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

Week of April 18, 2022

Last week we told you the 10 year and 2 year yields *"uninverted"*. Remember when the economy is strong, longer bonds should yield more than shorter bonds because there is more "time risk". But when the bond market begins to get concerned about a slowing economy, they sometimes invert with the longer bond yielding less than the shorter bond?

Why?

Because investors begin to seek safety. As they buy longer term U.S. Treasury bonds it pushes their yield down. This inversion of the 2 year vs 10 year U.S. Treasury bond yields has been very accurate at predicting upcoming recessions, albeit on average not for 9 months.

Two weeks ago they in fact inverted and then last week they reversed and returned to a "normal" status. The market Pollyanna's (just buy and hold and close your eyes and ears) crowd took this as a sign of all steam ahead, and have been celebrating their self-described victory ever since.

Last week we told you that the curve inverting and then returning to normal does not invalidate the concern. And now John Mauldin who is an economist and money manager of some repute has joined in with other signs that we likely are headed into a recession.

Remember, recessions almost always include bear markets, often in stocks and real-estate, so managing for them is important (and frankly seems to make more sense than arguing against their possibility just so there's no reason to change a buy and hold mantra or portfolio).

But before we get to Mr. Mauldin, let's review the risk level. I've heard for the last several weeks, again from buy and hold advocates, that investors are very bearish. They cite surveys to back them up. A very bearish investing crowd is a contra indicator meaning stocks are likely to rise.

Why?

The theory is if you're bearish (think stocks will fall) you have sold, and are now a potential new buyer at some point in the future. The more investors who are bearish, the more who have already sold, the more then are possible new buyers. As such, the number of potential buyers (demand) will outstrip the number of potential sellers (supply) and prices will rise.

But talk is cheap. Let's look at the actual data. The following (admittedly blurry) chart shows U.S. private sector financial assets as a percentage of GDP. Financial assets are primarily stocks, bonds and real-estate. The vertical lines are all the times the Fed decided things needed a helping hand with more money printing (QE).

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

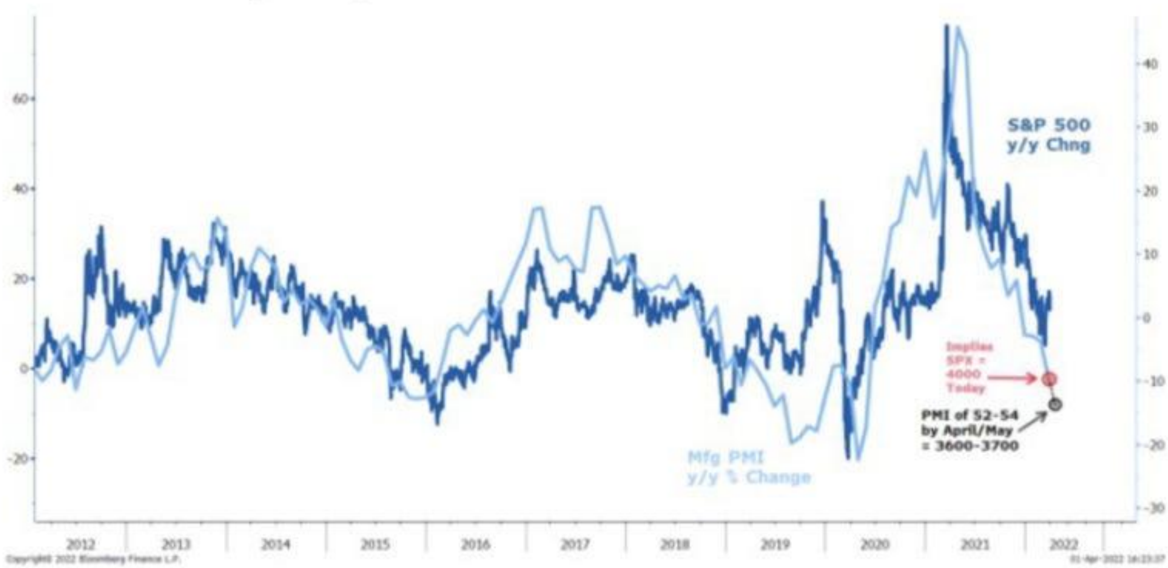
(BOTH SHOWS ARE ALSO AVAILABLE LIVE VIA THE INTERNET)

