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MOULTON HOT MINUTES

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Week of August 29, 2022

Fed Chair Powell spoke last Friday for an important 8 minutes – more on it later in the newsletter.

Do you have FOMO?

FOMO is an acronym for "Fear Of Missing Out". As the market rises, someone who is not fully invested may feel this emotion.

ATTEND OUR…

RISK MANAGEMENT

SEMINAR

BRING A GUEST

- **SEPTEMBER 21ST @ 9:30 AM – SPOKANE**

(BREAKFAST)

- **SEPTEMBER 28TH @ 11:00 AM – RICHLAND**

CALL **509-922-3110** TO RESERVE A SEAT!

"The market's moving up without me." "I'm being left behind." "I'm losing out on a lot of money to be made." Etc.

Of course Wall Street both promotes and preys upon these emotions. If you listen to the buy and hold talking heads you'd think that if you miss out on an up move, you might as well just put your money under the mattress and begin figuring out how to live on nickels because your investment returns will be reduced to "*zilch*".

But is it true?

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.

Dan Suzuki is the Chief Investment Officer at Richard Bernstein Advisors. He notes that the recent advance in the markets from the June lows have fostered a lot of angst among investors who are not fully participating. Their concern, he notes, is that the bottom is in and that they've missed 2-1/2 months of the new bull market which will "obviously" ruin their long term results.

Whether June was the bottom and a new bull market will ensue (which we highly doubt) is only known for certain in hindsight, but Mr. Suzuki decided to test the thesis that missing out on the first leg of a new bull market is death to a portfolio as many investors think (and Wall Street likes to insists is the Gospel truth).

In his analysis he analyzed the returns for a full 18 month period encompassing 6 months before and the 12 months following each market bottom for the last 14 bear markets. The analysis compared two hypothetical portfolios.

- The first was "buy and hold" and invested 100% in stocks the entire time. He calls this 6 months early.
- The second is "tactical" and was 100% in cash from the 6 months before to 6 months after the bottom of the bear market (i.e. it missed the first 6 months of the ensuing bull market) and then went to 100% in stocks. He calls this 6 months late.

What he found might confound those who insist that "taking big losses is the price of admission" to the stock market.

In 7 of the last 10 and 9 of the last 14 bear markets, contrary to buy and hold dogma and Wall Street talking points, it was better to be late than early.

LISTEN TO RIAL'S AND DON'S RADIO SHOW,

"YOUR MONEY MATTERS"

