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1220 N. MULLAN ROAD
SPOKANE, WA 99206
509-922-3110

DONALD J. MOULTON
CFP®, RFC

www.moultonwealth.com

RIAL R. MOULTON
CFP®, CPA/PFS, RFC

Week of June 06, 2022

The markets were generally down for the week. The S&P led decliners, down -1.19%. The NASDAQ ended down -0.98% and the Dow Jones ended down -0.94%. We told you last week that the strong market advances were likely part of a bear market rally. Bear market rallies can last several weeks. The fact that this week provided no follow up is not a good sign for those still fully invested.

Please see our new website www.MoultonWealth.com. Of the many improvements, the most important is we now host podcasts of past radio shows, allowing you to listen at your convenience. If you've not listened yet, we'd suggest starting with 05-28-22 (Connecting the Economic Dots), 05-21-22 (Housing Bubble) and of course the most recent show. (Past newsletters are also posted as usual.)

UP COMING

RISK MANAGEMENT

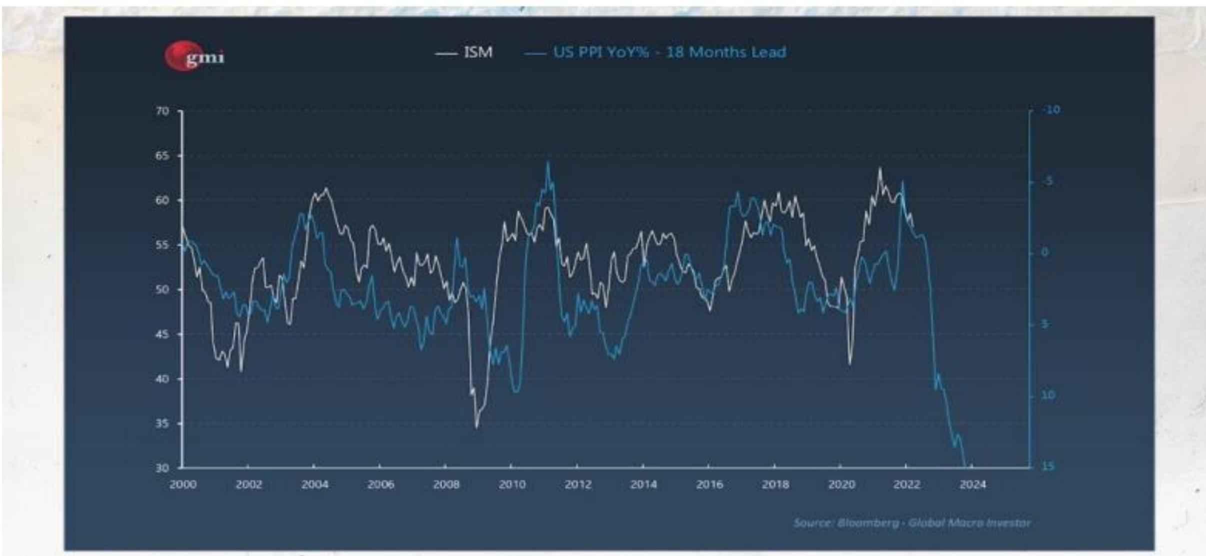
SEMINAR

BRING A GUEST