Does anything about that chart suggest that investors are bearish or that they sold these assets? The last time inflation was a concern the level of these assets to GDP was 2.8X, and was a good time to buy risk assets. It's now 6.3x, the highest ever. And "ever" is a long time.

Housing is 16 – 17% of GDP, so it's very important to the economy and it's starting to slow. Experts like Ian Shepherdson, the founder of Pantheon Macroeconomics, and Solita Marcelli and Jonathan Woloshin, strategists at UBS, have said in recent weeks that they see a decrease in activity and the pace of price appreciation as mortgage rates rise and inflation cuts into budgets. Even before the rates rose much, second home purchases fell -35% (seasonally adjusted) from January to March according to Hedgeye Risk Management.

Next manufacturing is decelerating with new orders down. Morgan Stanley's Chief U.S. Equity Strategist Mike Wilson cited poor Purchasing Managers Index data. He thinks the S&P-500 could fall another -17% from here.

Exhibit 3: ... Signaling lower S&P 500



Source: Bloomberg, Morgan Stanley Research

Mr. Mauldin also points to the transportation industry signaling a slowdown, and cites FreightWaves CEO Craig Fuller. Transportation stocks have already fallen more than the general market.

And of course, unlike past market declines with the Fed chomping at the bit to print money and throw it at the markets to keep it afloat, the Fed will be adding to the pain this time. Until inflation abates, the Fed will keep pumping the brakes, pushing down equity and real-estate prices. In fact former Fed advisor, Danielle DiMartino-Booth told Business Insider in March that the Fed would hike rates "until something breaks".

When should we become concerned?

Mr. Mauldin thinks the recession could happen later this year, much earlier than many assume. And remember, stock prices don't sit idly by waiting for the official pronouncement. They often fall before the recession hits.

How far could stocks fall?

Again according to Mr. Mauldin, who correctly called both the Dot.com bear market and the Great Financial Crisis, *"somewhere in the -40% range"*. Frankly, considering the opening chart of financial assets as a percentage of GDP, Mr. Mauldin's estimate may be optimistic.

Now admittedly it's easier to just buy and hold and ignore everything. As an added bonus, investors can take solace in the refrain that "everyone is losing" and "no one could have seen it coming". Heck they can even throw in the "you haven't lost if you don't sell" if it helps.

But a -40% decline takes a +67% gain just to get back to break even. And unlike the Covid recovery, fueled by trillions of dollars of Fed and government printing worldwide, this decline may take a few years to gain back.

"Missing the bottom on the way up won't cost you anything. It's missing the top on the way down that's always expensive."

Peter Lynch – Former Magellan Fund Manager

What is your defensive plan?

Call or attend a seminar 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”?

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

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 in the first week of major corporate earnings reports for 2022. Value stocks continued to outperform their growth counterparts, while small-caps outpaced large caps. The Dow Jones Industrial Average shed 270 points finishing the week at 34,451—a decline of -0.8%. The technology-heavy NASDAQ Composite fell a second week, falling -2.6% to 13,351. By market cap, the large cap S&P 500 declined -2.1%, while the mid cap S&P 400 and small cap Russell 2000 indexes finished up 0.4% and 0.5%, respectively.

