
**MOULTON WEALTH MANAGEMENT INC.**

# *MOULTON HOT MINUTES*



***SPECIALIZING IN RETIREMENT AND TAX PLANNING***



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## Week of February 21, 2022

We've warned since late December that market risk had risen and becoming more defensive was warranted. So far in 2022 the Dow Jones is down -6.22%, the S&P-500 is down -8.76% and the NASDAQ is down -13.4%.

Meanwhile Wall Street, as well as buy and hope evangelists, tell us *"don't worry, be happy"*. After all the Dow and S&P-500 aren't even in correction territory (usually defined as a 10% drawdown) and none are in bear market territory (usually defined as a 20% drawdown).

Besides the *"strong consumer and robust corporate profits should quickly reverse these declines".*

And if you only follow headlines, you might agree. Recent headlines about retails sales

## *UP COMING SEMINARS*

BRING A GUEST

- **MARCH 23RD @ 9:30 AM - SPOKANE**

***(BREAKFAST)***

- **MARCH 30TH @ 11:00 AM – RICHLAND**

CALL **509-922-3110** TO RESERVE A SEAT!

would make us believe they're on a one way street higher. And remember consumer spending comprises 2/3 of GDP.

*Retails sales point to a "boomflation economy…*

*Retail sales jumped 3.8%, beating expectations…*

*Retail sales hit record high…*

*Retail sales solid in January…*

Although none of these statements are technically incorrect, we would suggest they are misleading in light of the actual data.

Following are annual gains in retails sales.

- October 2021 vs October 2020 +15%
- November 2021 vs November 2020 +20%
- December 2021 vs December 2020 +17%
- January 2022 vs January 2021 +12%

In fact, January's year over year gain of +12% was the lowest year over year gain in retail sales since February 2021 vs February 2020.

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

*Are retails sales taking off, likely to push GDP and corporate profits higher? Or are retail sales rolling over?*

The answer to that question is critical in determining how the economy (and stock market) may react to Federal Reserve tightening.

What about corporate profits? They certainly have been strong and should continue to hold up stock prices, right? Whenever considering the gain in corporate profits there are two components to the equation – what they are now and what they were previously. It's the percentage change between those two numbers that provide the gain or loss in corporate profits for the period.

Year over year corporate profit gains in 2021 were very strong compared to 2020. And since 2020 was the year of shutdowns, that would make sense. In fact let's first consider what corporate profits did in 2020 vs 2019 by reviewing the S&P-500.

- First quarter 2020 S&P-500 corporate profits vs first quarter 2019 -14.7%
- Second quarter 2020 S&P-500 corporate profits -33%
- Third quarter 2020 S&P-500 corporate profits -7.1%
- Fourth quarter 2020 S&P-500 corporate profits +2.3%

Based on these depressed "starting numbers" it makes sense that 2021 profits would rebound strongly as the shutdowns ended.



And they did.

- First quarter 2021 S&P-500 corporate profit gains vs first quarter 2020 +45.8%
- Second quarter 2021 S&P-500 corporate profit gains +87.3%
- Third quarter 2021 S&P-500 corporate profit gains +37.1%
- Fourth quarter 2021 S&P-500 corporate profit gains +28.2%

So now let's ponder what corporate profits will look like in 2022. Will they likely be as good as or even better than 2021?

Not in rate of change. It would be virtually impossible. Even if 2022 earnings are higher than 2021, they won't be +45.8% higher, or +87.3% higher, or +37.1% higher or +28.2% higher.

Earnings will slow in rate of change and rate of change is what drives the stock market.

But Wall Street has to know all of this, right? So it's already "priced in", correct?

Lance Roberts of realinvestmentadvice.com tells us that S&P-500 earnings estimates for 2022 exceed the historical earnings trend going back to 1950 by ***the most significant deviation ever.***

***In fact last two times earnings projections were similarly this far above the historical trend were during the Great Financial Crisis and the Dot.com bubble.***

Do you think earnings "surprises" will help stocks move higher or be a disappointment?

Investors have benefited from years of Fed money printing, and have possibly become complacent under the premise that the Fed will always save them from market declines. But the Fed is unlikely to be as supportive in an inflationary environment. As such, ignoring risk and remaining fully invested regardless of the economic construct – something misconstrued as shrewd investing as long as the Fed picks up the pieces - could be detrimental to your retirement.