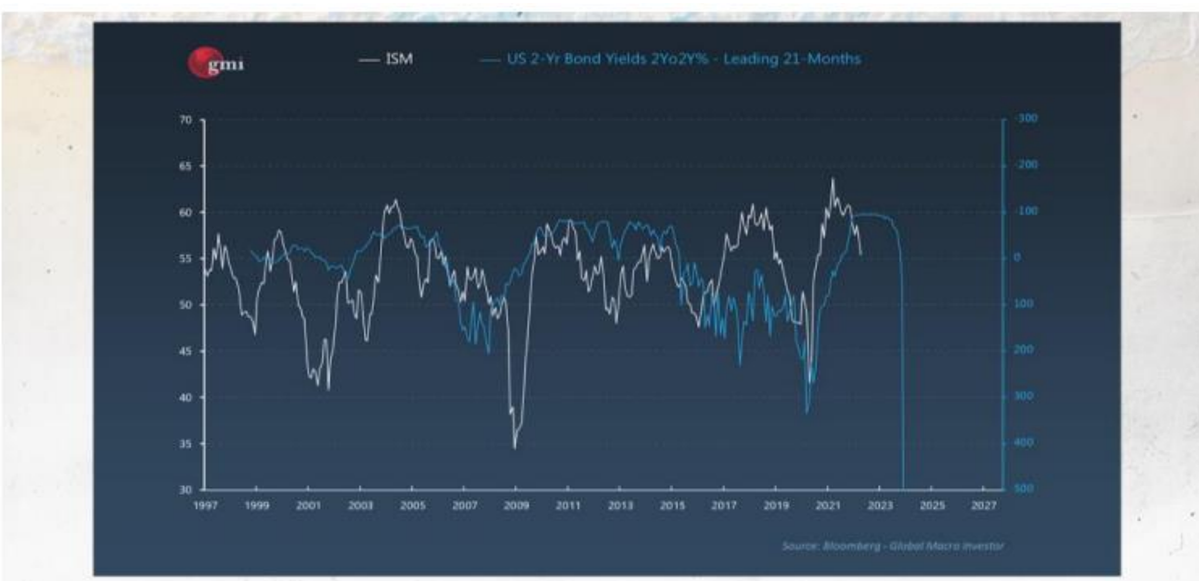
- **JUNE 22ND @ 9:30 AM - SPOKANE**
- **JUNE 29TH @ 11:00 AM – RICHLAND**

If you've followed us for any amount of time you know the data we track points to being in the early stages of a recession and bear market in stocks. And the "recession" part of that statement is important. Bear markets within recessions are historically deeper than bear markets outside of recessions.

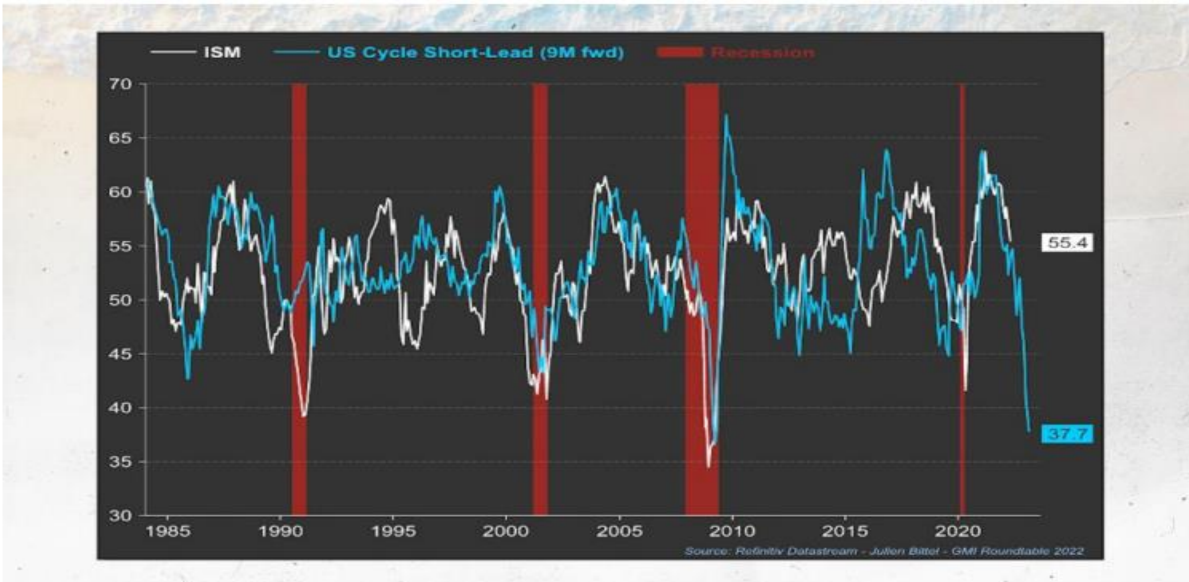
This past week macro investor Raoul Pal issued a special report pointing out where he thinks we're headed. The first shows U.S. Producer Inflation inverted (upside down) in blue compared with the ISM in white, which he uses as a proxy for the business cycle. Notice that over the last 22 years, they've tracked pretty closely but with Producer inflation leading by 18 months. Look at the lows in the ISM in 2001 and 2008, two very bad recessions, as well as 2020 during Covid. If the relationship holds, the ISM should fall sharply in the coming months and even years, and could be a deeper decline than any on the chart.



