MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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 July 4, 2022

Happy July 4th!

Where do we go from here? The first half of 2022 is in the books and it was not pretty. According to Charlie Bilello of Compound Capital this has been the worst first half of a year for a moderate 60/40 portfolio since… ever. And frankly, it wasn't even close.

A 60/40 portfolio means it has 60% invested in equities and 40% in fixed income. Of course the breakdown within those broad groupings can vary greatly. But Mr. Bilello simply assumed 60% was in the S&P-500 and 40% was in the Bloomberg US Aggregate Bond market. Had he included the NASDAQ (-29.5%) and small caps (-23.9%) the decline would have been much worse. Here are the worst starts to a year ranked.

"We're number 1, we're number 1!"

Probably not a distinction most of us want.

So does it matter? That's the rear view. Where do we go from here?

Worst US 60/40* Returns Through June (1976 - 2022)

Rank	Year	Total Return
1	6/30/2022	-16.1%
2	6/30/2008	-6.7%
3	6/28/2002	-6.4%
4	6/29/1984	-3.6%
5	6/30/1994	-3.6%
6	6/29/2001	-2.6%
7	6/30/1982	-2.0%
8	6/30/2010	-1.9%
9	6/30/1977	-1.7%
10	6/30/1981	-0.5%

*60/40 = 60% S&P 500/40% Bloomberg US Agg

COMPOUND @CharlieBilello

Therein lies the rub if you're a buy and hold portfolio practitioner.

Why?

So far through June 30, 2022 the S&P-500 is down -20.6%. If we take Mr. Bilello's calculation of a moderate portfolio being down -16.1% it means the moderate buy and holder has suffered almost 78.2% of the total stock market decline (16.1%/20.6%). We know the reason it's been so bad is that the bonds have had their worst start of a year ever.

But let's assume the bonds begin to behave more "normally" and as such, help buffer our buy and hold, moderate portfolio. We should be OK from here, right?

Define "OK".

If we apply the same methodology Mr. Bilello used to calculate how far a 60/40 portfolio has dropped in 2022, to the entirety of the Great Financial Crisis, we would find that it declined about -31% vs the S&P-500's drop of -57%. So in that bear market our moderate buy and hold portfolio only suffered about 54% of the market decline (31%/57%).

As such, even if it gets better from here in terms of our buy and hold portfolio holding up, the overall decline will likely be worse than what we've experienced in the past, relative to the stock market.

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 heard any yet, we'd suggest starting with 05-28-22 (Connecting the Economic Dots) as well as 05-21-22 (Housing Bubble) and of course the most recent show.

What are the chances the market could decline -40% or more? The last two "real" bear markets saw the S&P-500 decline -50% (Dot.com bubble) and -57% (Housing bubble). So it's not out of the question.

One of the major debates, as we discussed last week, is whether or not a recession is imminent or even likely. We think – and the data supports – that it is almost assured, and likely much sooner than many believe.

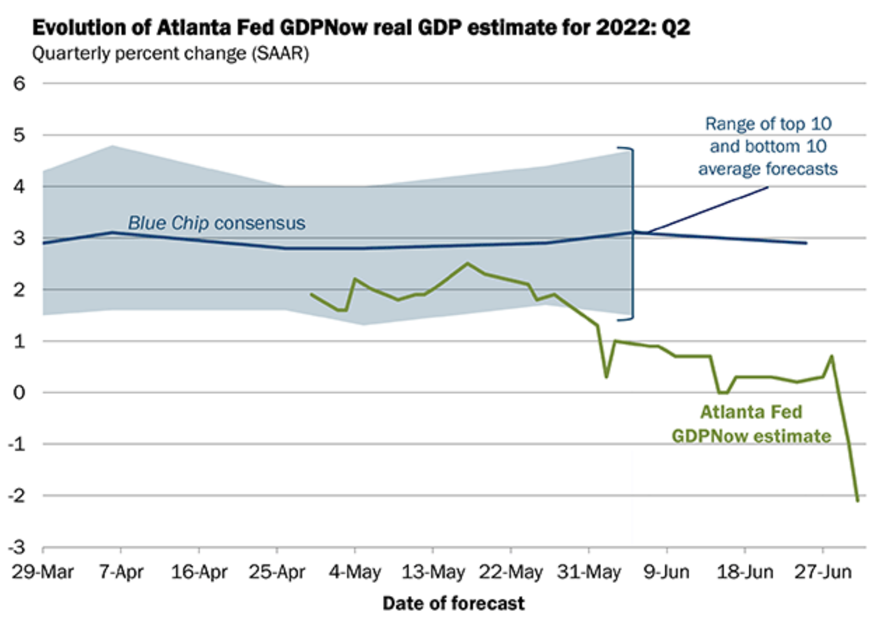
In fact we may already be in a recession!