As Warren Buffett once remarked:

*"Only when the tide goes out do you discover who's been swimming naked."*

## *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.

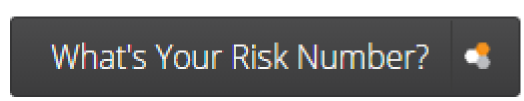
If you didn't like what happened to your portfolio in the dot.com bubble or the financial crisis bubble, but you've made no moves to change the way you invest, now may be the time to seriously consider your process – NOT after the market, and your portfolio, have crashed.

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](http://www.Moultonwealth.com) to help you measure your risk tolerance. The problem with trying to decide how much risk to take is we all want to be aggressive when the market is going up, but conservative*



*when it's going down. That's why a sell discipline is important. However, the first line of defense is always our allocation. This approach to measuring risk gives a number by making investors trade off gains and losses. Just click the button to see where you stand.*

In the markets:

U.S. Markets: The large-cap benchmarks experienced their second consecutive week of declines as worries over conflict in the Ukraine and high inflation continued to weigh on investor sentiment. The Dow Jones Industrial Average shed 659 points finishing the week at 34,079 - a decline of -1.9%. The technology-heavy NASDAQ Composite ended the week down -1.8% to 13,548. By market cap, the large-cap S&P 500 gave up -1.6%. The mid-cap S&P 400 and small-cap Russell 2000 ended down -0.6% and -1%, respectively.

International Markets: Major international markets finished the week predominantly to the downside as well. Canada's TSX pulled back -2.5%, while the United Kingdom's FTSE 100 fell -1.9%. On Europe's mainland, France's CAC 40 retreated -1.2% and Germany's DAX ended down -2.5%. In Asia, China's Shanghai Composite gained 0.8%. Japan's Nikkei 225 declined -2.1%. As grouped by Morgan Stanley Capital International, developed markets fell -0.5%, although emerging markets remained unchanged.

Commodities: Precious metals continued their rise with the help of weakness in equities markets and geopolitical risk. Gold rose more than 3.1% to $1899.80 per ounce, while Silver gained 2.7% to $23.99. Energy pulled back following eight consecutive weeks of gains. West Texas Intermediate crude oil retreated -3.1% to $90.21 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 0.3%.

U.S. Economic News: The number of Americans filing first-time unemployment benefits jumped last week to a three-week high, but economists say not to worry. The Labor Department reported new applications for unemployment benefits jumped by 23,000 to 248,000 last week, but layoffs are expected to stay low as companies strive to fill a nearly 11 million job openings. Mahir Rasheed, U.S. economist at Oxford Economics wrote, "Despite the uptick, we expect initial claims to continue to grind back toward 200,000." Layoffs are expected to be minimal in a tight labor market where employers continue to face difficulty hiring workers. "Economists had expected new claims to total 218,000. Meanwhile, the number of people already collecting benefits dropped by 26,000 to 1.59 million. That number is reported with a one-week delay.

Confidence among the nation's homebuilders pulled back in February, according to the National Association of Home Builders (NAHB). The NAHB's monthly confidence index dropped one point to 82 in February. It was the index's second consecutive decline. The decline matched economists' forecasts. Despite the slight pullback, the overall index remains strong—readings over 50 signify improving confidence. The sub-index that measures sentiment regarding sales over the next 6 months fell two points to 80, while the gauge regarding prospective buyers slipped four points to 69. On a regional basis, attitudes among home builders improved in the Northeast and West, but worsened in the Midwest and South. Supply chain issues continue to weigh on builders. NAHB chairman Jerry Konter noted in the report that "that many builders are waiting months to receive cabinets, garage doors, countertops and appliances."

Sales of existing homes continued to surge higher, but rising rates are likely to stifle future demand. The National Association of Realtors (NAR) reported existing-home sales surged nearly 7% between December and January. Unsold inventory dropped to just a 1.6 month supply—a record low. A 6-month supply of homes is generally considered a "balanced" housing market. As of January, the median sales price for an existing home was up 15% on an annual basis to $350,300. Regionally, sales increased in January in every part of the country, led by a more than 9% surge in the South. Additionally, the South experienced the fastest pace of home-price appreciation in the country.

Sales at the nation's retailers jumped 3.8% in January as Americans spent more money on just about everything. The increase in sales was the largest since last March, when consumers spent a good chunk of their stimulus money from the government. Economists had forecast a 2.1% gain. Some economists warned against extrapolating too much from the strong January retail report. They noted that sales snapped back from a steep 2.5% drop in December. Furthermore, retail sales have shown a pattern of surging in January after declining in December going back about 5 years. Sales jumped 5.7% at car dealers in January. Auto sales account for about one-fifth of overall retail spending. Sales also rose sharply at internet retailers (14.5%), furniture stores (7.2%), department stores (9.2%) and home centers (4.1%).