Next he reviews 2 year Treasury yields measured in 2 year rate of change, inverted in blue, again against ISM. Notice again they track pretty well over the last 22 years, with the 2 year Treasury yield measured in 2 year rate of change leading the ISM by 21 months. Same conclusion.



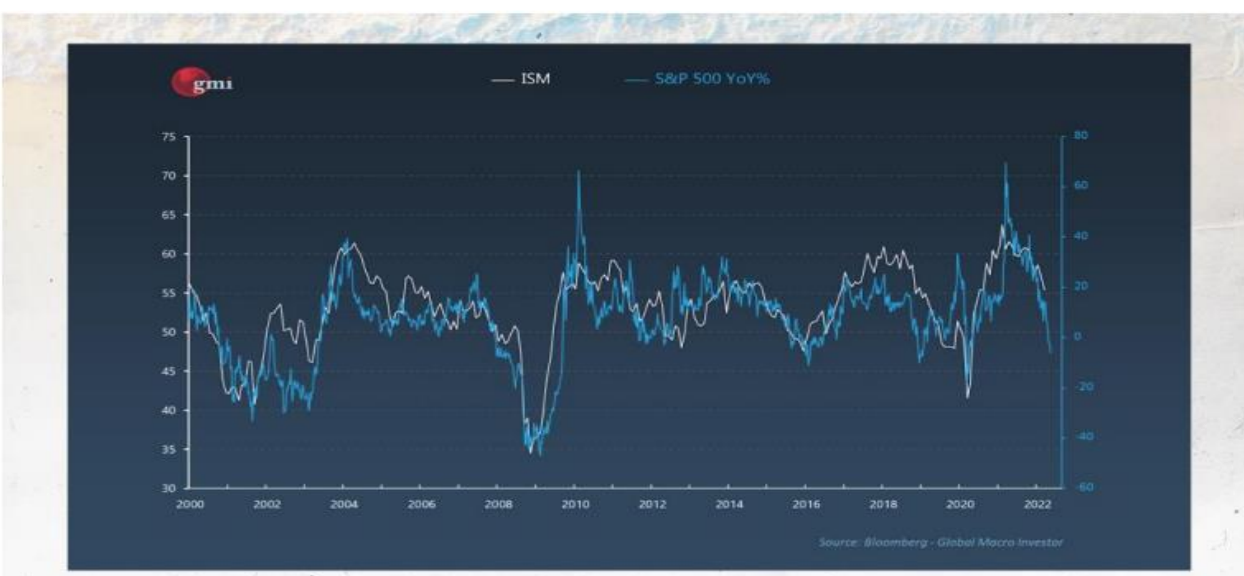
Now let’s include a basket of rising interest rates, commodity prices and the U.S. dollar. Combining them creates the Short-Lead Cycle Index (in blue), which again tracks the ISM (white) business cycle with a 9 month lead time (recessions are shown in red). Once again, same conclusion.



The message is clear.

Not only are we likely to experience an economic slowdown over the coming months and possibly years, it is likely to be a very sharp and dramatic slowdown, on a scale possibly not seen in decades.

