MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of March 21, 2022

Whew, that was a close call!

Turn on financial news or better, read twitter, and you'd be convinced that the risk of further market declines is over. After all, the market has rallied for four days.

But what has actually changed? The Fed confirmed they were going to aggressively tighten financial conditions (which is bad for stocks) and Russia is still in Ukraine (which keeps energy high and is bad for stocks).

What is more likely is that the last four days represented a technical rally. What does that mean? It means a lot of buying to "cover shorts" (i.e. to take profits on investments that benefited from the stock market decline). How do you cover shorts? You buy the shares you were previously short. Hence the buying pressure.

This is even more probable because Friday was a massive options expiration day for puts (bets the market would decline). That means dealers were very short to hedge those options and had to buy back to get neutral. If you remember in the early months of 2021 the opposite happened. At that time options traders had large call positions (bets the market would go up) and dealers had to be very long to hedge those positions. As the calls expired, dealers would sell the hedges and the market would often decline.

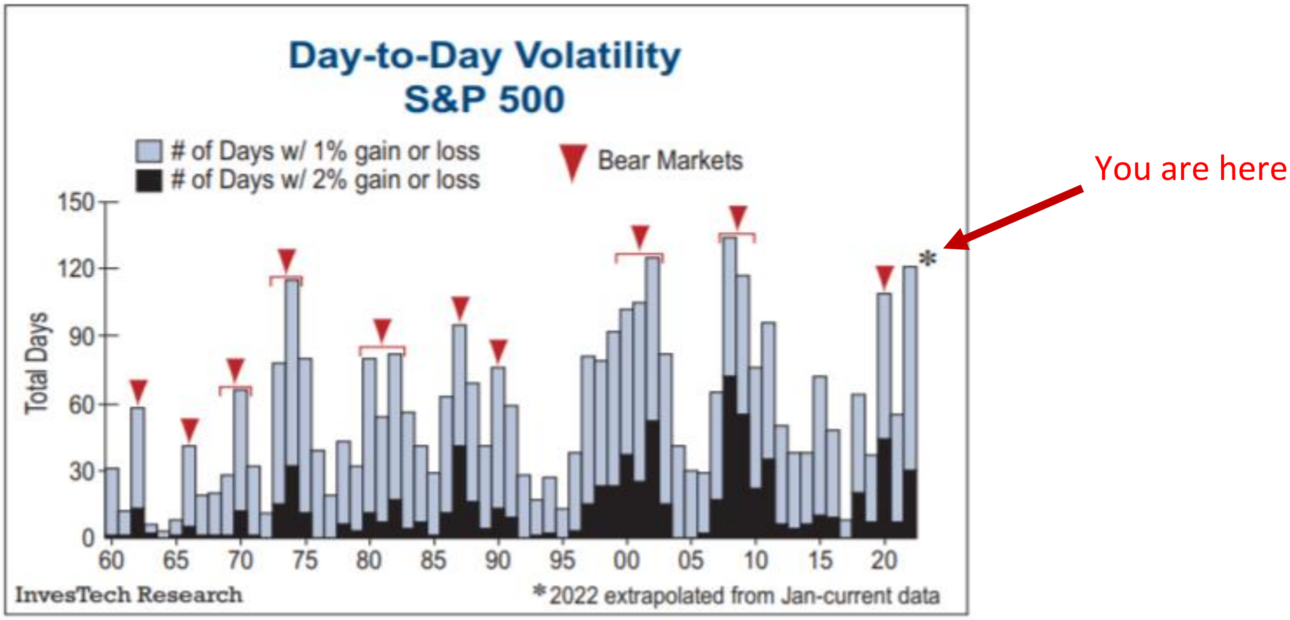
Are we in the topping process of a bear market? Maybe. But that shouldn't be your question. Your question should be…

"Am I positioned to protect myself against the highest probable outcome?"