Prices at the producer level surged again as inflation continued to affect the U.S. economy at all levels. U.S. wholesale prices jumped 1% in January, doubling economists' expectations of a 0.5% increase. The increase was the largest gain in a year. The cost of wholesale goods soared 1.3% last month, driven by increases in the cost of food, gasoline, beef and dairy. The cost of services rose 0.7% last month. Wholesale prices reflect what businesses pay for raw materials like grains, metals, lumber, and computer chips. Since companies often pass on higher prices they pay for materials to consumers, economists look at wholesale inflation numbers for an early indication of future consumer inflation. Over the past year, wholesale prices slowed a tick to 9.7%. Meanwhile, core wholesale inflation, which strips out the most volatile goods and services, rose 0.9% last month. That number was also well above Wall Street expectations.

Costs for imported goods jumped 2% in January - also adding to the strongest surge in U.S. inflation in 40 years. Higher oil prices led the way, but the increase was broad-based. Economists had expected a 1.2% gain. Excluding oil, import prices were still up 1.4% last month—the largest gain since the government began keeping records in 2002. Over the past year, import prices have climbed 10.8%, just below their pandemic peak. Meanwhile, U.S.

export prices climbed 2.9% last month. Analysts note inflation is rising not only in the U.S. but around the world. Disruptions in supply chains have been tied to price pressures, but massive government stimulus and easy-money policies by the world's central banks are named by many economists as the main culprits. Economists expect inflation to slow later in the year as bottlenecks in supply-chains unwind and central banks reverse their monetary policies.

International Economic News: Canada announced an ambitious plan to welcome more than 1.3 million immigrants over the next three years to support its economy. Prime Minister Justin Trudeau's government is working to add 431,000 new residents this year, and over 400,000 each year for the next two years according to the 2022-2024 Immigration Levels Plan released this week. "Immigration has helped shape Canada into the country it is today," Immigration Minister Sean Fraser said in a statement. "We are focused on economic recovery, and immigration is the key to getting there." People from India make up the biggest nationality gaining permanent residency in Canada, accounting for about 40% of the total number. In 2022, some 56% of new immigrants will arrive under economic class pathways such as Express Entry, the Provincial Nominee Program, and the Temporary to Permanent Residence (TR2PR) stream that was available in 2021, according to reports.

Across the Atlantic, inflation in the United Kingdom rose at its fastest pace in almost 30 years, as increased costs for energy, housing and transportation squeezed household budgets. The UK's consumer price index (CPI) ticked up to an annualized 5.5% in January, the Office for National Statistics reported. The latest reading is the highest since March 1992, when inflation hit 7.2%. Energy prices have hit the UK particularly hard. Household natural gas prices jumped 28.3% over the past year, while electricity prices rose 19.2%. The pain is only expected to get worse for British consumers. The nation's energy regulator has announced a 54% increase in gas and electricity taxes that will hit 15 million households in April.