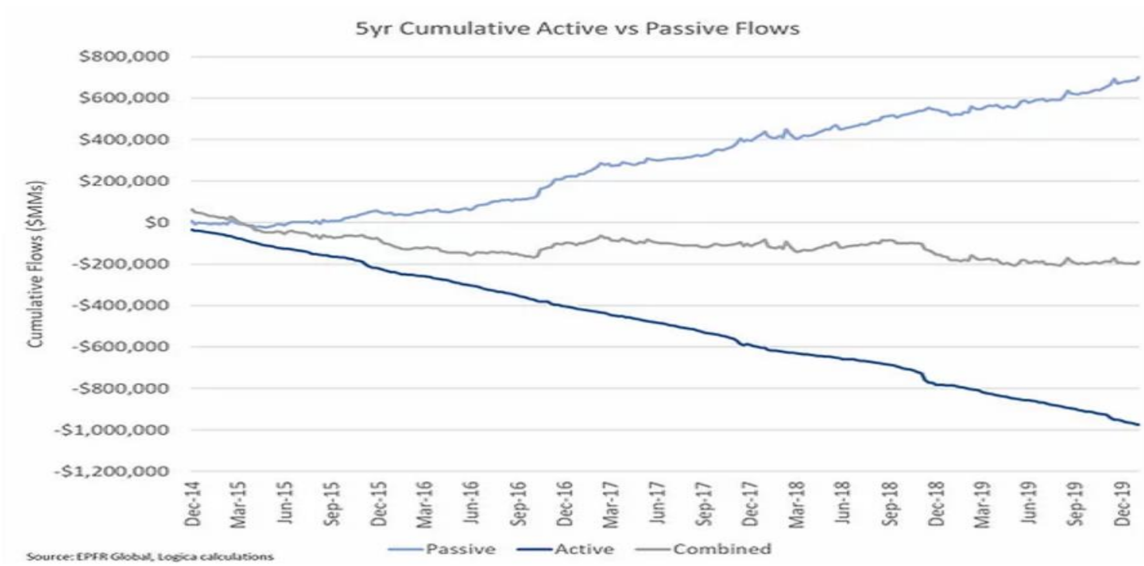
As investors, do we care? After all, we invest in the stock market, not in the business cycle. If we overlay the same ISM business cycle chart in white over the S&P-500 year over year percentage change in blue, you’ll note they are closely aligned. You should also note that our current year over year decline is small from a historical perspective.



So ask yourself…

"…if past relationships hold and we enter a very sharp and deep recession, how do you think a historically expensive stock market will react?"

Unfortunately we fear it could be even worse. Over the last 30 years, but especially over the last 10, investors have poured more and more money into passive index funds as opposed to actively managed funds. You can see the flows below from a paper by Michael Green, currently portfolio manager for Thiel Macro LLC.



The original theory behind passive or index investing was that current market prices already reflect all known information (called price discovery) and as such active management generally don't do better. So why pay more for active management when there isn't commensurate excess performance?

And this may make sense, assuming that active managers – those analyzing all the known information and making investment decisions that passive investors can piggyback – outweigh passive investors. If passive investors begin to swamp active investors, like they have recently, then there is no price discovery and it's the passive flows that are creating prices. Not all the "known information".

Understand, when money comes into or leaves a passive fund, it triggers an "on/off switch". Money in equals "buy the stocks in the index at the appropriate percentages." Money out equals "sell the stocks in the index at the appropriate percentages." There's no consideration of valuations, economics, corporate profits or any other of the "all known information". They have no option but buy everything or sell everything. Further, since these passive funds aren't trading aside from money in or money out, market volumes have dropped dramatically.

So what would you guess could happen in a falling market if many of these passive investors decide they want out (i.e. – index funds have to sell all the stocks in the index without consideration) at a time that there are too few active investors to scoop up possible bargains?

A lot of supply but little demand.

It's called a waterfall event where stock prices fall straight down very quickly. And the more they fall, the more passive investors will want out, which will lead to even more declines in a self-fulfilling loop.

Mike Green uses an analogy of a car with no brakes. As long as it's going up a hill, no one notices or even believes. In reality though, this is exactly when you need to know the brakes are out. Of course once the car starts down the other side, everyone will notice and believe. It also could explain why bear market declines have become so much more virulent (the Covid sell off in March of 2020 saw the S&P-500 decline -31.8% in five weeks. It was the fastest -30%+ drop in the stock market… *ever*.)

