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

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There is a Wall Street saying ***"As goes January, so goes the year."*** Let's hope it's not true this year, because January was a down month. But so was January 2021, yet annual returns worked out nicely.

Volatile markets tend to bring out the old Wall Street "truisms" intended to keep investors fully allocated to equities, regardless of market or economic conditions. One I heard trotted out again this week goes something like this…

"If you missed just the 10 highest return days out of 15 years your average return would have been disproportionately harmed. And since we don't know when those days will come along, the only logical answer is to stay full invested at all times."

And sure enough, on the surface, this appears to be true.

However, it is at best uninformed and at worst dishonest. If you are relying on someone who substitutes these kinds of arguments for financial advice, I would recommend you seriously consider if it's prudent.

Why?

Let's first start with the argument. This covers 15 years from 1984-1998, during which the S&P-500 buy and hold average return was ***+17.89% per year***. That 15 year average return would have been reduced, as the following table shows, depending on how many of the "best return days" were missed. So missing just the 10 best days would reduce the 15 year average from 17.89% to 14.24% per year, etc.

# of Trading Days missed	Best
10 days	14.24%
20 days	11.99%
30 days	10.01%
40 days	8.23%

Pretty striking considering 15 years of trading totals somewhere around 3,900 investing days. Since no one can say when these "best days" will happen, staying fully invested is the supposed solution.

What isn't considered is what happens if you miss the worst days. After all, for the above results to be valid, it means our hapless investor magically sold 100% the day before the great days and bought 100% the day after, each time missing only those best days. But isn't it possible that had our investor not stayed fully invested, (s)he may have also missed some the worst days?

As it turns out, missing the worst days would have been even more impactful on returns, but in a positive direction.

Again, though, what are the chances that our investor magically sold 100% the day before the worst days and bought 100% the day after, missing only the worst days?

Also pretty unlikely.

# of Trading Days missed	Best	Worst
10 days	14.24%	24.17%
20 days	11.99%	27.04%
30 days	10.01%	29.45%
40 days	8.23%	31.66%

What if our investor had missed both the best and worst days? Turns out returns would have been a bit better than buy and hold, with less volatility, and pretty consistent regardless if the days missed were 10, 20, 30 or 40.

# of Trading Days missed	Best	Worst	Both
10 days	14.24%	24.17%	20.31%
20 days	11.99%	27.04%	20.68%
30 days	10.01%	29.45%	20.80%
40 days	8.23%	31.66%	20.87%

Here's where it gets interesting.

When would you guess the majority of best and worst days occur?

In bear markets when volatility is highest.

Roughly 70% of the worst days (defined as top 1% of declining days) and 80% of best days (defined as top 1% of advancing days) occur during bear markets.

The government is again offering free at-home Covid-19 tests. We encourage everyone to get them just to be prepared. Go to...

www.covidtests.gov

In other words, if you followed a good system to reduce risk by lowering allocation to equities during bear markets, and as such you missed some or all of these best and worst days, your returns wouldn't automatically be irreparably harmed as Wall Street tries to convince you.

In fact your returns may be better.

But more importantly, your risk adjusted returns would likely be higher as would the chance that manageable drawdowns in your portfolio wouldn't become catastrophic.

This is especially important if you are retired or close to retirement and don't have the income or time to wait for your portfolio to "come back"!

Whether the advisor who warns of the risk of missing the best days is uninformed or purposely deceitful doesn't really matter. It should raise questions about their competence.

Where do we stand today?

Our indicators urge caution. That should be especially important given that we are in what some call "The Everything Bubble" with stocks, bonds and real-estate all at speculative valuations.

This past week, even as the stock market moved higher, the yield curve (10 year U.S. Treasury yield minus the 2 year U.S. Treasury yield) fell to 0.62%. In a strong economy the yield curve steepens (the number becomes greater). As recently as October 2021 it was

1.29%, and in March 2021 it was 1.59%. If this number goes negative (i.e. the 10 year yield falls below the 2 year yield) it has a perfect track record of predicting recessions, on average 9 months after the inversion. Recessions almost always include equity bear markets.