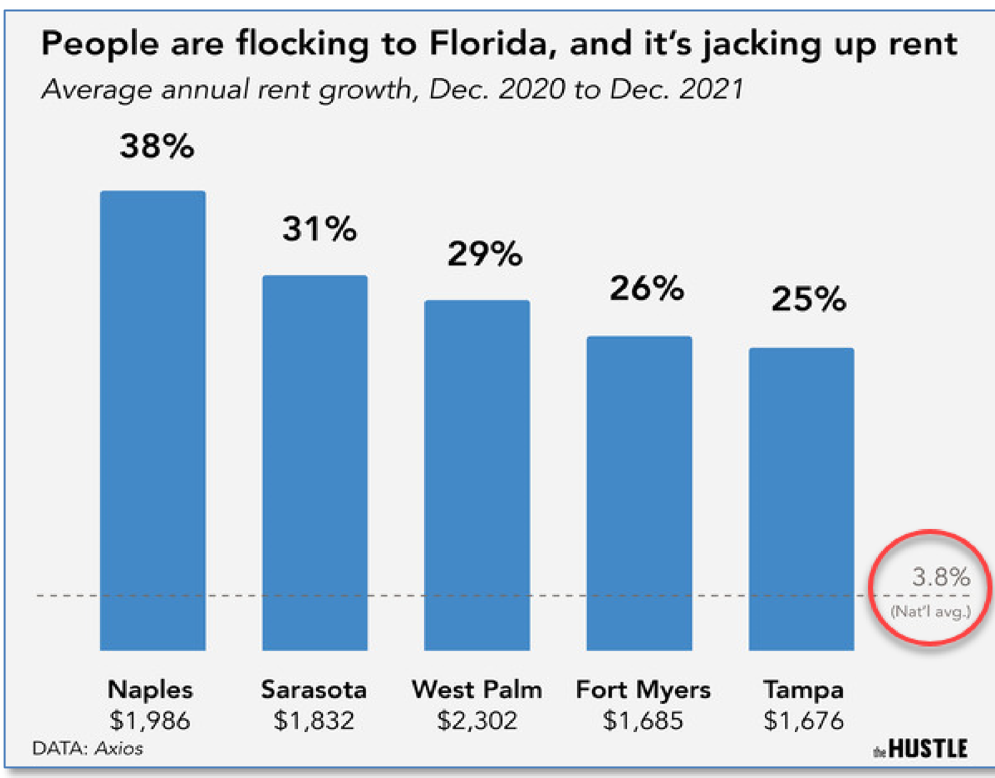
On Europe's mainland, French wine exports hit a record high as global economies recover and trade tensions ease. Exports of French wine and spirits jumped to a record high of 4.9 billion euros ($5.5 billion USD) in 2021. According to the Fédération des Exportateurs de Vins & Spiritueux de France (FEVS), French spirits exports rose by 30.1%. FEVS said the trade balance totaled $16.1 billion, confirming the wines and spirits industry had the second largest trade surplus, behind aircraft. "This positive result in 2021 is remarkable," said FEVS chairman César Giron. "Despite remaining health, logistical and geopolitical constraints, French wines and spirits companies have shown both their willingness and their ability to bounce back in the different parts of the world."

German Foreign Minister Annalena Baerbeck said all options are on the table regarding sanctions on Russia in the event it attacks Ukraine. In a speech at the Munich Security Conference this week, Baerbock said Western powers are united in their preparation of "unprecedented sanctions" on Russia. "We, Germany, are prepared to pay a high economic price for this," she said. "That's why all options are on the table." Baerbeck's comments undoubtedly referenced the vital Russian gas pipeline Nord Stream 2. Despite the lack of a Russian delegation at the security summit for the first time in decades, Baerbock sent a message to the Kremlin: security cannot come at the cost of others, she said.

In Asia, the vast majority of people in Southeast Asia see China as topping the U.S. as an economic power in the region, an ISEAS-Yusof Ishak Institute survey found. The survey showed 76.6% of SE Asians believe China is the most influential economic power in the region. The U.S. was a distant second at just 9.8%. The survey said although the U.S. number is low, it is a significant improvement from last year, when it was 6.6%. The improvement was seen primarily in Malaysia, Myanmar, the Philippines, Singapore and Thailand. While regional countries see China as the top economic power, they also fear the amount of economic control China will exert on their countries. In the survey, 64.4% worried about China's economic influence, while 35.6% thought Beijing's economic exertion on the countries was a good thing.

Japan's economy grew at an annual rate of 5.4% in the final quarter of last year, boosted by improved consumer spending and exports, the government reported. On a quarterly basis, Japan's real gross domestic product, or GDP, grew 1.3%, according to Cabinet Office data. Growth got a boost after measures to curb the spread of coronavirus infections were lifted last year. For all of 2021, the world's third-largest economy grew 1.7%, marking its first calendar year expansion in three years.

Finally: According to the Bureau of Labor Statistics' Consumer Price Index (CPI), rents rose 3.8% across the country last year. But one state in particular scored six of the top ten cities with the highest average rent increase. According to Axios, a few factors explain the increase. More workplaces allowing remote work has pushed workers to warmer climates, and with more housing demand some residents are choosing to rent instead. Furthermore, many residents of higher-tax restrictive states are choosing the low taxes and freedom of states like Florida. (Data: Axios; Chart: TheHustle.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

*"Only when the tide goes out do you discover who's been swimming naked."*

Warren Buffett – Investor / Businessman

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.*

***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.*

*https://realinvestmentadvice.com/earnings-estimates-will-disappoint-as-fed-tightens-policy/*
*https://www.brainyquote.com/quotes/warren_buffett_383933*

***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.)*