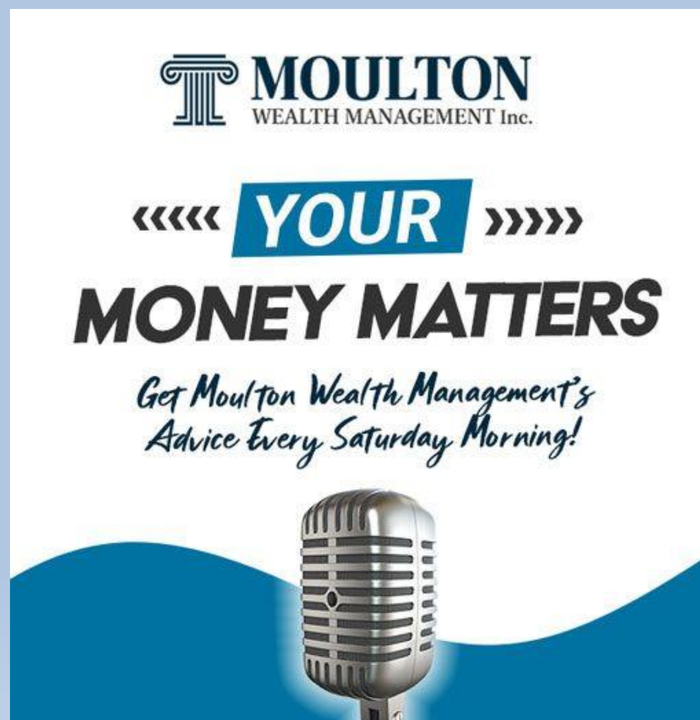
EVERY SATURDAY MORNING AT

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

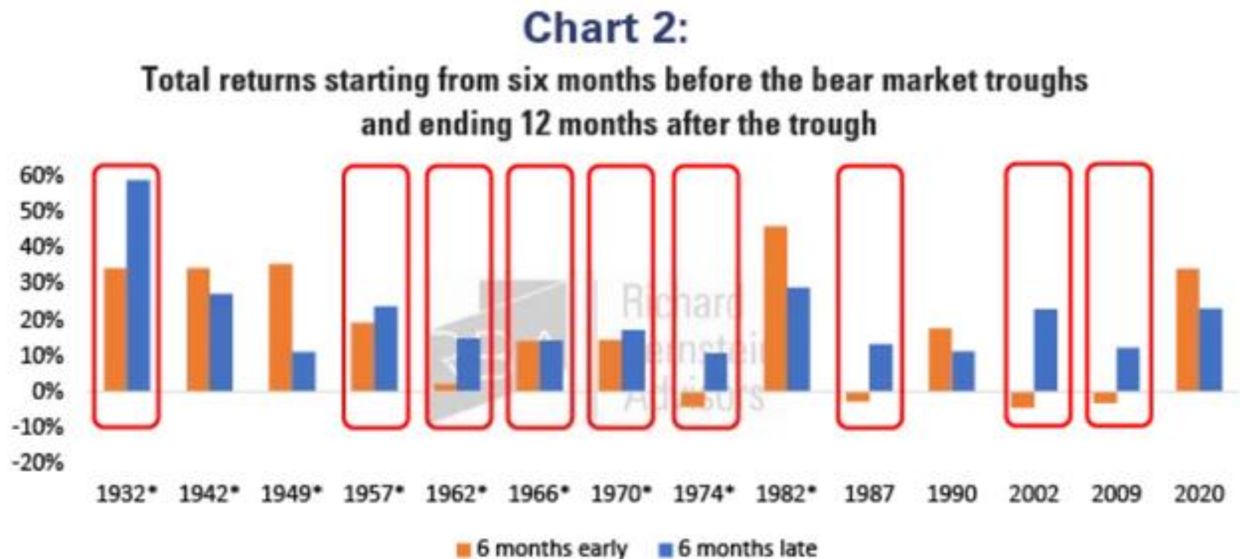
LISTEN LIVE AT WWW.NEWSTALK870.AM AGAIN AT 9:30 EACH SATURDAY MORNING

OR VISIT OUR WEBSITE MOULTONWEALTH.COM FOR PODCASTS



Advisory services through Moulton Wealth Management, Inc., an independent Registered Investment Advisor registered with the SEC

The following chart shows which portfolio would have done better 12 months after the market bottom. The orange is the buy and hold (i.e. 6 months early). The blue is tactical (i.e. 6 months late).



Source: Richard Bernstein Advisors LLC

*based monthly trough dates prior to 1987, determined by the lowest month-end S&P 500® level adjacent to the month of the bear market date

Note: "6 months early" assumes S&P 500® returns for the full 18-month period. "6 months late" scenario assumes 3-month Treasury Bill returns as a proxy for returns on cash for the 12 months and then S&P 500® returns for the final 6 months. Treasury Bill returns prior to 1982 are based on Ibbotson data.

Circles denote periods where returns were better for the "6 months late" approach.

Certainly the probabilities tell us it's better to be 6 months late.

Mr. Suzuki wrote "Not only does this tend to improve returns while drastically reducing downside potential, but this approach also gives one more time to assess incoming fundamental data."

"Because if it's not based on fundamentals, it's just guessing."

Dan Suzuki – CIO Richard Bernstein Advisors

What about the exceptions, when being 6 months early was superior to 6 months late?

Over the last 70 years, the bear markets that paid an investor to be 6 months early were 1982, 1990 and 2020. In each of those instances, the Fed had already significantly cut interest rates into the market bottom.