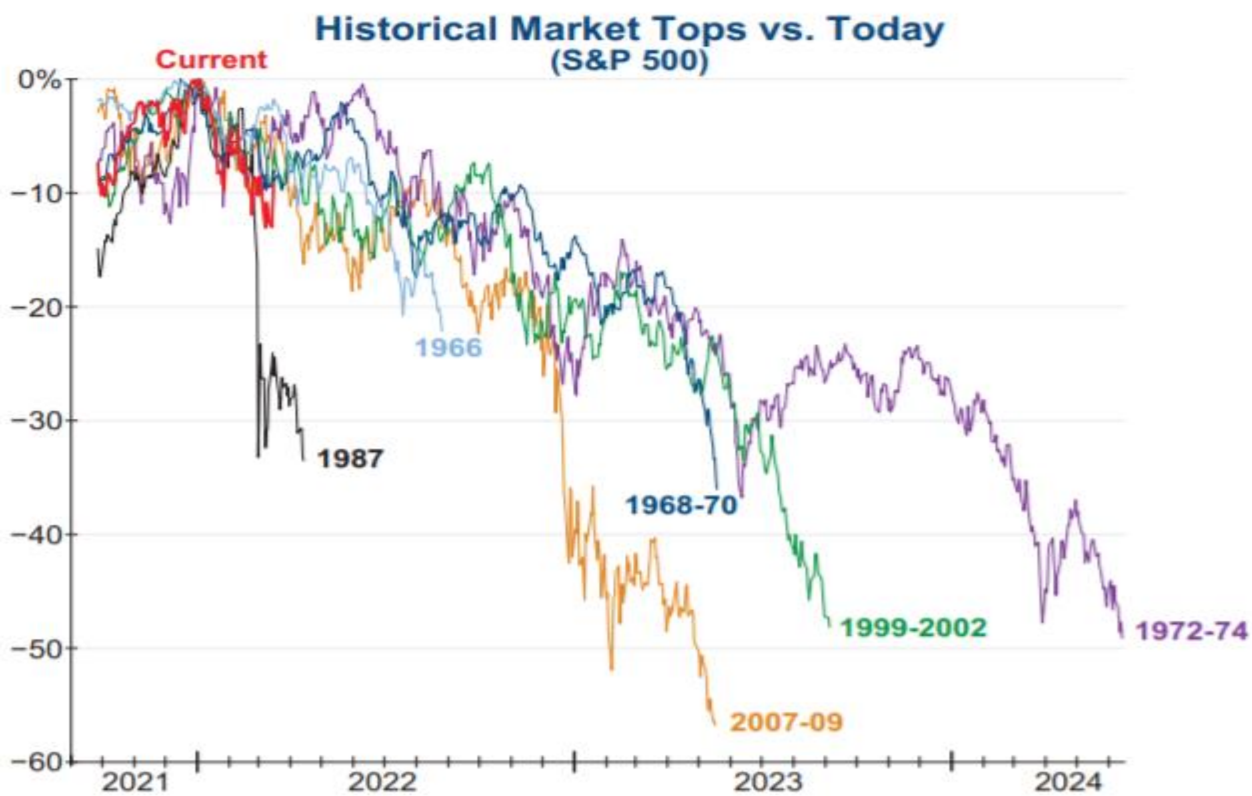
And what is the highest probable outcome? Heightened volatility and heightened risk.

If it is the beginning of a bear market, would such a rally be unusual? No. In fact, so far this one is rather mild if it's a bear market rally. During the early days of the Dot.com bear market, QQQ (which represents big tech stocks) rallied almost 18% over 10 days. It then fell about 72% over the next two years. During the Great Financial Crisis the S&P-500 had several counter-trend rallies only to be followed by new bear market lows. Some were quite impressive and included a 7.8% rally, a 6.5% rally, a 12.4% rally (over 3 months no less), an 18.5% rally and the biggest, a 24% rally. Certainly this rally could continue, as allocated portfolios need to rebalance into quarter end, meaning selling bonds and buying stocks. But it still does not change the economic reality.

One of the earmarks of a bear market is higher volatility – both up and down. In our seminar we talk about this. About 80% of the best single days and 78% of the worst single days have happened during bear markets. InvesTech Research demonstrates this with the following chart. Notice that bull markets have lower volatility than bear markets, and right now the market's behavior is pointing to the latter.



They also charted the current market in red against historical bear markets. Although each is different, it's easy to see that so far market behavior is not abnormal if it is the beginning of a bear market. Notice also how long they've lasted and how many dramatic rallies and declines have occurred in each.



Speaking of rallies and declines, what have we seen so far? Assessing the pattern since the start of the year for the S&P-500 we find:

- January 3rd: 4,796 (high)
- January 27th: 4,326 (low)
- February 9th: 4,587 (high)
- March 8th: 4,170 (low)
- March 18th: 4,463 (high)

So far, at least through last Friday, we've seen a series of lower highs and lower lows.

But volatility is not the only concerning characteristic of this market. The stock market, at least based on last week's rally, is also seeing a different future than the bond market.