Not possible? Let's take a look.

Technically a recession is two consecutive quarters of negative GDP. A better definition should be broader based, but it's a good starting point.

First quarter GDP was just revised down from -1.5% to -1.6%. Check.

The second quarter just ended and as of July 1st, the Atlanta Fed GDP Nowcast estimates GDP will be -2.1%. Check.



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

Maybe even more striking is how their estimates have plummeted over the last few days as more economic data has been released.

Ryan Detrick, Chief Market Strategist at LPL Financial tells us that the average market

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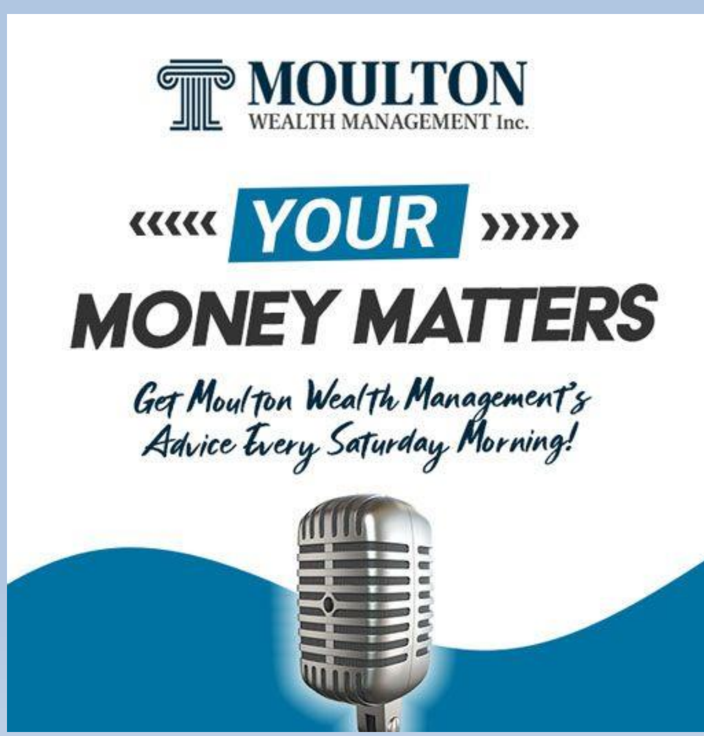


decline in a bear market is -24% absent a recession but -35% if it includes a recession.

If it's -35% we're only slightly over half way there.

But our concern is that it will be a deeper and longer recession / bear market than the average.

Remember, in past recessions and bear markets the Fed was actively cutting rates and printing money to help prop up the economy and stock market. In this recession and bear market the Fed is doing the opposite.

Could they pivot and begin cutting rates and printing again?

Eventually, but only if and when inflation declines towards their 2% goal. By that time we would be surprised if it wasn't too late to avoid what we estimate will be significant pain.

Yet we continued to be told to…

"Hang in there".

"If you sell it's a big mistake."

"Portfolio drawdowns don't matter over decades."

"You might miss out on a turnaround and higher returns."

Benjamin Graham, arguably the father of value investing and Warren Buffet's teacher at the Columbia Business School said…

"The essence of investment management is the management of risk, not the management of returns."