Of course we know today that the Fed isn't cutting rates. And in last week's newsletter, *"Inflation, the Fed and Bear Market Rallies"* we explained why a Fed "pivot" to cutting rates is not likely in our near future.

And in fact Fed Chair Powell made that very clear in his 8 minute speech last Friday. Did he indicate a "pivot" was close at hand?

Hardly.

From his speech, here were his three "lessons" from the 1970's inflation boom.

- **It's the Central Bank's responsibility to bring down inflation.** He's giving notice to markets where his priorities lie. It's bringing down inflation first and foremost. Not propping up your portfolio.
- **The public's expectation of future inflation plays an important role as to where it is actually headed.** He's telling you that time is of the essence. It's not good enough to wait around while inflation slowly declines, as each passing day that it's high makes consumers think it is the new normal. This shapes our behavior in inflationary ways. The Fed is going to be aggressive.
- **They need to keep at it until the job is done.** Specifically he points to mistakes made during the 1970's when then Fed Chair Burns pivoted too soon and inflation reignited causing even more pain later. This tells us they're not going to stop because the stock market falls or even because inflation declines somewhat. They are going to keep hammering it.

He didn't stop there. In his words…

"Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance. Reducing inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain."

If you are still using the playbook from the last 13 years when the Fed would continuously paper over investment mistakes or lackadaisical risk management with printed money – good luck. After his press conference the Dow Jones, S&P-500, NASDAQ and Russell Small Caps *averaged a -3.41% decline on Friday alone!*

Back to Mr. Suzuki.

Mr. Suzuki opined, "Given the high likelihood that the Fed will continue to tighten into already slowing earnings growth, it seems premature to be significantly increasing equity exposure today."

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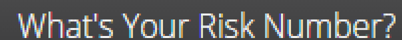
As an investors, you can see no evil, hear no evil, speak no evil and then act surprised that this bear market rally is reversed and new lows set (after all most advisors and money managers will do just that). Or you can proactively prepare so that you are ready to buy what could be generationally low stock prices in the future.

If you don't sell high, you can't buy low.

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.



In the markets:

U.S. Markets: U.S. stocks moved sharply lower as investors became less optimistic that the Federal Reserve will be able to tame inflation without causing a significant economic slowdown. The Dow Jones Industrial Average gave up over 1400 points finishing the week at 32,283—a decline of -4.2%. Technology and high-growth stocks fared the worst with the tech-heavy Nasdaq Composite falling -4.4% to its lowest level in a month. By market cap, the large cap S&P 500 declined -4.0%, while the mid cap S&P 400 declined -3.0% and the small cap Russell 2000 ended the week down -2.9%.

International Markets: Major international market results for the week were predominantly a sea of red. Canada's TSX pulled back -1.2%, while the United Kingdom's FTSE 100 shed -1.6%. On Europe's mainland, France's CAC 40 and Germany's DAX declined -3.4% and -4.2% respectively. In Asia, China's Shanghai Composite ticked down -0.7% and Japan's Nikkei retreated -1.0%. As grouped by Morgan Stanley Capital International, developed markets finished the week down -3.1%, but emerging markets bucked the trend and managed to close the week positive, up 0.3%.

Commodities: Precious metals again failed to serve as a safe-haven from the weakness in the equity markets. Gold declined -0.7% to $1749.80 per ounce, while Silver finished the week down -1.7% to $18.75. Oil rose this week with Brent crude adding 5.3% to $100.99 per barrel. West Texas Intermediate added 2.9% to $93.06. 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 0.9%.

U.S. Economic News: The number of Americans filing for first-time unemployment benefits fell to a one-month low last week, as the labor market remains resilient despite a slowing economy. The Labor Department reported initial jobless claims fell by 2,000 to 243,000. Economists had forecast claims to total 255,000. Although the economy has slowed, most companies have not resorted to layoffs and many companies are still hiring. The strong labor market is one of the best safeguards against a severe recession, but the Federal Reserve is worried the shortage of qualified workers might worsen inflation by further pushing up wages. Meanwhile, continuing claims declined by 19,000 to 1.42 million. That number remains near a 50-year low.