We've discussed the yield curve on our radio show and in these newsletters, and why it's important to track it. The yield curve is simply the difference in yield between two equally safe bonds of different durations, in this case U.S. Treasury bonds. All things being equal, the longer bond should have a higher yield than the shorter bond. But when these invert and the shorter bond has equal or higher yield than the longer bond, it's telling us that the bond market sees economic problems ahead.

The most important yield curve in our estimation is the 10 year U.S. Treasury yield minus the 2 year U.S. Treasury yield. It was 1.73% as recently as February 2021.

At Friday's close it was 0.17%.

Historically every time this has inverted *(and keep in mind it has to stay inverted for some time)* a recession has followed, albeit on average 9 months later.

Every time.

There is another yield curve that can be enlightening – the 10 year U.S. Treasury yield minus the 5 year U.S. Treasury yield.

On Friday it closed at 0.00%. In other words, although they've not inverted, they are equal so there is no more room to flatten.

If we look historically at the last three times this curve has turned negative and compare it to the stock market's forward return, we find…

DATE OF INVERSION	S&P 500 RETURN 1 YEAR LATER	S&P 500 RETURN 2 YEARS LATER	S&P 500 RETURN 3 YEARS LATER
JANUARY 12, 2007	+0.73%	-39.12%	-20.6%
* MARCH 6, 2006	+7.7%	+2.2%	-47%
JANUARY 1, 2000	-6.23%	-23.1%	-36.25%

* *this was a brief inversion and it could be argued "didn't count" for that reason*

Of course many say it's different this time. And who knows, maybe it is. But I wouldn't risk my money on that hope.

It will take discipline and patience to manage risk over the next several months or even years.

As a long term investor, does staying fully invested right now, hoping for more upside, appear to be a good risk/reward proposition or is it akin to stepping in front of the steamroller to pick up nickels?

"Investment survival has to be achieved in the short run, not on average in the long run."

Howard Marks – Co-founder and co-chairman of
Oaktree Capital Management

What is your defensive plan?

Call or attend a seminar to hear about ours.

Participate but protect.

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

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

Where are you getting your advice?

Are they fiduciaries?

Are they a Certified Financial Planner™?

Do they have a background in accounting, tax, finance?

Do they review all areas of your financial life (like income taxes, risk management, estate planning) or just talk about stocks?

Who benefits most from their "advice"?

If you're not a client, what is your advisor telling you about our current situation? If your advisor is not discussing these issues with you, shouldn't (s)he be? How much work do you think it takes to keep up on all of this as we try to do, and how much easier do you think it would be to simply repeat over and over…

- Never sell
- You can't time the market
- You're a long term investor
- The market always comes back
- Etc., etc., etc.

Are you being told to stay invested after thoughtful analysis of world events, stock valuations, economic considerations, etc.? Or are you being told to stay invested due to a lack of thoughtful analysis of world events, stock valuations, economic considerations, etc.?

It's your money and it's your retirement.

Being told after the fact that 'everyone lost money' may make you feel better but it won't help pay your utilities.

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

Break the cycle and make your portfolio decision based on where we are likely headed, not on where we've recently been.

If we can help, call our office now and set up a no obligation review.

We think investing today must include a defensive strategy and system. It's this system that helps us decide when "enough is enough" and that it is time to protect your portfolio. If you don't have a system you should consider it now. Regardless of what happens over the next week, month or several months, stocks are overvalued in our opinion and eventually they will reset with a significant market decline.

Remember, we have a feature on our website: www.Moultonwealth.com to help you measure your risk tolerance. The problem with trying to decide how much risk to take is we all want to be aggressive when the market is going up, but conservative when it's going down. That's why a sell discipline is important. However, the first line of defense is always our allocation. This approach to measuring risk gives a number by making investors trade off gains and losses. Just click the button to see where you stand.

In the markets:

U.S. Markets: U.S. stocks moved sharply higher for the week, ending a two-week losing streak and reclaiming much of the ground lost over the past month. Gains were spread across the major indexes, with the tech-heavy Nasdaq Composite staging the biggest rally. The Dow Jones Industrial Average rallied 1,811 points, finishing the week at 34,755—a gain of 5.5%, while the NASDAQ Composite surged 8.2% closing at 13,894. By market cap, the large cap S&P 500 rallied 6.2%, while the mid cap S&P 400 gained 5.3%. The small cap Russell 2000 ended the week up 5.4%.