Even when passive investing was not nearly as pervasive as today, in 2008, the S&P-500 had consecutive weekly declines of -3.3%, -9.4% and -18.2% (the last was down as much as -24% mid-week). That totals a -28.3% decline on a closing basis in just those three weeks, *which is over double the decline we've seen so far in all of 2022.*

It's easy to lull oneself to sleep with the idea that you can always change your approach… later.

And you can.

But how much will you lose first?

"If you push indexation to its logical extreme, you will get preposterous results."

Charlie Munger – Investor, Businessman
and Warren Buffett partner

What is your defensive plan?

Call or attend a seminar to hear about ours.

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.

What's Your Risk Number?

In the markets:

U.S. Markets: U.S. stocks surrendered a portion of the previous week's strong gains as investors continued to question whether the Federal Reserve would be able to rein in inflation without causing a recession. All of the major equity benchmarks finished the week to the downside. The Dow Jones Industrial Average shed 313 points, finishing the week at 32,900, down -0.94%. The technology-heavy NASDAQ Composite shed -0.98% and closed at 12,013. By market cap, the large cap S&P 500 fared the worst, ending down -1.19%, while the mid cap S&P 400 retreated -0.7% and the small cap Russell 2000 finished down -0.3%.

International Markets: International markets were mixed for the week. Canada's TSX ticked up 0.2% last week, while the United Kingdom's FTSE 100 shed -0.7%. On Europe's mainland, France's CAC 40 pulled back -0.5% and Germany's DAX finished essentially flat. In Asia, China's Shanghai Composite rose 2.1% and Japan's Nikkei rallied 3.7%. As grouped by Morgan Stanley Capital International, developed markets declined -1%, while emerging markets finished the week up 0.8%.

Commodities: Major commodities finished the week mixed. Precious metals closed to the downside with Gold giving up -0.4% to $1850.20 per ounce and Silver retreating -0.9% to $21.91. Energy had a second week of gains with West Texas Intermediate crude oil rising 3.3% to $118.87 per barrel and Brent crude adding 4.7% to $121.05. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, finished the week up 3.8%.

May Summary:

Despite all the intra-month volatility, the majority of the U.S. benchmark indexes finished the month of May flat. The Dow Jones Industrial Average was essentially unchanged on a percentage basis, finishing down just 90 points for the month. It was a similar story for both the large cap S&P 500 and the small cap Russell 2000. The mid cap S&P 400 managed a 0.6% increase in the month of May, while the NASDAQ Composite ended the month down -2.1%.

For the month of May, Canada declined -0.2%, while the United Kingdom gained 0.8%. France and Germany ended the mixed with France declining -1% and Germany gaining 2.1%. China rallied 4.6% and Japan added 1.6%. Developed markets finished the month up 2%. Emerging markets added 0.6%.

Gold and Silver finished the month of May down -3.3% and -6.1%, respectively, while West Texas Intermediate rallied 9.5%. Brent gained 9%. Copper finished the month down -2.6%.

U.S. Economic News: The number of people filing for first-time unemployment benefits fell by 11,000 last week to just 200,000, reflecting one of the strongest labor markets in decades. Economists had expected initial jobless claims to total 210,000. Applications for unemployment benefits have fallen the last two weeks after hitting a four-month high in early May. Claims fell the most in Kentucky, Pennsylvania, Georgia, and Florida. California and Mississippi were the only states to post sizable increases. Meanwhile, the number of people already collecting benefits, continuing claims, fell by 34,000 to 1.31 million. That number is still at its lowest level since 1969.

The country added a stronger-than-expected 390,000 new jobs in May, signaling the labor market and the broader economy remain resilient despite mounting macroeconomic pressures. Economists had forecast an increase of just 328,000 new jobs after reports leading up to the release hinted at slower hiring. The increase in employment was the smallest in 13 months, however. Overall, the unemployment rate remained unchanged at 3.6%--just a tick below the pre-pandemic low. The size of the labor force grew by 330,000 in May, nudging the participation rate up to 62.3% from 62.2%. Analysts noted the stronger-than-expected report is likely to allow the Fed to continue hiking rates. Restaurants and hotels again led the way in hiring, adding 84,000 jobs. Employment also rose by 75,000 at professional businesses, 47,000 in transportation and warehousing, and 36,000 in construction. Chief economist Bill Adams of Comerica Bank stated, “Another month of solid job growth in May is further evidence that the U.S. economy was not in a recession in the spring.”