The high yield spread (the difference between the yield on junk bonds and U.S. Treasury bonds with similar durations) widened last week, again even as stocks moved higher. Junk bonds are those issued by poorly rated companies. They pay more than safer bonds because they are riskier. When the economy is strong, the difference between their yield and U.S. Treasury yield shrinks as a strong economy supports even poorly rated companies. As such investors aren't as worried about the risk and instead want the higher yield. As risks rise, the yields diverge as investors exit the junk bonds for safety. A widening yield is a negative sign for the economy.

Last week saw Facebook suffer the biggest market cap decline of any company in a single day, ever. It also saw Amazon enjoy the biggest market cap addition of any company in a single day, ever (which was previously held by Apple from the week before). Remember, big moves, both up and down, on an index level more often happen in bear markets. Although we can't say for sure, it makes sense that it would also happen on company levels.

This is why those who make investment decisions based on what the market "is doing" often get blindsided by economic and market turns. *(Remember, past performance is not necessarily indicative of future results.)*

Risk happens slowly and then all at once. Even if we are in the early stages of a bear market – and we don't know yet, nor does anyone else – it can take a long time to play out.

During the Dot.com bubble, the S&P-500 peaked in March of 2000. Six months later in August it was only down about 0.4%. Ultimately it would fall about 50%. We're certain those 6 months during which the market didn't collapse convinced many it was safe to remain fully invested, or to "get back in" if they had become more defensive.

Likewise during the Great Financial Crisis the S&P-500 peaked in early October 2007. Seven months later it was down -8.7%, not great but not devastating. Ultimately it fell about 57%. Again those 7 months likely had many calling the "correction" over. It wasn't, and in fact was just getting started.

Even if we are in the early stages of a bear market, we think it very plausible that the market doesn't decline significantly until slowing growth becomes evident, which may not happen until spring or summer. This is especially true if Covid does in fact begin to fade, and we get a services led consumer bounce.

Unfortunately, an extended period of little market decline could convince investors that defensive positioning is unwarranted, while also convincing the Fed they can raise rates faster.

That could be the ultimate policy error.

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. equity markets remained volatile but recorded overall gains for the second consecutive week. Breaking with its pattern of value outperforming growth since November, growth and value shares performed similarly and mid and small-caps outperformed large caps. The Dow Jones Industrial Average added 364 points last week closing at 35,090—a gain of 1.0%. The technology-heavy NASDAQ rose 2.4% to 14,098. By market cap, the large cap S&P 500 added 1.5%, while the mid-cap S&P 400 and small-cap Russell 2000 each added 1.7%.

International Markets: International markets finished the week mixed. Canada's TSX rose 2.6% while the United Kingdom's FTSE 100 tacked on 0.7%. France's CAC 40 ticked down -0.2% and Germany's DAX shed -1.4%. In Asia, China's Shanghai Composite remained closed for the week for the Chinese New Year. Japan's Nikkei finished the week up 2.7%. As grouped by Morgan Stanley Capital International, developed markets rose 1.8%, while emerging markets rebounded 2.9%.

Commodities: Commodities continued their rally. Precious metals finished the week in the green with Gold rising 1.2% to $1807.80 per ounce and Silver adding 0.8% to $22.48. West Texas Intermediate crude oil rose for a seventh consecutive week rising 6.3% to $92.31 per barrel. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, finished the week up 4.1

January Summary: It was the worst start to the year in decades for multiple major U.S. indexes. For the month, the Nasdaq Composite declined -9.0% in January, while the Dow retreated -3.3%. Large caps gave up -5.3%, while mid-caps pulled back -7.3%. Small caps fared the worst, plunging -9.7%. January was a difficult month for international benchmarks as well. Canada finished down -0.6%, while the United Kingdom rose 1.1%. France and Germany declined -2.2% and -2.6%, respectively, while China finished down -7.6%. Japan lost -6.2%. Developed markets finished the month down -3.6%, while emerging markets were flat. Oil surged 17.2% in January, while precious metals finished the month to the downside. Gold ended the month down -1.7% and Silver declined -4.1%. Copper declined -3.1% the first month of the year.