International Markets: International markets finished the week predominantly to the downside. Canada's TSX ticked down -0.1%, while the United Kingdom's FTSE 100 gave up -0.7%. France's CAC 40 gained 0.6%, but Germany's DAX ended down -0.8%. In Asia, China's Shanghai Composite ended the week down -0.8% and Japan's Nikkei retraced some of last week's decline ending up 0.7%. As grouped by Morgan Stanley Capital International, emerging markets ended the week down -1.6% and developed markets finished down -1.2%.

Commodities: Major commodities finished the week in the green. Gold rose 1.9% to $1974.90 an ounce, while Silver gained 3.9% to $25.70. West Texas Intermediate crude oil surged 11.4% to $106.95 per barrel, while Brent crude added 9.6% to $111.10. The industrial metal copper, viewed by some analysts as a barometer for world economic health due to its wide variety of uses, finished the week up 0.5%.

U.S. Economic News: the number of Americans filing first-time claims for unemployment rose last week after hitting a 54-year low. The Labor Department reported claims rose 18,000 to 185,000. Economists had expected new claims would total just 172,000. Meanwhile, continuing claims, which counts the number of people already receiving benefits, fell by 48,000 to 1.48 million. That number is reported with a one-week lag.

The confidence of America's small-business owners fell to a one-year low according to the National Federation of Independent Business (NFIB). The group's optimism index dropped 2.4 points to 93.2. "Inflation continues to be a problem on Main Street, leading more owners to raise selling prices again in February," NFIB chief economist Bill Dunkelberg said. "Supply chain disruptions and labor shortages also remain problems, leading to lower earnings and sales for many." A net 72% of owners said they were increasing prices, the highest reading in the history of the survey. Furthermore, owners don't expect relief anytime soon. The percentage of those who think business will be better six months from now fell 14 points to a new negative 49%--the lowest level recorded in the 48-year-old survey.

The U.S. inflation rate jumped last month to a 40-year high of 8.5% as the price of gasoline, food, housing, and just about everything else rose. The Bureau of Labor Statistics reported CPI rose 1.2% in March—its biggest monthly gain since Hurricane Katrina in 2005. The last time inflation topped 8% was in January 1982, when Ronald Reagan was president. However, some analysts pointed out the "core" rate of inflation, which strips out food and energy, rose just 0.3% last month. That was the smallest increase in that reading in six months. The Fed views the core rate as a more accurate measure of inflationary trends, despite the majority of Americans paying a large share of their budget for fuel and food. The core rate also sits at a 40-year high of 6.5%. Kathy Bostjancic, chief U.S. financial economist at Oxford Economics wrote in a note to clients, "The Russia-Ukraine war has added further fuel to the blazing rate of inflation via higher energy, food, and commodity prices that are turbo charged by a worsening in supply chain problems."

At the wholesale, or "producer", level the cost of goods and services jumped 1.4% in March, signaling that high inflation is likely to remain near or above its 40-year highs at least through spring. Economists had expected a 1.1% gain. The increase last month was the largest since the government reformulated the index in 2009—and likely one of the biggest since the early 1980's. Over the past year wholesale prices have climbed 11.2%, up from 10% in the prior month. Meanwhile, the increase in "core" wholesale prices rose a sharp 0.9%--almost double economists' forecasts. At least one analyst noted that despite news reports, much of the increase in prices was not due to the conflict in Ukraine. Senior economist Kurt Rankin at PNC Financial Services wrote, "Producer prices rose briskly even outside food and energy, showing increases are not limited to impacts from the Russian invasion."

Manufacturing activity in the New York-area surged last month according to that region's central bank. The New York Federal Reserve reported its Empire State Manufacturing survey showed general business conditions jumped 36.4 points to a reading of 24.6 in April from -11.8 in March. Economists had expected a flat reading. In the report, the new-orders index vaulted 36.3 points to 25.1 in April, while the shipments index leapt 41.9 points to 34.5. However, of concern, the prices-paid index rocketed to a record high reading of 86.4. Furthermore, optimism among manufacturers about the next six months declined a sharp 21 points to 15.2—its lowest reading since early in the pandemic.