The number of home buying transaction in which a contract has been signed, but not yet closed, slipped again in July as the housing market continues to cool. The National Association of Realtors (NAR) reported its pending home sales index fell in July by 1% (analysts had expected a 3% drop). Sales dropped for a second month in July, its eighth monthly decline over the past nine months. Economists use the index to get an "early read" for the direction of home sales in subsequent months. The drop in pending home sales follows weaker data on the new home and existing home sales fronts, as well as a dip in mortgage application activity. Compared with the same time last year, sales were down -19.9%.

Despite other indications of a slowing economy, the Federal Reserve Bank of Chicago says the U.S. economy gained steam in July following sluggish growth over the last few months. The Chicago Fed's National Activity Index rose 0.52 point to 0.27 last month. Economists polled by FactSet had expected a weaker reading of -0.1. The Chicago Fed's National Activity index is composed of 85 economic indicators from four broad categories, designed to gauge overall economic activity and inflationary pressures. All four broad categories of indicators used to construct the index made positive contributions in July.

Federal Reserve Chairman Jerome Powell delivered a short and blunt message at its Jackson Hole retreat, stating the Fed will keep the job of bringing inflation down until it is done, and that the fight will be costly in terms of jobs and economic growth. "Reducing inflation is likely to require a sustained period of below-trend growth," Powell said in his speech. "Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses," he added. Wall Street had interpreted his last speech as "dovish" after Powell described the Fed's benchmark interest rate setting—in a range of 2.25%-2.5%--as "neutral". This week, Powell stated that neutral "was not a place to stop or pause" rate hikes—comments seen as "very hawkish" by market participants who drove the Dow Jones industrials to a loss of 1,008 points on Friday.

U.S. businesses grew more slowly this month as high inflation and rising interest rates weighed on consumer spending, a pair of surveys of services and manufacturing activity

showed. For the vast ‘services’ side of the U.S. economy, S&P Global’s U.S. services sector index dropped to 44.1 from 47.3—its fifth decline in a row and its weakest reading since May of 2020. The U.S. manufacturing index slipped to 51.3 from 52.2—its lowest reading in two years. Readings above 50 signify expansion, while those below indicate contraction. Both manufacturers and service-oriented companies such as retailers reported waning sales in August and the lowest demand in more than two years. On a positive note, the cost of supplies eased for a third month in a row. That’s a sign inflation pressures may ease following a big run up earlier this year.

Two key gauges of inflation showed inflation pulled back for the first time in more than two years. The Personal Consumption Expenditures Index (PCE) is rumored to be the Federal Reserve’s “preferred” measure of inflation over the more widely known Consumer Price Index (CPI). The PCE ticked down -0.1% in July, predominantly due to tumbling gas prices. The decline was the first pullback in the PCE since April 2020. Economists had predicted an unchanged reading. But the narrower measure of inflation that omits food and energy costs, core PCE, edged up 0.1%. That was below the consensus forecast of 0.2%. The rate of inflation over the past year dropped to 6.3% from 6.8% in the prior month. Chief economist Gus Faucher of PNC Financial Services stated, “The open question is whether the Fed can calibrate its rate increases finely enough to push inflation down to 2% over the next couple of years, but without pushing the economy into recession.”

The outlook of the nation’s consumers improved in August as falling energy prices helped lower inflation expectations to their lowest level since December of last year. The University of Michigan reported its index of consumer sentiment rose 3.1 points to 58.2 this month. Economists had expected a reading of just 55.2. Inflation remains a top concern for American consumers, though falling gas prices and attenuating price increases on other goods has helped to lift their economic outlooks. “The gains in sentiment were seen across age, education, income, region, and political affiliation, and can be attributed to the recent deceleration in inflation,” wrote Joanne Hsu, director of the survey. A gauge of consumer’s views of current conditions rose to 58.6 in August from 58.1 in July, while an indicator of expectations for the next six months jumped to 58 in August from 47.3 last month.

