MOULTON WEALTH MANAGEMENT INC.

MOULTON 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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Last week we talked about yield curves inverting and we said the 10 year vs the 2 year hadn't inverted yet -- it has now. As of this writing on Saturday it is -0.072%.

First, what is the yield curve and what does inverting mean? The yield of any bond is the interest paid divided by the price of the bond. At issuance the yield and the coupon rate are the same. For example, a $100 bond that pays 5% (coupon rate) means you get $5 of interest per year. $5 divided by $100 = 5% and that is the yield. The $5 interest - the coupon payment - doesn't change, but the value of the bond can vary as it trades on the secondary market. So if the value changes from $100 to $110, the yield changes from 5% to 4.5% ($5 divided by $110).

In normal economic times, a shorter term bond yields less than a longer term bond. And that should make sense as an investor is paid more for tying up his or her money for a longer period. When yields invert (i.e. shorter term bonds yield more than longer term bonds) it tells us there are stresses in the economy. Think of it as a fever signaling you're sick. The fever doesn't cause the sickness, but is a result of the sickness.

Why would yields invert? As investors begin fearing that the economy is slowing or even heading to a recession they begin buying longer term bonds as a safe haven, driving their price up and their yield down towards (or in today's case through) lower duration bond yields.

Bespoke Investment Group tells us that when the key 10 year vs 2 year U.S. Treasury bond yields invert, there is a 2/3 chance of a recession in the next year and over a 98% chance of a recession within the next two years.

Is a -0.072% inversion meaningful? It matches the degree of inversion before the Great Financial Crisis but isn't yet as inverted as the curve leading up to the Dot.com bubble recession. The deeper the inversion and the longer it stays inverted, the more meaningful the signal.

On que, buy and hold advocates have been out in force explaining why "this time is different" and/or the inversion should be ignored. One such claim was made in Kiplinger by Ryan Detrick, chief market strategist at LPL Financial who claimed the inverted yield curve is bullish for stocks. He posted the following table demonstrating how much stocks rose *after* the last four inversions.

Yield Curve Inversions Can Be Bullish For Stocks

2 year/10 year Yield Curve Inversions

Date of Inversion	Bull Market Peak Date	S&P 500 Index Return	Months Till Bull Market Peak
12/13/1988	7/16/1990	33.2%	19.1
5/26/1998	3/24/2000	39.6%	22.0
12/27/2005	10/9/2007	24.6%	21.4
8/27/2019	2/19/2020	18.0%	5.8
	Average	28.8%	17.1
	Median	28.9%	20.2

Source: LPL Research, St. Louis Fed 03/30/2022 (Last Four Inversions)

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

LPL Financial

But let's think this through. His argument is that you should remain fully invested regardless of what's going on in the world because the market generally goes higher – buy and hold. He points to the yield curve inversion as one more time that the market could fool you and make you miss out. But as a buy and hold advocate, the returns shown above are just sign posts on the journey, not the destination. In other words, it's great stocks kept going up, but would you have been better off staying in or getting out at the time of the inversion?

From that 12/13/1988 inversion, the S&P-500 was still up 2 years and 10 months later (the market bottom in the following recession), but only by about +11.9% (or less than +4% per year), so much of the +33.2% gain from the inversion to the market peak was given back. Regardless, it was still a net positive – chalk one up for buy and hold.

From the 5/26/1998 inversion, the S&P-500 was down approximately -24% just over 4 years later during the following recession so not only was all the +39.6% gain given back but so was almost a quarter of your starting balance. Check the box for having a sell discipline.

From the 12/27/2005 inversion, the S&P was down almost -47% about 3 years and 3 months later, during the following recession. Again not only was the +24.6% given back but also about half of your starting balance. Definitely better getting out.

From the 8/27/19 inversion, the S&P-500 was down just under -23% about 7 months later, during the following recession. Not only was the +18% gain he cites given back but yet again almost a quarter of your starting balance. Defense would have been a better course.

Seems Mr. Detrick missed the end of the movie. Do you think those using these type arguments don't know any better or is it they just don't want us to know any better?

Certainly it would be nice to capture those gains and then miss the losses and if anyone can pinpoint each market peak to the day, let me know as I have a job awaiting you. But buy and hold by definition is built on ignoring peaks and valleys and riding it out. Seems like missing out on the gains between the inversion and the peak would have been a net positive if it meant you also missed the subsequent decline.