The number of job openings dropped by roughly half a million in April to 11.4 million open positions, according to the latest data from the Labor Department. Furthermore, the number of people who quit their jobs remained little changed at 4.4 million. Quits topped 4 million last summer for the first time on record, part of a pandemic-era trend that became known as “the great resignation”. Prior to COVID, the number of people quitting jobs averaged fewer than 3 million per month. Analysts note the U.S. labor market may be the economy’s saving grace as the Federal Reserve moves to raise interest rates to tame inflation. Higher rates are likely to slow the economy, however as long as workers feel secure in their jobs, they’re likely to keep spending—and steady consumer spending should help the economy avoid a recession. Job openings fell the most in health care and social services (-266,000), retail (-162,000) and hotels and restaurants (113,000). Openings rose in manufacturing, transportation and warehousing. The so-called “quits rate” remained unchanged at 2.9% for the third month in a row.

Home prices rose again, hitting all-time highs despite mortgage rates also being on the rise. The S&P CoreLogic Case-Shiller 20-city home price index was up a record 21.2% year-over-year in March and up 3.1% from the previous month. Once again, Phoenix had the highest rate of home-prices in the country--up a whopping 32% from the same time last year. Dallas was second with a 30.7% annual increase. However, Rubeela Farooqi, chief U.S. economist at High

Frequency Economics noted that home prices are bound to slow as mortgage rates continue to rise. The rate on a 30-year fixed rate mortgage has almost doubled to 5.25% from 2.75% last fall.

Manufacturing activity increased in May according to the latest report from the Institute for Supply Management (ISM). ISM reported its Manufacturing Purchasing Managers' Index (PMI) rose to 56.1 in May from 55.4 in the prior month. The reading exceeded the consensus forecast of a decline to 54.5. In the report, the index for new orders rose 1.6 points to 55.1 as demand continues to increase despite higher prices. Employment, however, pulled back 1.3 to 49.6. All of the six biggest manufacturing industries posted moderate-to-strong growth in May. Ian Shepherdson, chief economist at Pantheon Macro stated, "Fears of a near-term rollover in the sector look overdone, though we think that the ISM index will soften over the next few months before recovering somewhat in the fall."

The vastly larger 'services' side of the U.S. economy expanded at its slowest pace since early last year, in a similar report from ISM. ISM reported its Services PMI dropped to 55.9 from 57.1 in May—its lowest reading since February of 2021. Economists had expected a reading of 56.7. Still the reading signaled growth--numbers over 50 are considered positive, while readings over 55 are considered exceptional. The decline was led by a decline in business activity and slowing supplier deliveries. Business activity slumped 4.6 points to 54.5. Analysts at Contingent Macro Advisors wrote that while service industry growth was decelerating, it remains historically strong. "There are (so far) few signs that this slowdown is more than just an expected deceleration after heightened activity," they wrote.

The confidence of America's consumers dipped in May over worries about higher inflation and a slowing U.S. economy. The Conference Board reported its Consumer Confidence Index dropped 2.2 points to 106.4 in May. Still, the reading exceeded the consensus forecast of 103.9. The measure of how consumers feel about the economy right now slipped to 149.6 from 152.9. Some respondents stated the jobs market was not quite as strong as it was a few months ago. A similar gauge that looks ahead six months fell to 77.5 from 79. Lynn Franco, senior director of economic indicators at the board stated consumers don't "foresee the economy picking up steam in the months ahead." "Inflation remains top of mind for consumers," she added.