International Markets: Almost all major international markets finished the week in the green. Canada's TSX rose 1.7%, while the United Kingdom's FTSE 100 gained 3.5%. On Europe's mainland, France's CAC 40 and Germany's DAX each rose 5.8%. In Asia, China's Shanghai Composite ended down -1.8%, but Japan's Nikkei surged 6.6%. As grouped by Morgan Stanley Capital International, developed markets rallied 7.5% and emerging markets rebounded 6.6%.

Commodities: Major commodities pulled back amid the surge in equity markets. Gold retreated -2.8% to $1929.30 and Silver pulled back -4.1% to $25.09. West Texas Intermediate crude oil fell for a second consecutive week giving up -5.7% to $103.09 per barrel, while Brent crude oil ended down -4.2% to $107.93. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of industrial uses, finished the week up 2.5%.

U.S. Economic News: The number of Americans filing first time claims for unemployment benefits dropped to a two-and-a-half month low showing demand for labor remains extremely high. The Labor Department reported initial jobless claims declined by 15,000 to 214,000 last week. Economists had forecast initial jobless claims would total 220,000. Weekly jobless claims now appear on track to approach or even fall below the 200,000 threshold again. They briefly sank to a 52-year low of 188,000 at the end of last year. Meanwhile, the number of people already collecting benefits declined by 71,000 to 1.42 million. That reading is a new post-pandemic low.

The confidence of the nation's homebuilders pulled back this month, falling to its lowest level since last September. The National Association of Home Builders' (NAHB) reported its monthly confidence index fell two points to 79 in March. Overall, the index has now declined for four consecutive months, reflecting a multitude of factors currently weighing on the housing market, such as shortages of labor and key raw materials, and now rising interest rates. Nevertheless, scores above 50 indicate that more builders believe that conditions are good rather than poor. Inflation is the primary culprit behind builders' worsening sentiment. Construction costs have risen over the last 12 months and as the Federal Reserve seeks to ease the run-up in consumer prices, interest rates are rising in response. Economists don't expect this situation to end anytime soon. Robert Dietz, NAHB chief economist, said in the report, "While low existing inventory and favorable demographics are supporting demand, the impact of elevated inflation and expected higher interest rates suggests caution for the second half of 2022."

Sales of existing homes pulled back in February according to the latest report from the National Association of Realtors (NAR). The NAR reported existing-home sales decreased -7.2% between January and February, down -2% from the same time last year. Economists had expected an increase in existing-home sales. Lawrence Yun, chief economist for the National Association of Realtors, said in the report, "Housing affordability continues to be a major challenge, as buyers are getting a double whammy: rising mortgage rates and sustained price increases. Some who had previously qualified at a 3% mortgage rate are no longer able to buy at the 4% rate." Sales declined in every region on a monthly basis, and the South was the only part of the country where February's sales numbers were higher compared to the previous year. The median sales price for an existing home in February was $357,300, representing a 15% annual increase. But due to rising mortgage rates, monthly payments for newly-purchased existing homes are now 28% higher than they were a year ago, Yun said.

Inflation at the wholesale level surged last month, but there was also some potentially good news. The Labor Department reported its Producer Price Index (PPI) rose a sharp 0.8% in February signaling that the hottest inflation in 40 years is unlikely to cool anytime soon. The increase in wholesale prices over the past year stayed at 10% for the second month in a row—its highest level in decades. However, analysts noted the increase in so-called core wholesale prices rose just 0.2%--its smallest advance in over a year. The core rate excludes the often-volatile, food, energy, and retail trade margins category and is viewed by the Federal Reserve as a better indicator of inflation. Wholesale prices reflect what companies pay for supplies such as grains, fuel, metals, lumber, packaging and so forth. Higher business costs tend to translate into rising prices for customers and more inflation. U.S. economist Mahir Rasheed at Oxford Economics stated, “Inflation in the pipeline is showing few signs of decelerating in the near term, especially as the Russia-Ukraine war wreaks havoc in energy and other commodity markets.”

Sales among the nation’s retailers slowed sharply last month, rising just 0.3% as Americans bought fewer goods amid rising inflation. Economists had expected a 0.4% advance. Retail sales were positive largely because of a 5.3% increase in spending on gasoline, but that reflects rising oil prices and is not good news for either consumers or the economy. Sales for autos and parts also rose 0.8%. Auto sales account for about one-fifth of overall retail spending. If gasoline and autos/parts are excluded, retail sales actually fell -0.4% last month. However, analysts note that Americans still have plenty of savings built up during the pandemic and feel secure in their jobs giving them the confidence to spend. Senior economist Sal Guatieri of BMO Capital Markets wrote in a note to clients, “Though cooling after January’s splurge, American consumers appear reasonably well positioned to keep spending, supported by recent massive job gains and high household savings.”