And frankly, the market declines in the next recession could be worse. Why? When the yield curve inverted in 1988 the S&P-500's Shiller Price to Earnings Ratio (i.e. how expensive stocks were vs. the average earnings they produced over the trailing 10 years annualized) was 15. At the 1998 inversion it was 36.8. At the 2005 inversion it was 26.45. At the 2019 inversion it was 32.6. It's now about 37. Aside from the 1998 inversion which was close to the same, this is the most expensive market at the time of inversion.

Regardless, we don't structure our sell discipline around yield curve inversions. The yield curve inversion is simply another point of confirmation. We use several different economic and mathematical models to help determine when offense is optimal and when defense is required.

And right now, defense is required.

Then why isn't the market falling and bonds rising? At least for the last half of March, the opposite happened. It seems the market is in disagreement with the need for defense.

During the Dot.com bubble the S&P-500 peaked on a closing basis on March 23, 2000. However, almost 6 months later on September 1, 2000 after a sell off and strong recovery, it was only down -0.43%. Ultimately it lost about -50% from the March peak. During the Great Financial Crisis the S&P-500 peaked on a closing basis on October 9, 2007. Two months later, again after sell offs and strong recoveries, it was down only -3.14% on December 10, 2007 and -8.8% on May 19, 2008. Ultimately it lost about -57%. It would have been very tempting during those initial sell offs and recoveries to buy into the idea that defense and a sell discipline are at best unnecessary.

There's an old market saying that risk happens slowly and then all at once. It means it's not unusual for the market to seem to completely ignore bad news and then suddenly pay attention only to bad news. We suspect as earnings are announced for the first and especially second quarters of 2022 the market will no longer be able to ignore the bad news.

The yield curve inversion starts a clock. You are running out of time to implement a defensive strategy before the next bear market extracts a large part of your retirement portfolio from you. And of course the same buy and hold advocates who had repeatedly told you a defensive plan wasn't needed, will then tell you that "no one could have seen this coming".

Protect yourself, we're likely only getting started.

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

Warren Buffett – American Businessman / Investor

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: The major U.S. indexes ended the week mixed, with stock prices fluctuating over the week in apparent response to the evolving situation in the war in Ukraine. The Dow Jones Industrial Average ticked down just -0.1% to 34,818, while the NASDAQ finished the week up 0.7% to 14,262. The large cap S&P 500 ticked up 0.1%, mid-caps ticked down -0.1% and the small cap Russell 2000 finished the week up 0.6%.

International Markets: Most of the major international markets finished the week to the upside. Canada's TSX ended down -0.2%, but the United Kingdom's FTSE 100 gained 0.7%. On Europe's mainland, France's CAC 40 and Germany's DAX rose 2% and 1%, respectively. In Asia, China's Shanghai Composite snapped a five-week losing streak, rising 2.2%, but Japan's Nikkei ended the week down -1.7%. As grouped by Morgan Stanley Capital International, developed markets rose 0.7% and Emerging markets gained 1.9%.

Commodities: It was a negative week for major commodities. Gold ended down -1.6% to $1923.70 per ounce, while Silver declined -3.8% to $24.65. Oil gave up all of last week's gains with Brent crude declining -10.8% to $104.75 per barrel and West Texas Intermediate plunging -12.8% to $99.27. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, ended the week down -0.2%.

March Summary: Major U.S. indexes were green across the board for the month. The Dow gained 2.3% and the NASDAQ rose 3.4%. Large caps led the way with a 3.6% increase. Midcaps finished up 1.2% and small caps added 1.1%. But for the first quarter as a whole, all of the major indexes finished to the downside. The Dow shed -4.6%, while the NASDAQ plunged -9.1%. Large caps ended down -4.9%, while midcaps gave up -5.2%. Small caps ended the quarter down -7.8%.

Among major international markets for the month of March, Canada led the way with a 3.6% rise and the UK added 0.8%. France was essentially unchanged while Germany ticked down -0.3%. China gained 0.9%, while Japan gave up -0.6%. By grouping, developed markets added 0.5%, but emerging markets ended the month down -3.6%. International markets finished the first quarter mixed. Canada rose 3.1%, along with the UK which added 1.8%. France and Germany ended the quarter down -6.9% and -9.3%, respectively. China managed a 0.9% rise, while Japan shed -0.6%. By grouping, developed markets ended down -6.5% and emerging markets declined -7.6%.