Benjamin Graham – author "The Intelligent Investor"

Again from last week's newsletter.

Is it too late to protect yourself?

How would you feel about losing -30% or -40% or even -50% of what you still have left?

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: The major U.S. indexes surrendered a portion of the previous week's strong gains, as worries grew that the Federal Reserve's fight against inflation would push the economy into recession. The benchmark S&P 500 Index closed out its worst first half of the year since 1970. However, an afternoon rally at the end of the week lessened the blow to the downside for all the major indexes. The Dow Jones Industrial Average finished the week down -1.3% to 31,097. The technology-heavy NASDAQ Composite gave up roughly half of last week's surge, falling -4.1%. The large cap S&P 500 and small cap Russell 2000 each finished down -2.2%, while the mid cap S&P 400 ended the week down -1.6%.

International Markets: International markets were a sea of red last week, except for China. Canada's TSX declined -1.1%, while the United Kingdom's FTSE 100 ticked down -0.6%. France and Germany each finished down -2.3%, while China's Shanghai Composite finished the week up 1.1%--its fifth consecutive week of gains. Japan's Nikkei ended down -2.1%. As grouped by Morgan Stanley Capital International, developed markets finished the week down -1.8%. Emerging markets ended down -2.0%.

Commodities: Major commodities finished the week mixed. West Texas Intermediate crude oil rebounded 0.8% to $108.42 per barrel, while precious metals declined. Gold shed -1.6% to $1801.50 per ounce, while Silver plunged -6.9% to $19.67. The industrial metal copper, viewed by some analysts as a barometer of global economic health due to its wide variety of uses, ended the week down -3.7%.

June and Q2 Summary: It was a terrible month and quarter for almost all domestic and international equity markets, with China being the lone exception. For the month of June, the Dow Jones Industrial Average shed -6.7%, the Nasdaq -8.7%, and the S&P 500 -8.4%; Mid-caps finished the month down -9.8% and small caps declined -8.4%. In the second quarter of 2022, the NASDAQ gave up -22.4%, the Dow fell -11.3%, and the S&P 500 declined -16.4%. Mid-caps and small caps ended the quarter down -15.8% and -17.5%, respectively. Almost all international markets finished the month to the downside, save one. Canada declined -9%, the UK gave up -5.8%, and France retreated -8.4%. Germany plunged -11.2%, while China rose 6.7%. Japan ended the month down -3.3%. Developed markets declined -8.8% in June, emerging markets shed -5.2%. In the second quarter, Canada was the biggest international loser giving up -13.8% while the United Kingdom declined -4.6%. France and Germany were off -11.1% and -11.3%, respectively. China rose 4.5%. Japan declined -5.1%. Developed markets declined -13.2% in the second quarter, emerging markets ended down -10.4%. Most major commodities also declined in both June and Q2. Gold and silver finished the month of June down -2.2% and -6.2%, respectively. Oil declined -7.8% and Copper ended the month down -13.6%. In the second quarter, Gold shed -7.5%, Silver plunged -19%, and copper collapsed -21.9% but oil rose 5.5%.

U.S. Economic News: The number of Americans filing for first-time unemployment benefits fell by 2,000 to 231,000 last week. Economists had expected claims to total 230,000. The four-week average of claims, smoothed to iron out the weekly volatility, rose by 7,250 to 231,750—the highest level since December. Meanwhile, the number of people already collecting jobless benefits, known as continuing claims, fell by 3,000 to 1.33 million. That number is now back to pre-COVID crisis levels. While still robust, many analysts don't think the labor market can show much improvement from these levels. Nancy Vanden Houten, lead U.S. economist at Oxford Economics stated, "The level of claims is still relatively low, but we don't expect claims to fall much below the levels of the last few weeks. While labor markets remain very tight, reports of layoffs are increasing."