The nation's consumers continued to spend last month as inflation rose to its highest level since 1981. The Census Bureau reported retail sales climbed 0.5% from the previous month—slightly less than the 0.6% Dow Jones estimate and a deceleration from the upwardly revised 0.8% gain in February. Retail sales data is not adjusted for inflation. Consequently, the biggest gain in sales for the month came at gas stations, which saw an 8.9% increase in sales as gasoline prices rose 18.3% during the period. By contrast, online sales slumped sharply, falling 6.4% for the month. Overall, retail sales rose 6.9% from the same time last year—a period during which CPI inflation surged 8.5%.

International Economic News: The Bank of Canada announced this week that it increased its interest rate by a half percentage point to 1% amid rising inflation. They also said they will begin a policy of quantitative tightening on April 25, as maturing government bonds will no longer be replaced and because of that, the size of the balance sheet will begin to decline over time. "Price spikes in oil, natural gas and other commodities are adding to inflation around the world," the news release said. Bank of Canada Governor Tiff Macklem stated, "With inflation well above target, with the economy moving in excess demand, there is a need to normalize monetary policy reasonably quickly and that is reflected in the decision today to raise the policy rate by 50 basis points." The Bank forecasts that Canada's economy will grow by 4¼% this year before slowing to 3¼% in 2023 and 2¼% in 2024.

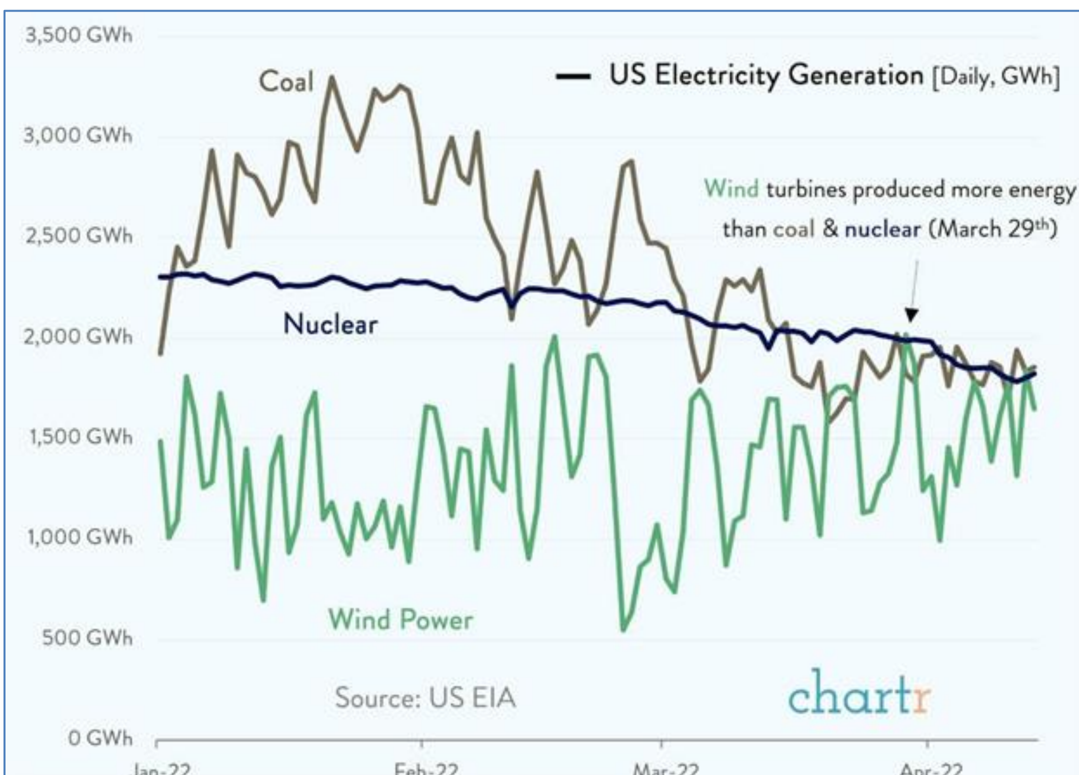
On Europe's mainland, French ex-president Francois Hollande called on voters to back current incumbent Emmanuel Macron in the second round of the country's presidential election, stressing that support for the incumbent is the best way "to ensure (Marine) Le Pen does not win". Macron and Le Pen will face off in France's presidential election run-off on April 24, with polls pointing to a much tighter race than the lopsided contest that saw Macron easily prevail in 2017. "I am a former president and I know that in an election of this importance, what is key is France, its cohesion, its European future and its independence. This is why I call on the French to vote for Emmanuel Macron," Hollande, a Socialist, told TF1 television.