Major commodities rose in the month of March, Gold and Silver rose 2.8% and 3.1%, respectively. Oil added 4.8% and Copper gained 6.6%. Commodities had a great first quarter of 2022. Crude oil soared 33.3%, while Gold gained 6.9%, silver added 7.6%, and the industrial metal copper rose 6.5%.

U.S. Economic News: The Labor Department reported the number of Americans filing first-time unemployment benefits rose last week, retracing much of the previous week's sharp decline. Initial jobless claims rose by 14,000 to 202,000 in the week ended March 26. Claims had dropped by 27,000 the previous week to 188,000—its lowest level since 1969. Economists said then that the decline was too sharp to last. Economists had expected this week's reading to rise to 195,000. Meanwhile, the number of people already collecting jobless benefits fell by 35,000 to 1.31 million. Continuing claims are at their lowest level since December of 1969.

The U.S. economy added a robust 431,000 new jobs in March and the unemployment rate ticked down closer to a half-century low, as companies pushed to add staff and more people entered the labor force. As expected, the tight labor market pushed hourly pay up a sharp 5.6% over the past year—the highest rate since the early 1980's. For the second month in a row, a quarter of the job gains occurred in service-oriented companies such as hotels and restaurants. Employment rose by 112,000 in the hospitality business. Employment also rose by 102,000 at professional businesses, 49,000 in retail, 38,000 in manufacturing and 19,000 in construction. In addition, the percentage of people in the labor force edged up to a new pandemic high of 62.4%, just a percentage point below its pre-pandemic peak. Economists widely expect that while the labor market remains healthy, the economy should too. Robert Frick, corporate economist at Navy Federal Credit Union wrote in a note, "The March jobs report shows employment remains the best part of the economy, especially for lower-wage workers. These show an economy accelerating as the pandemic diminishes, and job levels probably reaching pre-pandemic levels this summer."

Over 4 million workers quit their jobs in February, evidence that the labor market remains the tightest it's been in decades. The number of people quitting topped 4 million last June for the first time ever, and it's now happened nine months in a row in an event that's become known as the "Great Resignation". Before the pandemic, the number of people quitting jobs averaged fewer than 3 million a month. The so-called "quits rate" component of the labor department's "JOLTS" report ticked up to 2.9% from 2.8%, just below an all-time high. Also in the report, the number of job openings fell slightly to 11.27 million in February, the Labor Department reported. But that number remains near a record high. Companies continue to complain of a shortage of qualified workers. Job openings rose in government, education, and services such as arts and entertainment as pandemic restrictions were eased. Openings fell in finance and manufacturing.

Home prices continued to soar in January at one of the fastest rates on record, but analysts expect higher mortgage rates to slow future growth. S&P CoreLogic reported its Case-Shiller 20-city home price index posted a 19.1% annual gain the first month of the year. On a monthly basis, the index increased 1.8% between December and January. Similarly, Case-Shiller's national home price index showed annual growth of 19.2% in January. Craig J. Lazzara, managing director at S&P DJI, said in the Case-Shiller report, "Last fall we observed that home prices, although continuing to rise quite sharply, had begun to decelerate. Even that modest deceleration was on pause in January." Phoenix, Ariz. recorded the highest rate of home-price growth in the country, according to the Case-Shiller report, with a 32.6% year-over-year increase. As with the month prior, two Florida cities closely followed: Tampa with a 30.8% gain and Miami with a 28.1% increase. All 20 cities that are tracked by the Case-Shiller index saw record price growth on an annual basis, and in 16 of the 20 cities the rate of home-price appreciation was higher in January than in December.

Confidence among the nation's consumers rose for the first time this year, but concerns remain over rising inflation and the war in Ukraine. The Conference Board reported its survey of consumer confidence rose 1.7 points to 107.2 in March. The reading was a slight miss of economists' expectations for a reading of 107.5. Overall, confidence remains well off its highs from last summer. The measure of how consumers feel about the economy right now rose by 10 points to 153.0, marking the highest point since last July. Yet a similar gauge that looks ahead six months dipped to 76.6 from 80.8, suggesting Americans are wary of the future path of the economy. Jim Baird, chief investment officer at Plante Moran Financial Advisors stated, "As the Fed embarks on what appears likely to be an extended rate hike cycle and financial conditions tighten, consumers are increasingly wary of the outlook for the economy in the latter half of the year and into 2023."

