggest job gains took place in white-collar professional jobs and warehouse and transportation. Employment also grew steadily in construction and manufacturing. Retailers and government cut jobs in November.

The number of home sales in which a contract has been signed, but the deal not yet closed, surged in October - far exceeding economists' expectations. The National Association of Realtors (NAR) reported pending home sales rose 7.5%, far above the 0.7% increase analysts had expected. Compared with the same time last year, however, pending sales were down 1.4%--reflecting how much home-buying activity has cooled from the frenzy of 2020. Lawrence Yun attributed the increase in contract signings to fast-rising rents and the anticipated increase in mortgage rates. Every region saw an increase in sales, led by an 11.8% gain in the Midwest. Yun added that the report solidified projections that existing home sales will exceed an annual rate of 6 million for 2021.

The pace of home price appreciation slowed in September, according to S&P CoreLogic. S&P's Case-Shiller 20-city home price index posted a 19.1% year-over-year gain in September, down 0.5% from the previous month. On a monthly basis the index increased 0.8% between August and September. The separate national index showed a 19.5% gain—down 0.3% from its previous reading. Phoenix led the country in home-price growth with a 33.1% increase, followed by Tampa and Miami. Just six of the 20 major cities that the report tracks recorded larger price increases in September than in August, though all cities did continue to notch increases.

Confidence among the nation's consumers fell to a 9-month low as concerns over rising inflation and a resurgence in coronavirus cases weighed on sentiment. The Conference Board reported its index of consumer confidence dropped 2.1 points to 109.5 in November. It was the fourth decline in the past five months. Economists had expected a reading of 110. Lynn Franco, senior director of economic indicators at the board stated, "Concerns about rising prices--and, to a lesser degree, the Delta variant--were the primary drivers of the slight decline in confidence." Note that data for this report was before the outbreak of the new 'Omicron' variant of the coronavirus. Analysts don't expect sentiment to improve soon. Chief economist Joshua Shapiro of MFR Inc. wrote in a research note, "Supply chain disruptions, inflation, economic policy concerns, and a stubborn pandemic are all likely to continue to weigh on consumer confidence and sentiment in the months ahead."

A closely-watched index of manufacturing activity rose in November on news supply chain disruptions may be easing. The Institute for Supply Management (ISM) reported its manufacturing index rose 0.3% to 61.1% in November. The reading matched forecasts. Note that readings above 50% signify growth and this the 18th consecutive month in which the index has been above that level. In the report, new orders and production both rose in November, and the sub-index that tracks employment rose to 53.3% from 52%. Ian Shepherdson, chief economist at Pantheon Economics said, "The supply-chain measures in the survey all eased in November, though they remain elevated. All these numbers peaked in the spring, *suggesting that the worst of the supply-chain crisis is over*, though it will be a while before normal conditions are fully restored."

The Federal Reserve's 'Beige Book', a collection of anecdotal reports from each of its member banks, found "widespread" price hikes with "little pushback" from consumers. "Prices rose at a moderate to robust pace, with price hikes widespread across sectors of the economy," the survey found. Increases in input costs were "wide-ranging" due to strong demand for raw materials, logistical challenges and labor market tightness, the report said. Tight labor markets meant wages were also rising at a "robust" pace across most of the Fed's 12 districts, according to the report.

International Economic News: The Canadian economy roared back in the third quarter on a rebound in consumer spending and manufacturing activity. Statistics Canada reported Canada's economy grew an annualized 5.4% in the third quarter, beating analyst expectations for a gain of 3.0%. The third-quarter rebound was driven by one of the largest household spending sprees on record as COVID-19 restrictions were eased. Exports were also up, led by crude oil. With the October gain, economic activity is now just 0.5% below pre-pandemic levels.

Across the Atlantic, the Organization for Economic Cooperation and Development (OECD) stated the United Kingdom is headed for the fastest growth in its Group of Seven (G7) major economies this year but will suffer a setback if supply shortages persist. A lack of workers to fill open jobs and persistent disruptions in the flow of goods across borders could force companies to reduce output, damaging the pace of recovery in the economy, the Paris-based researcher concluded in its report. The OECD cut its growth forecast for the U.K. next year to 4.9% from 5.2%--that's still the fastest in the G-7. Growth this year will be better than previously estimated at 6.9% rather than 6.7%.

On Europe's mainland, Germany decided this week to bar its unvaccinated citizens from all but the most essential business to curb the spread of the Omicron variant of the coronavirus. The new measures will allow the unvaccinated only in essential businesses such as grocery stores and pharmacies. Legislation to make vaccination mandatory will be drafted for early in 2022. "We have understood that the situation is very serious," Chancellor Angela Merkel told a news conference. A nationwide vaccination mandate could take effect from February 2022 after it is debated in the Bundestag and after guidance from Germany's Ethics Council, she said.

In Asia, advisers to China's government will recommend authorities set its economic growth target for 2022 below the one set for 2021, giving policymakers more room to push through structural reforms. Advisers told Reuters they drafted recommendations for annual economic growth targets ranging from as low as 5% to 5.5%, down from the "above 6%" target set for 2021. The advisers make policy proposals to the government but are not part of the final decision-making process. A poll in October showed economists expect China's growth to slow to 5.5% in 2022, but some analysts have since trimmed forecasts on new risks such as a deteriorating real estate sector. The new Omicron coronavirus variant is also an added risk.

The OECD stated Japan must maintain its expansive fiscal policy until its economic recovery from the pandemic is on track and not pull back stimulus too soon. Fiscal policy should continue to support the economy in the near term, the OECD said in its report. OECD Secretary-General Mathias Cormann noted Japan's debt has grown to more than twice the size of its gross domestic product (GDP). The best way for reducing that ratio is by strengthening the growth of the economy, he added. The world's third-largest economy shrank an annualized 3.0% in the third quarter due to weak consumption and supply shortages but is forecast to bounce back in the current quarter.

Finally: This week Jack Dorsey resigned from his role as CEO of Twitter. For over 15 years Dorsey has been an iconic figure in Silicon Valley. To some, he is "Saint Jack", to others, "Jack the Ripper". Despite his controversial tenure, what isn't up for debate is the steady consistent growth Twitter has shown over the past several years. Daily active users almost doubled from 109 million in 2017 to over 210 million in 2021. (Data: twitter, Chart: chartr.co)

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

"Friends don't let friends buy (and hold) index funds."

John Mauldin – Money Manager / Economist

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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https://www.mauldineconomics.com/frontlinethoughts/capital-excess

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.)