Home prices continued to rise in April, according to the latest report from S&P Case-Shiller. The Case-Shiller 20-city home price index posted a 21.2% year-over-year gain in April, up a tick from the 21.1% reading the previous month. A separate report from the Federal Housing Finance Agency showed a 1.6% monthly gain, and that index was up 18.8% from the previous year. Tampa, Miami, and Phoenix reported the highest year-over-year gains among the 20 cities in April. By region, price growth was strongest in the South and Southeast, which saw over 30% growth. D.C., Minneapolis, and Chicago reported the lowest year-over-year gains. Selma Hepp of S&P CoreLogic noted there was a "notable deceleration of monthly gains in the Western markets." And with mortgage rates rising, a "more challenging macroeconomic environment may not support extraordinary home price growth for much longer," she added.

Pending home sales, which are transactions in which a contract has been signed but not yet closed, rose 0.7% in May, according to the National Association of Realtors. Analysts had been expecting a drop of 4%. The increase broke a six-month streak of declines and came even as mortgage rates continued to rise. Still, compared with the same time last year, sales were down -13.6%. Regionally, the index jumped the most in the Northeast, and fell both in the Midwest and the West. Economists look at pending home sales data as an indicator for the direction of existing-home sales in subsequent months.

Confidence among the nation's consumers fell to a 16-month low as the high price of gas and food weighed on sentiment. The Conference Board reported consumer confidence fell to 98.7 in June, from 103.2. Economists had expected just a 3.2 point drop to 100. The U.S. economy has slowed and is likely to keep slowing with the Federal Reserve raising interest rates to try to tame the highest inflation in 40 years. In the details, how consumers feel about the economy right now dipped 0.3 point to 147.1, while a similar gauge that asks consumers how they anticipate the next six months fell more sharply to 66.4 from 73.7. Thomas Simons, money market economist at Jefferies LLC stated, "It looks like this is another piece of evidence showing concerns about a recession are rising among consumers."

A key gauge of inflation rose sharply in May, largely due to the higher cost of gas and food, but there were signs that price pressures may be starting to ease. The 'personal consumption expenditures index', or 'PCE-I', rose 0.6% in May—triple its reading from April. But a narrower measure of inflation that omits volatile food and energy costs, known as the core PCE, rose by relatively modest 0.3% for the fourth month in a row. That was below Wall Street's 0.4% forecast. The rate of inflation over the past year remained unchanged at 6.3% in April. The yearly rate has backed off a little after touching a 40-year high a few months ago. The core rate of inflation also slowed to 4.7% in the 12 months ended in May from 4.9% in April. Analysts note that the Federal Reserve views the PCE index as the better barometer of inflation over the more popular Consumer Price Index (CPI).

The economy shrank at a -1.6% annual pace in the first quarter, and according to the Atlanta Fed's GDPNow tracker, the second quarter isn't looking much better. The contraction in gross domestic product, the official scorecard for the economy, was the first since the deep recession caused by the pandemic lockdowns in 2020. As for the second quarter, the latest estimate of the GDPNow model shows a further -1.0% contraction in the economy. Regardless of where second-quarter GDP clocks in, analysts note the economy is likely to continue to slow. The Federal Reserve remains on a hiking cycle to try and reign in the highest inflation in over 40 years. The biggest negative in the updated GDP report was a downward revision in consumer spending, the chief engine of the economy. That doesn't bode well for the future.

Orders for goods expected to last three years or more, so-called 'durable goods', rose last month with a stronger-than-expected reading. The Census Department reported durable goods orders rose 0.7% in May, its seventh gain in eight months. Economists had expected just a 0.2% increase. The reading showed manufacturers still had plenty of demand for their products, even amid signs the economy was slowing. Core orders, which strip out the often-volatile transportation sector and military equipment, rose 0.5%. Orders for new cars and trucks rose 0.5%, while orders for commercial airplanes declined -1.1%. Chief economist Stephen Stanley of Amherst Pierpont Securities stated, "From everything I have seen, business investment remains strong, though it certainly would not be surprising to see some moderation going forward as borrowing rates and uncertainty regarding the economic outlook rise."