Factory activity slowed in March hitting its lowest level in a year-and-a-half, a recent survey showed. The Institute for Supply Management reported its Purchasing Managers'

Index for manufacturing slipped 1.5 points to 57.1 in March. This is its lowest reading since September of 2020. Economists had expected a slight improvement to 59. Still, readings above 50 signify growth and this is the 22nd consecutive month the index has been above the breakeven level of 50. In the report, the new-orders index fell 7.9 points to 53.8, while the production index fell 4 points to 54.5. Despite supply-chain issues, manufacturing continues to be a solid source of strength in the economy.

International Economic News: The Canadian economy grew 0.2% in January, Statistics Canada reported. Goods-producing industries drove the gains in January, the agency said. The construction sector grew for the third time in four months—residential construction grew 4.3% in January StatCan said. The same couldn't be said for the services sector that as a whole registered zero growth in January. CIBC senior economist Andrew Grantham wrote in an analysis that the surprisingly resilient January figure and early estimate for growth in February puts economic growth for the first quarter ahead of the growth that was anticipated at the start of the year. Grantham now expects the economy to grow at an annualized rate of 4% in the first quarter—double the forecast of Canada's central bank.

Across the Atlantic, the United Kingdom's economy was only 0.1% below pre-pandemic levels after growing faster than originally thought at the end of last year, the UK's Office for National Statistics reported. UK economic output grew by 1.3% from October to December, compared with an initial estimate of 1.0%. Revisions to estimated growth in 2021 and 2020 mean the economy is now thought to have ended 2021 just 0.1% shy of its pre-Covid-19 level, compared with a previous estimate of 0.4%. However, some analysts noted increased government spending made up much of the shortfall and growth remained well off the trend that would have been expected before the pandemic began.

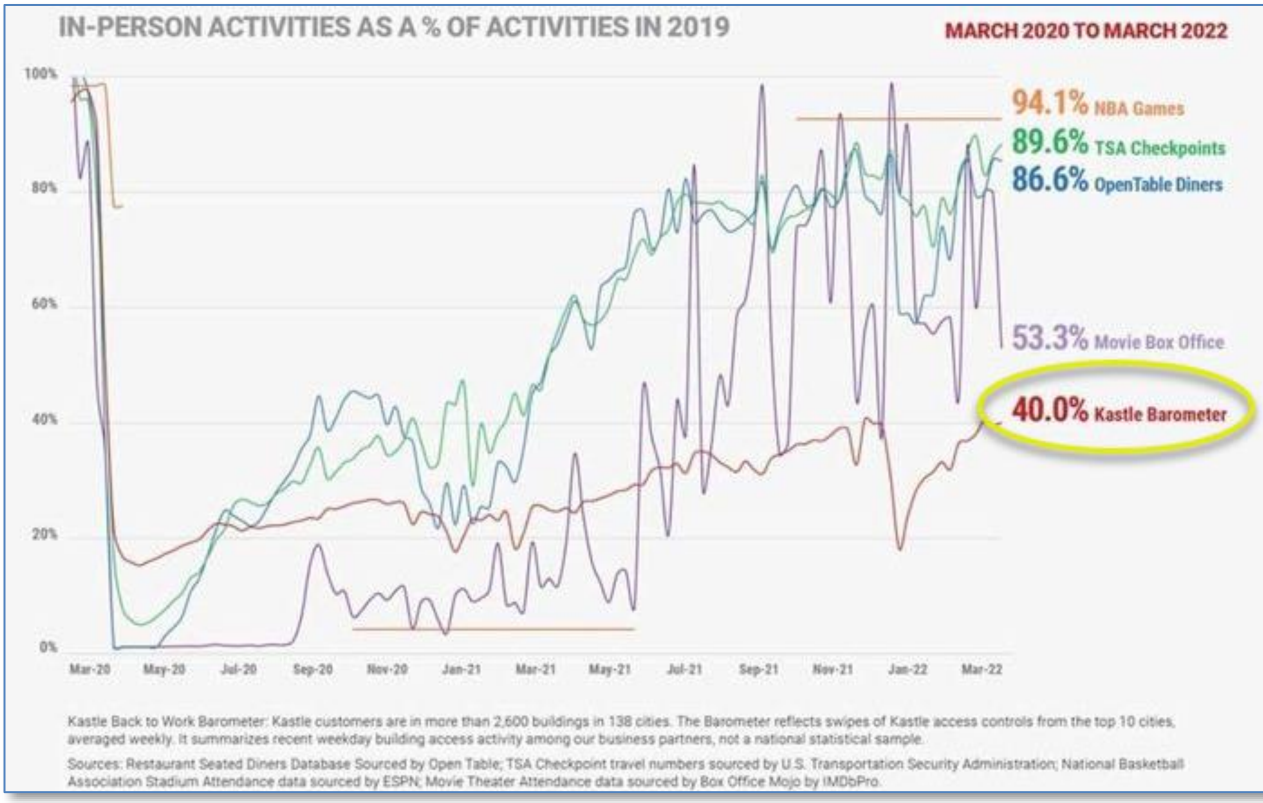
On Europe's mainland, inflation in France jumped more than expected with consumer prices rising 5.1% from the same time last year. Economists had expected inflation to come in at 4.9%. The ramp-up in euro-zone prices is heaping pressure on the European Central Bank to raise interest rates from record lows. But while some ECB officials are pushing for one or more hikes this year, President Christine Lagarde has stressed the need for a gradual approach amid "significant risks" to economic growth. France has tried to insulate its citizens from the increase in oil and gas prices by imposing caps on gas and electricity prices this year.