The Federal Reserve's 'Beige Book', a collection of anecdotal reports from each of its regional banks, found the U.S. economy showed "slight or modest" growth in May, but so did worries about a recession. "Contacts tended to cite labor market difficulties as their greatest challenge, followed by supply chain disruptions," the survey stated. Rising interest rates, inflation, and international conflict rounded out other concerns weighing on respondents. The Federal Reserve has raised its key short-term interest rates twice this year to try to reign in the worst outbreak of inflation in 40 years.

International Economic News: The Bank of Canada appears to have concluded it will need to lift its benchmark interest rate to at least 3% to counter rising inflation. Canada's benchmark rate is currently 1.5% following a half-point increase on June 1. Before the pandemic, Canada's benchmark interest rate was at 1.75%--which was the highest policymakers managed to achieve following the 2008 financial crisis. Following the ‘Great Recession’, inflation hadn’t been an issue for many of the world’s developed economies. But, as Paul Beaudry, one of the central bank’s deputy governors, said in a speech on June 2, the “situation today is totally different.” The consumer price index between 2010 and 2020 never increased more than 3.7% on a year-over-year basis. In April, the index surged 6.8%, the second-biggest increase since the early 1980s. Inflation has now exceeded the high end of the Bank of Canada’s comfort zone of 1-3% for 12 consecutive months--unprecedented since the central bank adopted the index as its guide for policy in 1991.

Across the Atlantic, the United Kingdom marked a milestone in trade relations with the United States by signing its first state-level trade and economic development Memorandum of Understanding (MoU) with Indiana. The MoU creates a framework to remove barriers to trade and investment, paving the way for the United Kingdom and Indiana businesses to invest, export, expand and create jobs. The UK is the seventh largest export market for Indiana, and the state buys $1.4 billion worth of goods from the UK. In Indiana, International Trade Minister Ranil Jayawardena said, “With the signing of this MoU, British businesses can capitalize on the great opportunities for collaboration in areas like innovation and manufacturing.” In the United Kingdom, Secretary of State for International Trade Anne-Marie Trevelyan said, “This is Global Britain in action, making innovative deals on the world stage--and will help UK companies grow faster, innovate more and support jobs and economic growth.”

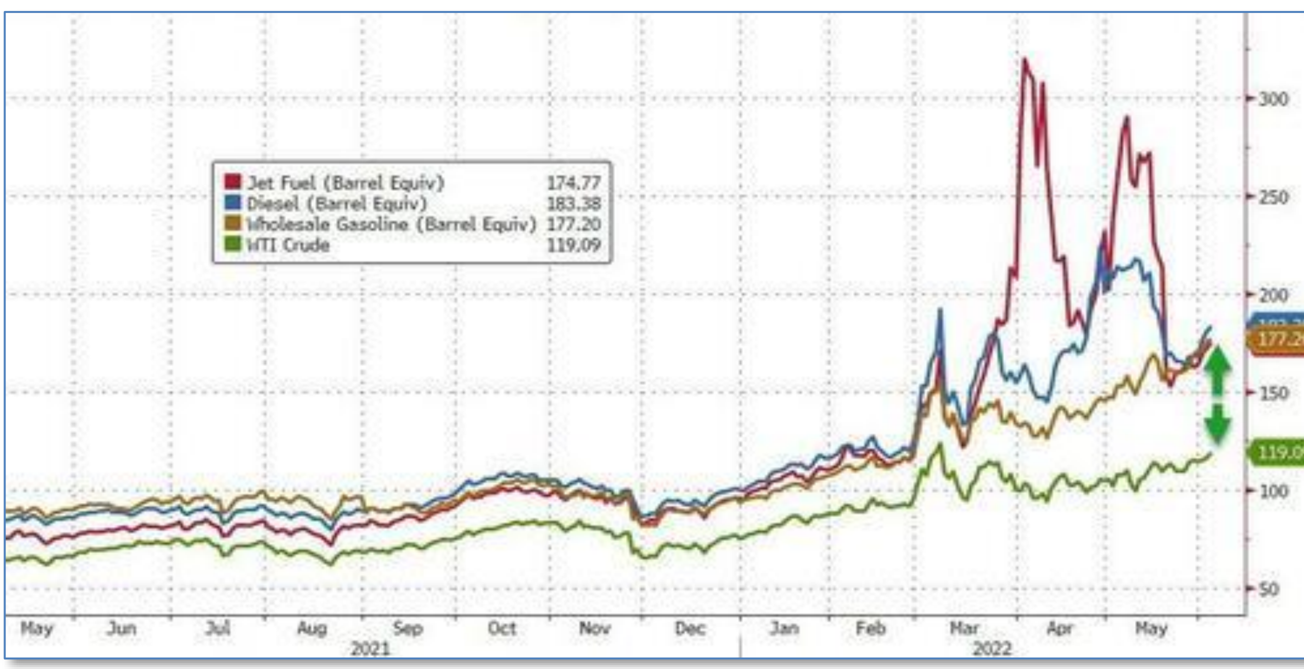
On Europe’s mainland, inflation in France continued to rise in May, reaching an annualized 5.2%--up 0.4% from April. As in previous months, inflation is primarily driven by energy prices, up 28% year-on-year mainly due to higher oil prices. However, price increases were across the board with food prices up 4.2% year-over-year, manufactured goods up 2.9%, and services up 3.2%. In all major categories, inflation was well above the ECB’s intended target of 2%. France’s national statistics agency INSEE reported gross domestic product contracted by 0.2% in the first three months of the year. France's worse-than-estimated performance puts an end to the country's strong economic rebound from the pandemic and poses a challenge to President Emmanuel Macron, who was re-elected just last month.