International Economic News: A preliminary estimate of Canada's economy showed it most likely contracted in May, largely due to a drop in oil and gas output. Statistics Canada said gross domestic product likely declined -0.2% in May, following a gain of 0.3% in April. "In the near-term we won't know whether the economy is making a U-turn or just a brief detour," Royce Mendes, head of macro strategy at Desjardins Group, said in a note. Mendes added that either way, a slowdown in growth won't alter the Bank of Canada's plans to hike rates aggressively. The central bank is widely expected to go ahead with a fairly aggressive 75-basis point increase at its July decision.

Across the Atlantic, the Governor of the Bank of England warned Britons should expect to suffer a more severe bout of inflation than other major economies. Speaking at a conference of central bankers, Andrew Bailey said inflation was higher in the UK and would persist for longer than previously expected as soaring energy prices sent household expenses to new highs. "I think the UK economy is probably weakening rather earlier and somewhat more than others," he said. Bailey said he was determined to bring down inflation and was prepared to use the Bank's power to increase interest rates aggressively in response.

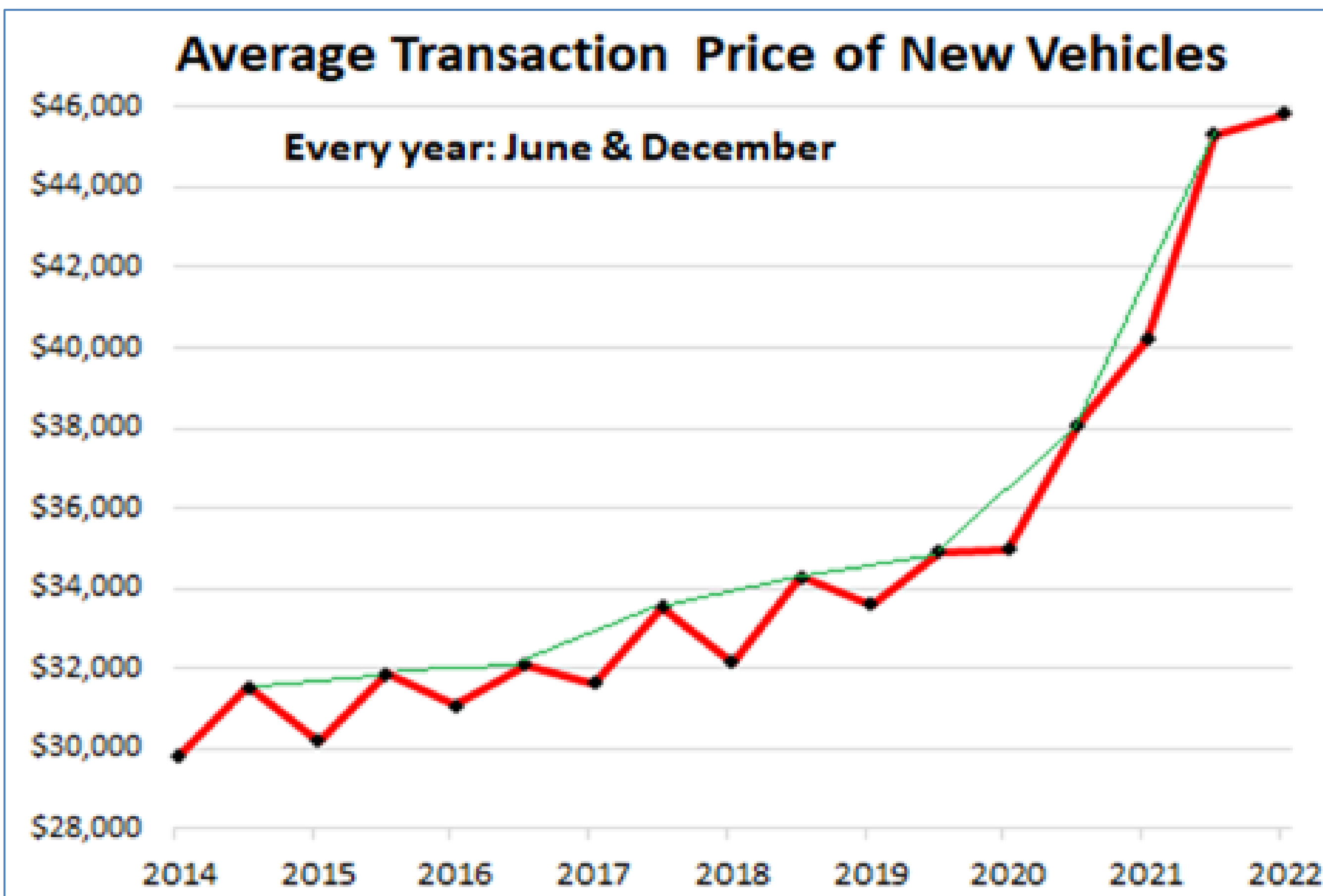
On Europe's mainland, as the war in Ukraine enters its fourth month, French President Emmanuel Macron said France and Europe need to prepare for a "wartime economy" in order to deal with the geopolitical and economic effects that continue to ripple across the continent. The French president called the times "unprecedented" and said it is necessary for not only states but all economic agents to move faster, at a lower cost, and innovate more rapidly to address the new challenges. Macron added that there can be no "national security, strategic autonomy, and therefore no peace" if those actors don't adapt to the current geopolitical conditions.