Germany's Economy Minister Robert Habeck stated Germany "will be poorer" because of Russia's assault on Ukraine, as soaring energy prices hit Europe's biggest economy particularly hard. "It is not possible that this ends without costs for German society, it is unthinkable," Robert Habeck said. Preliminary figures indicate that inflation hit 7.3% in March, according to the country's Federal Statistics Office. That's the highest level in more than 40 years. The German government indicated that its payments dispute with Russia--which has demanded that "unfriendly" nations pay in rubles for their natural gas rather than in euros or US dollars--could lead to shortages, and ultimately rationing.

In Asia, China renewed its criticism of Western sanctions against Russia as European Union officials sought assurances from Beijing that it would not help Russia circumvent the economic restrictions imposed in response to its invasion of Ukraine. The Chinese Foreign Ministry also laid blame for the war in Ukraine at least partially on the United States for pushing to expand the NATO military alliance closer to Russia's borders. China's Foreign Ministry spokesperson Zhao Lijian earlier warned that his country "disapproves of solving problems through sanctions, and we are even more opposed to unilateral sanctions and long-arm jurisdiction that have no basis in international law." China says it is not taking sides in the conflict, but it has declared a "no limits" partnership with Russia and refuses to condemn the invasion.

Japan "does not intend to withdraw" from oil and liquefied natural gas development projects in Russia, Trade Minister Koichi Hagiuda stated this week. Japanese companies have invested in the Sakhalin-1, Sakhalin-2 and Arctic LNG 2 (ARC 2) projects. Each has been deemed essential to Japan's energy security. "We have interest in them and have secured long-term claimants," said Hagiuda.. "In the current situation of sudden energy price increases, we can procure energy at prices cheaper than the market price. This is extremely important for energy security."

Finally: As the pandemic winds down, life in many respects is almost back to normal—except for one area—office space. According to building security provider Kastle, which monitors the use of security and ID cards in office buildings, the "Kastle Barometer" of average weekly occupancy for offices is still just 40% of pre-pandemic levels. In contrast, the NBA is reporting attendance just 6% down from 2019 levels, and the TSA is reporting air traffic down 11%. Nicholas Colas, co-founder of DataTrek Resources, attributes the stagnation to multiple factors. Not only did the pandemic show businesses that, in many cases, its office functions could be performed online, but the current labor market has given employees a strong upper hand in the job market. "Many businesses want their workers back in the office but know that pushing the issue risks increasing labor force turnover. Many workers want – and can demand – flexible work schedules where they continue to work from home some or all of the time," he said. (Chart by Kastle Systems)



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 – American Businessman / Investor

Yours truly,

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

Donald J. Moulton, CFP®, RFC
Certified Financial Planner™

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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://www.cnbc.com/2022/03/31/2-year-treasury-yield-tops-10-year-rate-a-yield-curve-inversion-that-could-signal-a-recession.html
https://www.kiplinger.com/investing/stocks/604484/inverted-yield-curve-stocks
https://www.multpl.com/shiller-pe/table/by-month
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,0020Statistics Canada, Yahoo! Finance, stocksandnews.com, marketwatch.com, wantchinatimes.com, BBC, 361capital.com, pensionpartners.com, cnbc.com, FactSet.)