Manufacturing activity in the New York-area declined this month hitting its lowest level since May of 2020, shortly after the pandemic began. The New York Fed reported its Empire State Business Conditions index plunged 14.9 points to -11.8 in March. The reading missed expectations by a wide margin--economists had expected a reading of 5.5. Readings below 0 indicate deteriorating conditions. Both the new orders and shipments indexes declined in March as businesses reported “ongoing substantial increases” in both input and selling prices. The new-orders index fell 12.6 points to -11.2 in March and the shipments index fell 10.3 points to -7.4. On a positive note, firms were more optimistic about the next six months. The Future Business Conditions index rose 8.4 points to 36.6.

The U.S. Federal Reserve raised its key interest rates for the first time in four years and outlined a more aggressive strategy of “ongoing increases” to fight rising inflation. With inflation running at a 40-year high, the fed raised its benchmark interest rate by a quarter percentage point. The Fed now sees its policy rate hitting 1.9% by the end of the year, jumping to 2.8% in 2023 and 2024. While the quarter point hike was widely expected, the Fed’s long-term estimates were more aggressive than many fed-watchers had expected. Avery Shenfeld of CIBC Economics stated, “The Fed threw down the gauntlet as it confronts a broad inflation upsurge, twinning a widely expected and tame quarter point rate hike with a much sterner message about what lies ahead.” The Fed projected inflation would average 4.3% at the end of 2022, up from its prior 2.6% forecast. The last time the central bank expected inflation to top 3% was in 2007. Fed Chairman Jerome Powell had telegraphed the rate increase earlier this month. There was one dissent, with St. Louis Fed President James Bullard arguing for a 50-basis point rate hike.

International Economic News: A commodities rally sparked by Russia's invasion of Ukraine will push Canadian inflation higher for longer, the Bank of Canada stated. The central bank now expects the headline rate to peak at or above 6%, forcing the central bank to raise interest rates more aggressively. Canada's inflation rate has already surged well above the 5.1% that the Bank of Canada forecast for the first quarter in January. A survey of economists at five leading financial institutions and a consultancy showed that most now expect the Bank of Canada to hike borrowing costs four to five times in 2022, lifting its policy rate to 1.25% or 1.5% by the end of the year. Scotiabank is forecasting a year-end policy rate of 2.5%. Canada's latest inflation data surprised on the upside, with the Consumer Price Index hitting a new 30-year high of 5.7% in February.

It was a similar story across the Atlantic. The Bank of England also raised interest rates this week for a third consecutive time, but struck a more dovish tone when discussing future hikes. The Bank's Monetary Policy Committee voted 8-1 in favor of a further 0.25 percentage point hike to its main Bank Rate, taking it to 0.75%. U.K. inflation was already running at a 30-year high prior to Russia's invasion of Ukraine, which sent global energy prices surging. In its report the bank stated, "Global inflationary pressures will strengthen considerably further over coming months, while growth in economies that are net energy importers, including the United Kingdom, is likely to slow." The BoE is currently forecasting inflation to peak at 8% in the coming months, and perhaps even higher later in the year.

On Europe's mainland, French President Emmanuel Macron has vowed to intensify his overhaul of France's welfare state, tax system and labor market if he wins a second term as president next month. Macron stated the transformation of French society would protect people at a time of crisis when the war in Ukraine marked a "return of tragedy in history". Macron's poll numbers have risen since Russia's invasion and is a clear favorite to win April's election, making him the first French president to win re-election in 20 years. Macron vowed to step up his changes to the welfare state and benefits system, raising the pension age from 62 to 65 and continuing to cut taxes for businesses and households.