In its biannual Joint Economic Forecast, Germany's biggest economic institutions reduced their GDP forecasts, attributing their downgrade to the war in Ukraine. The RWI in Essen, the DIW in Berlin, the IFO Institute in Munich, and others now expect German GDP to grow by 2.7% in 2022 and 3.1% in 2023. The institutes had previously projected growth of 4.8% in

2022. Furthermore, Stefan Kooths, research director for business cycles and growth at the Kiel Institute stated, “If [Russian] gas supplies were to be cut off, the German economy would undergo a sharp recession.” Ukrainian President Volodymyr Zelenskyy and the European Parliament have called for the European Union to impose a total embargo on Russian oil, gas and coal imports. However, such a move is expected to have dire economic consequences. Germany bought 58.9% of its natural gas from Russia in 2020, according to the European statistics agency.

In Asia, the People’s Bank of China lowered its reserve requirement ratio (RRR), the amount of cash banks must hold in reserve, by 25 basis points for most banks and 50 basis points for smaller banks, the lowest level since 2007. The change is effective on April 25 and will unleash 530 billion yuan ($83 billion USD) of liquidity into China’s economy. Cutting the RRR is an effective way to unleash cheap long-term liquidity. With local governments speeding up infrastructure bond sales, the cash boost may help banks to finance the surge in bonds. The move itself was not a surprise, as it was widely signaled by China’s State Council. Top Chinese politicians have also repeatedly warned of risks to growth and the need for more monetary and fiscal stimulus as the economic outlook deteriorates.

Finally: On a single day earlier this month – and for the first time ever - wind power was the second-largest source of electric generation in the country, behind only natural gas. The Energy Information Administration reported on March 29th that wind turbines produced more energy than both coal and nuclear power. Energy analysts expect that over the coming years, this phenomenon will likely become commonplace as installed wind capacity continues to grow, while use of coal continues to fall. The use of coal for electricity generation is down more than 50% since 2007. (Data from EIA, Chart by chartr.co)



GET A PHYSICAL!

We invite you to attend a seminar and come in for a “financial physical”, even if you think your current approach is fine. Much like going to the doctor for a physical despite feeling great, you want to make sure any negative issues you may not be aware of are caught early and addressed. For example…

- Do you need a process to help manage losses during the next bear market?
- Have you addressed your investment process and adjusted it for what is going on in the world?
- If not, what are you waiting for?

At the bottom of the 2007 - 2009 bear market the S&P-500 index returned to levels last seen in 1996.

The drop didn't retrace only a few months or even a couple years.

We discuss many of these issues on the weekly radio show and invite you to listen.

WEEKLY FOCUS – THINK ABOUT IT

"Missing the bottom on the way up won't cost you anything. It's missing the top on the way down that's always expensive."

Peter Lynch – Former Magellan Fund Manager

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.

https://www.businessinsider.com/stock-market-crash-recession-bubble-inflation-rate-hikes-fed-mauldin-2022-4
https://app.hedgeye.com/feed_items/all?page=1&with_category=24-early-look
https://novelinvestor.com/quote-category/bear-market/

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.)