U.S. Economic News: The number of Americans filing first-time unemployment benefits fell for the second week as the 'Omicron' wave receded and more people were able to return to work. The Labor Department reported initial jobless claims declined by 23,000 to 238,000. Economists had forecast initial jobless claims would total 245,000. The economy had been hit with the fast-spreading Omicron strain of the coronavirus. New claims fell the most in Ohio, Kentucky, and Illinois. The only state to post a sizeable increase was Pennsylvania. Meanwhile, continuing claims, which counts the number of people already receiving benefits slipped by 44,000 to 1.63 million. That number has returned to its pre-crisis levels and near historic lows.

U.S. businesses shed 301,000 jobs in January, according to payroll processor ADP. It was the biggest drop since the start of the pandemic. The result was a huge miss. Economists had forecast a gain of 200,000 jobs. The decline was the first in 13 months and the largest since April 2020, when the U.S. lost almost 20 million jobs during the early stages of the pandemic. Almost every major segment of the economy suffered in January. The biggest decline in employment took place at small companies that mainly provide services: hotels, restaurants, entertainment venues, and transportation services. Small businesses lost 144,000 jobs. Employment also fell by 98,000 at large companies and 59,000 at midsized businesses during the Omicron surge.

Despite ADP's data showing a huge loss of jobs, the government reported by its measure the U.S. actually *gained* 467,000 new jobs in January. Not only that, the Bureau of Labor Statistics revised its figures for preceding months upward stating the U.S. added 510,000 new jobs instead of the initially reported 199,000 in December. The report blew away economists' expectations of 150,000 new jobs. Contrary to the ADP report, the fastest hiring gains last month took place at service-oriented companies such as hotels, restaurants and other businesses that were hit hardest by the coronavirus pandemic. Employment rose by 151,000 in the hospitality business, followed by 86,000 among white-collar businesses, 61,000 at retailers, and 54,000 in transportation and warehousing. However, not all analysts were impressed. Southbay Research noted that the bulk of the gain was due to a "seasonal adjustment". And as they point out, "there has never been a January seasonal adjustment of this magnitude." Using a normalized seasonal adjustment for January, the payrolls number is some 309,000 lower—or ends up being 166,000, right on top of expectations.

In the Labor Department's latest Job Openings and Labor Turnover Survey (JOLTS), job openings rose by 150,000 to 10.9 million last month. Economists had forecast just 10.5 million vacancies. Meanwhile, the number of Americans quitting their jobs fell by 161,000 to 4.3 million in December from its record high in November. Prior to the pandemic, the average number of people quitting their jobs each month hovered around 3.2 million. The JOLTS report showed layoffs fell by 140,000, or 0.8%, to 1.2 million--a new record low. Stephen Stanley, chief economist at Amherst Pierpont, stated layoffs were running almost 50% higher in 2018 and 2019. Federal Reserve Chairman Jerome Powell stated, "This is, by so many measures, a historically tight labor market."

A key measure of the vast services side of the U.S. economy slid in January to an 11-month low. The Institute for Supply Management (ISM) reported its index of service companies, which make up more than two-thirds of overall economic activity, declined 2.4 points to 59.9. Analysts blamed the Omicron outbreak for the decline. In the details, the index for new orders dropped 8.2 points to 61.5 while the production gauge slid 7 points to 67.6. The employment barometer also softened to 54.9 from 56.5. An executive at a wholesaler stated in the survey, "Labor shortages are causing issues. We could do much more business if we had more people and access to more products." Anthony Nieves, chairman of the ISM services survey stated, businesses "continue to struggle with inflation, supply chain disruptions, capacity constraints, logistical challenges and shortages of labor and materials."

Factory activity grew at its slowest pace in 14 months in January as the spread of the 'Omicron' variant slowed the U.S. economy, according to the latest data from the Institute for Supply Management (ISM) index of manufacturing activity. ISM reported manufacturing activity slipped 1.2 points to 57.6. Economists had expected the index to decline to 57.7. While readings above 50 still signify growth, the index has fallen three consecutive months. In the details, prices for raw materials and other supplies rose again complicating the decision by manufacturers on how much to stockpile. Orders and production remained quite robust, reflecting solid consumer demand. Senior economist Will Compernolle of FHN Financial summarized the report stating, "Given the rapid spread of Omicron last month and the number of people missing work from sickness, the results here aren't as bad as they could be."