A sharp drop in new orders weighed on German manufacturing activity in June, a survey showed. S&P Global's Purchasing Managers' Index (PMI) for manufacturing fell to 52.0 in June, down 2.8 points from May's reading. The reading was in line with the consensus forecast. However, it was a sharp drop in new orders that raised concerns. The index of new orders came in at 43.3, down 3.7 points from May and hitting its lowest level since May 2020. Phil Smith, economics associate director at S&P Global Market Intelligence stated, "We're seeing a rapid correction in underlying demand for German goods" and added firms reported "multiple headwinds to export sales".

In Asia, China's factory activity snapped a three-month losing streak and its services sector continued to rebound. China's National Bureau of Statistics reported its official manufacturing PMI rose to 50.2 in June from 49.6 in May. Analysts attribute the rebound to authorities lifting their strict "zero-COVID" policy lockdowns in Shanghai. Meanwhile, the official non-manufacturing (services) PMI in June improved to 54.7 from 47.8 in May. China's official composite PMI, which includes both manufacturing and services activity, stood at 54.1, compared with 48.4 in May.

The Bank of Japan will maintain its ultra-loose monetary policy, despite Japan's core consumer inflation hitting 2.1% for two consecutive months. Kuroda stated the increase was due almost entirely to soaring energy prices. "Unlike other economies, the Japanese economy has not been much affected by the global inflationary trend, so monetary policy will continue to be accommodative," Kuroda said, according to the recording released by the Bank for International Settlements (BIS). Kuroda noted Japan's long experience with deflation have made the country's companies "very cautious" in raising prices and wages. Soaring global commodity prices and a weak yen, which inflates the cost of importing raw material, have pushed Japan's core consumer inflation above the BOJ's 2% target.

Finally: It's not just housing—the average transaction price of new vehicles sold in June hit a new stratospheric record high of $45,844, up 14% from a year ago. As automakers continue to struggle with shortages of key parts and semiconductors in particular, inventories remain near historic lows. Dealers handled the shortages by charging more than list price and filling their lots with only the most expensive vehicles loaded with as many options as possible—and that's how the ATP (average transaction price) jumped to a new record. Since June 2019, the ATP has spiked by 36%, or by over ten grand per vehicle! (Chart by wolfstreet.com, data by JD Power)



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

"The essence of investment management is the management of risk, not the management of returns."

Benjamin Graham – author "The Intelligent 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.

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https://www.ai-cio.com/thought-leadership/why-risk-management-is-more-important-than-return-management/

***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.)