International Economic News: Economists at Desjardins are predicting Canada will enter a mild recession in the first half of 2023 as aggressive interest rate hikes, a cooling housing market, and weak growth in the United States drag on the country’s economic outlook. In their report, Desjardins economists said bringing soaring inflation back to a 2 per cent range "won't be easy" and a soft landing – where inflation is tamed without leading to a recession – has become "increasingly unlikely." Also in Canada, German Chancellor Olaf Scholz stated he hopes Canadian liquefied natural gas would help ease its shift away from Russian gas imports. "As Germany is moving away from Russian energy at warp speed, Canada is our partner of choice," said Scholz at a German-Canadian economic conference in Toronto. "For now, this means increasing our LNG imports. We hope that Canadian LNG will play a major role in this," he said.

Across the Atlantic, growth in UK economic activity slowed more than expected to an 18-month low as manufacturing shrank on weaker demand and shortages of both supplies and qualified labor. A preliminary "flash" reading of the United Kingdom's composite Purchasing Managers' Index (PMI) from S&P/Cips Global showed activity dropped to 50.9 in August, from 52.1 last month. That is the lowest reading since February 2021, when the country was in its COVID-related lockdown. The reading was weaker than the consensus forecast of 51.1 and only marginally above the neutral 50-level, which separates expansion from contraction. Furthermore, analysts aren't expecting a turnaround anytime soon. Paul Dales, chief UK economist at Capital Economics, said "we suspect the composite PMI will be ringing the recession alarm bell before long", adding that he expected a recession in the third quarter after official data showed that the economy contracted in the second quarter.

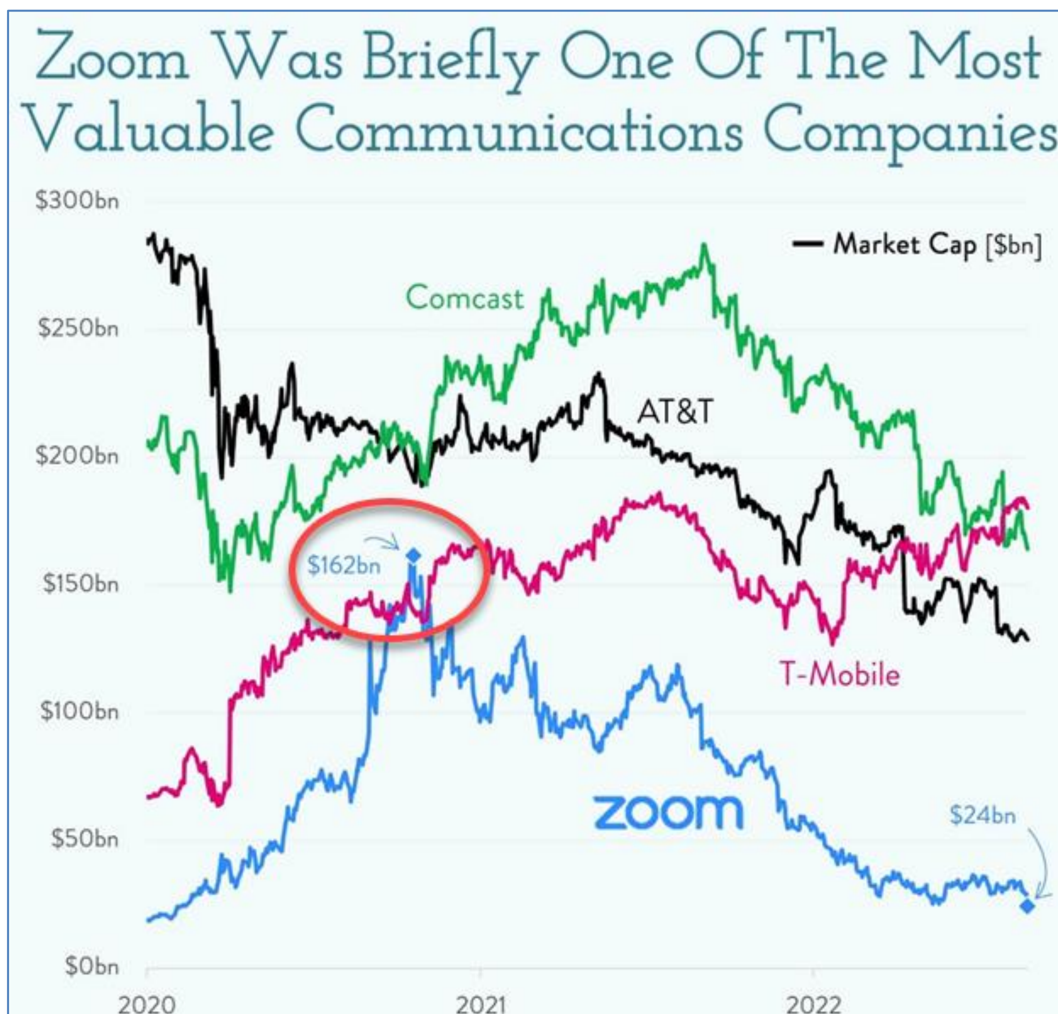
On Europe's mainland, weakening economies in Germany and France piled more pressure on markets as decades-high inflation and surging gas prices drag Europe towards recession. The S&P flash composite Purchasing Managers' Index (PMI), which tracks manufacturing and services, showed that a downturn in Germany, Europe's biggest economy, deepened in August due to high inflation and rising interest rates. The PMI data also showed that the French economy contracted in August for the first time in 18 months. "The PMIs are going to feed into the pessimistic narrative," said Michael Hewson, chief markets analyst at CMC Markets. Furthermore, Hewson doesn't see a recovery anytime soon. Hewson added, "I can't see the Ukraine war coming to an end anytime soon; that would be the catalyst for a market rally. That is going to keep pressure on energy prices and as for the euro, the only way is down."