International Economic News: Canada's economy climbed above its pre-pandemic levels for the first time in November, official data showed. Statistics Canada reported the economy grew 0.6% in November, beating expectations for a gain of 0.3%. The agency said annualized GDP in the fourth quarter was likely up 6.3%, exceeding the Bank of Canada's forecast of 5.8%. Doug Porter, chief economist at CMO Capital Markets noted the solid economic report reinforces the likelihood of an interest rate hike. Porter wrote, "While not far from the Bank of Canada's latest estimate, it is a bit higher yet, and is simply another turn of the screw, all but ensuring a rate hike at their next meeting on March 2." The central bank held its key interest rate unchanged last week, but said hikes were coming as Canada's economy no longer needed extraordinary support to deal with the effects of the COVID-19 pandemic.

Across the Atlantic, the Bank of England raised its key interest rate a second quarter point to 0.5% - the first time it has implemented consecutive rate hikes since 2004. Of the nine members of the rate-setting monetary policy committee, five voted for an increase of 0.25%, while the other four wanted a steeper 0.5% hike, reflecting growing concerns about rising prices. The committee also warned it expected inflation to peak in April around 7.25%, about 2% higher than previously expected. "In the recent unprecedented circumstances, the economy has been subject to very large and repeated shocks," the panel said. "Should recent movements prove persistent, the sharp rises in price of global energy and tradable goods of which the United Kingdom is a net importer will necessarily weigh on U.K. real aggregate income and spending."

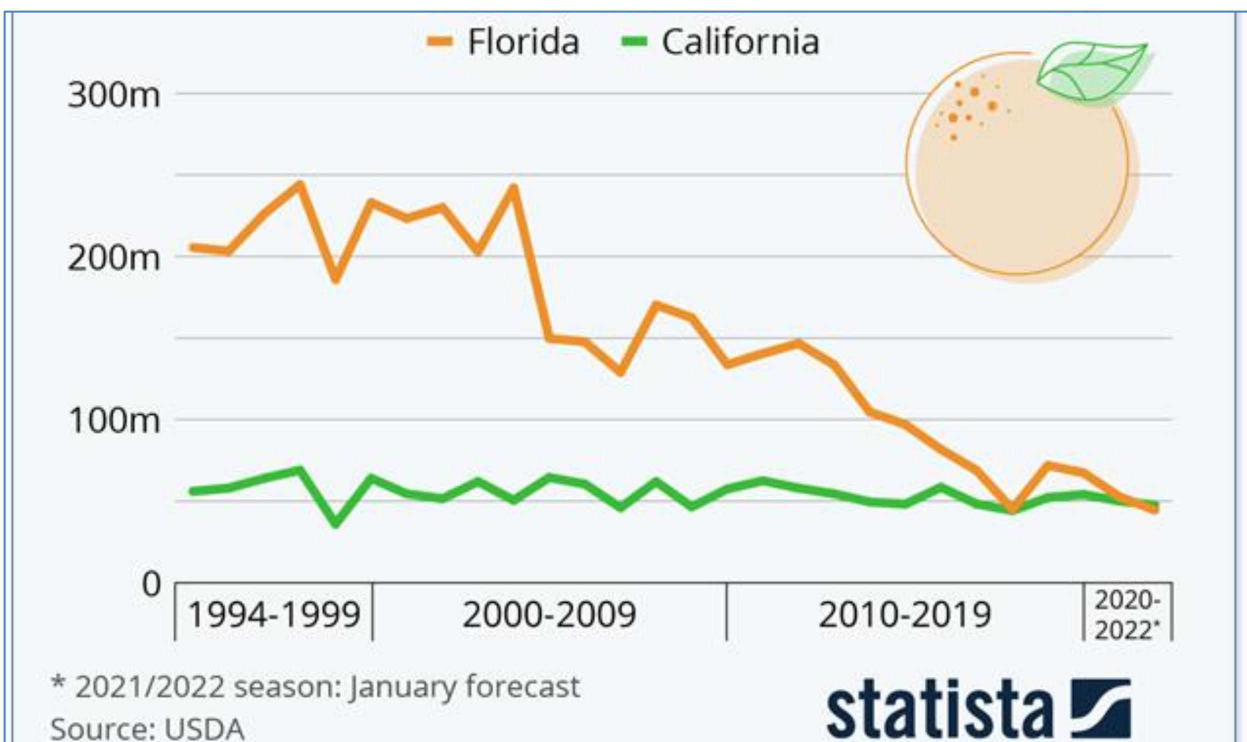
On Europe's mainland, two months before French President Emmanuel Macron faces a tough reelection contest, inflation in France hit a 13-year peak. The country's official statistics agency INSEE, announced France's monthly consumer price index for January rose 2.9%--its highest reading since September 2008, and its annual inflation was 3.3%. The annual reading was down a fraction from the previous month's 3.4% but well above the 3% that had been forecast by economists.