Germany’s annual inflation rate accelerated to 7.9% in May, its highest level in nearly 50 years, according to Germany’s Federal Statistics Office. Inflation jumped 0.5% from April, with energy prices more than 38% higher than the same time last year. Germany’s current inflation rate is the highest since the winter of 1973-1974 when an oil crisis fueled sharply higher energy prices. In comments shortly before the latest inflation figure was released, Finance Minister Christian Lindner said that the top priority must be fighting inflation. “Inflation is an enormous economic risk, and we must fight this inflation so that no economic crisis grows out of it, so that no spiral develops through which inflation feeds itself,” Lindner said.

In China, the city of Shanghai has lifted its two-month lockdown, much to the relief of its 25 million residents. Citizens of Shanghai have spent the last two months under a ruthlessly enforced lockdown. The prolonged isolation fueled anger and rare protests inside China's most populous metropolis, battered the city's manufacturing economy, and disrupted supply chains around the world. Shanghai Port is the world's largest container port and a major transportation hub. Jubilant residents took to social media to celebrate with comments such as one WeChat user wrote: "We often said Shanghai was 'liberated' in 1949. Today, it's another 'liberation'!"

Japan's parliament enacted a 2.7 trillion yen ($21 billion) extra budget to tackle soaring fuel and food prices. The extra budget is for the current fiscal year that started April 1 and will fund part of a 6.2 trillion yen ($48 billion) emergency economic package that Prime Minister Fumio Kishida's government adopted in late April. Nearly 1.2 trillion yen ($9.4 billion) will be used to extend the current oil subsidy program through the end of September. Crude oil prices have risen sharply due to fears of disruptions in supplies from Russia due to its invasion of Ukraine. Wheat and corn prices are also up significantly, prompting food prices to soar.

Finally: The Biden administration is at once demanding that U.S. oil producers pump more in order to lower prices at the pump, while at the same time the administration is blasting U.S. refiners and producers for "gouging" and looking at punishing them with a "windfall tax". To address these concerns, Chevron CEO Mike Wirth appeared on Bloomberg TV stating that adding refinery capacity is incredibly difficult, especially in the current environment. Wirth stated, "You're looking at committing capital 10 years out, that will need decades to offer a return for shareholders, in a policy environment where governments around the world are saying: we don't want these products." "We're receiving mixed signals in these policy discussions," Wirth added. The United States hasn't had a new refinery built since the 1970's. As the following graphic shows, the rate of price increases for refined products like jet fuel, diesel, and gasoline, have surged far higher than the price of crude oil.



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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.

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***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.)