In Asia, several major investment banks including Goldman Sachs and Nomura downgraded their economic forecasts for China in 2022 to 3% or less. This is far below the 5.5% growth target set by the Chinese government. The Chinese economy has deteriorated in recent months because of COVID lockdowns and a deepening real estate downturn. A record-breaking heatwave and drought is also slowing growth. Several international businesses, including Tesla and Toyota, have faced disruption at factories due to power outages. In response, China's government has unveiled 19 new measures to shore up its economy and "secure drinking water" supplies. The new measures announced by China's cabinet amount to more than 1 trillion yuan ($146 billion) in funding to improve infrastructure, ease power shortages, and secure water and rice production.

The Japanese government reiterated its assessment that the economy continues to recover from the coronavirus pandemic fallout, but warned of rising commodity prices taking a toll on households and businesses. "The Japanese economy is picking up moderately," the Cabinet Office said in its overall assessment for August, while upgrading its view on industrial production and public investment. As for short-term prospects, the monthly report warned of downside risks derived from "a slowing down of overseas economies due to global monetary tightening" and called for attention to the "impact of price increases on households and businesses and supply-side constraints." Of note, the government revised upward its assessment of industrial

production for the first time seven months, saying it is showing signs of picking up as the impact of Chinese lockdowns gradually recede.

Finally: Once a company has reached such prominence that its very name becomes the verb for its service, it generally has staying power (feel free to "Google it"). Not so much with video-conferencing platform Zoom. This week Zoom reported its slowest quarter ever of revenue growth, with sales rising just 8% over the past year, sending its stock plummeting (another) 16%. That leaves the company's market cap at less than $25 billion, a fraction of its $162 billion market cap at the height of Zoom's go-go days of the pandemic when its valuation approached some of the largest telecom and communications companies in the world. (Chart from 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.

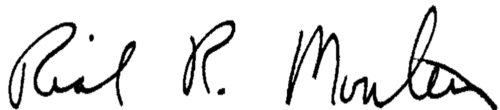
We discuss many of these issues on the weekly radio show and invite you to listen.

WEEKLY FOCUS – THINK ABOUT IT

"If it's not based on fundamentals, it's just guessing."

Dan Suzuki – CIO Richard Bernstein Advisors

Yours truly,



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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.)