The head of the European Central Bank (ECB) said record inflation could linger for "longer than expected" and appeared to be considering the possibility of an interest rate increase later this year. Twice asked by reporters this week ECB President Christine Lagarde declined to repeat previous comments that a rate hike was "very unlikely" this year. She said officials would pay careful attention to the numbers and revisit their inflation stance next month. At the same time, she said the bank would stick with its schedule for withdrawing economic stimulus used to cushion the economic impact of the COVID-19 pandemic. Lagarde spoke after the bank left interest rates and stimulus programs unchanged even as the other central banks move to counter inflation with rate hikes.

The size of China's economy surpassed the whole of the European Union for the first time this week. Figures released by the European Statistical Office (Eurostat) said the gross domestic product (GDP) of the EU grew by 5.2% for 2021 to just over $17 trillion. On the other hand, China's GDP for 2021 expanded by 8.1% according to China's National Bureau of Statistics. The full-year GDP for China increased by $3 trillion in 2021 to $17.7 trillion, leaping ahead of the European Union. The world's second-largest economy benefited significantly during the Covid-19 crisis from its status as the world's manufacturer. Analysts noted most of the economic gains for China were driven by strong industrial output and exports. China's GDP growth rate easily surpassed the government's target of above six percent growth, and the country is now expected to account for more than 18% of global GDP.

Japan's top currency diplomat Masato Kanda said a weak yen has both merits and demerits for the economy due to the country's changing export patterns and increasing reliance on imports. The comments underscore how a weak yen has become a tricky political issue for Japan's finance ministry, which has been historically known for preventing a strong currency from hurting the country's export sector. On recent yen moves against the dollar, Kanda said the currency pair now appeared to be "lacking a clear sense of direction", having risen steadily last year. Kanda, the country's vice finance minister for international affairs, said the boost a weak yen gives to Japan's export volumes is now smaller than it used to be. Now manufacturers target shipments of high-end, state-of-the-art products overseas rather than cheaper mass-produced goods, as China has replaced Japan as the world's manufacturer of those low-end products.

Finally: Along with gasoline and rent we get to add orange juice to the ever-expanding list of prices expected to skyrocket throughout the year. The January forecast for the U.S. citrus harvest is looking especially bleak for Florida orange growers. For the 2021/2022 season, the "Sunshine state" is expected to harvest 45 million 90 pound boxes in the state. If true, California's crop (expected to be 47 million boxes) would exceed Florida's for the first time ever. One of the results of the meager harvest would likely be rising orange juice prices. Analysts attribute the lower production to a worsening outbreak of citrus greening bacteria transmitted by a bug called the Asian citrus psyllid. (Data from USDA, chart from statista.com)



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

"For those properly prepared, the bear market is not only a calamity but an opportunity."

John Templeton – Investor and Founder of Templeton Growth Fund

Yours truly,

Rial R. Moulton

Donald J. Moulton

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

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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.

To unsubscribe from the "Molten Hot" Minutes please reply to this e-mail with "Unsubscribe" in the subject line, or write us at 1220 N. Mullan Road, Spokane, WA 99206.

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

[*Financial Planning Journal, May 2005*](https://www.azquotes.com/quote/1446350)
[*https://www.azquotes.com/quote/1446350*](https://www.azquotes.com/quote/1446350)

***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.)