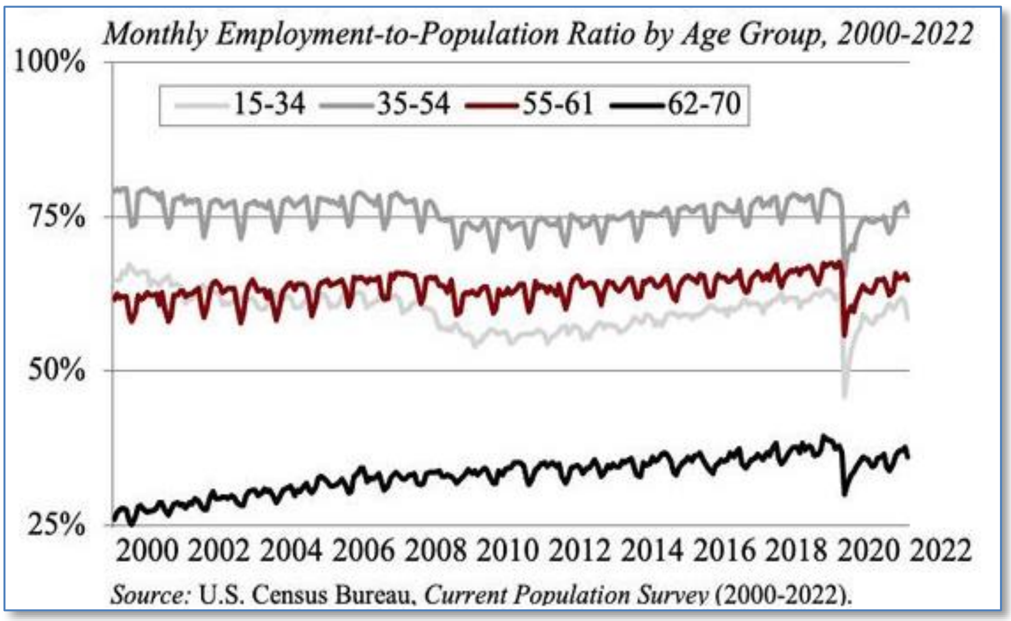
Germany's expectations for economic growth are collapsing, according to the latest data from ZEW (Leibniz Center for European Economic Research). The ZEW Indicator of Economic Sentiment for Germany fell more sharply than ever before in its March 2022 survey. The indicator plunged 93.6 points to -39.3. It was the biggest drop in expectations since the survey began in December 1991. By comparison, the indicator experienced a decline of 58.2 points at the beginning of the COVID-19 pandemic in March 2020. ZEW President Professor Achim Wambach stated, "A recession is becoming more and more likely. The war in Ukraine and the sanctions against Russia are significantly dampening the economic outlook for

Germany. The collapsing economic expectations are accompanied by an extreme rise in inflation expectations. The experts therefore expect a stagflation in the coming months."

In Asia, China's southern technology hub Shenzhen partially eased its lockdown measures after President Xi Jinping stressed the need to "minimize the impact" of the coronavirus pandemic on the nation's economy. The city of 17.5 million, under full lockdown since last week, resumed work, factory operations and public transport in four districts and a special economic zone, Shenzhen's government said. Shenzhen is home to supply chains for major international companies making everything from iPhones to washing machines. Some of China's biggest tech firms also have campuses around the city. The measures came after Xi referenced the spiraling economic costs of China's zero-Covid strategy during a Politburo meeting where he vowed to "stick to" the approach, saying "persistence is victory".

In a sharp contrast to its American and European counterparts, the Bank of Japan struck a dovish stance at its latest policy meeting. The BOJ left its interest rates and asset purchases unchanged, in a move widely expected by economists. With the decision, the BOJ cemented its outlier status following the interest-rate hikes of its global peers this week. While inflation remains subdued in Japan, it is picking up speed. Key consumer prices rose 0.6% last month, according to a government report, as energy costs climbed at the fastest pace in 41 years. Nobuyasu Atago at Ichiyoshi Securities Co. noted the reason for the difference in policy at the BOJ. "The BOJ can't tighten policy because unlike the U.S. and Europe, domestic demand isn't driving inflation at all," he said.

Finally: 'Help Wanted' signs are a common sight in towns and cities across the country. According to conventional wisdom, the shortage of workers (aka "missing workers") is due to older workers, after enjoying outsized gains in their stock portfolios and real-estate holdings, exiting the workforce. However, a deeper look into labor force data from the U.S. Census Bureau shows this isn't exactly the case. For example, for those ages 62-70, 37.4% were employed in January 2020. That percentage dipped to 30% in April 2020 but rebounded to 36% in January 2022. Similar calculations are done for each age group, shown below. It turns out that the age group contributing most to the "missing workers" total is actually the 15-34 age group. That group alone accounts for 42% of the "missing workers" total. (Chart by Marketwatch.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

“Investment survival has to be achieved in the short run, not on average in the long run.”

Howard Marks – Co-founder and co-chairman of
Oaktree Capital Management

Yours truly,

Rial R. Moulton, CFP®, CPA / PFS, RFC
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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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The Barclays Capital Credit Index *is an unmanaged index composed of U.S. investment-grade corporate bonds.*

https://novelinvestor.com/quote-author/howard-marks/

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.)