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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 September 05, 2022

On last Saturday's radio show (go to https://moultonwealth.com/radio-show/ to listen to the podcast) we discussed how the Federal Reserve INTENDS to impact the stock market. Specifically we discussed a "reverse wealth effect". If you remember from economics class, the price of anything is set by the intersection of supply and demand. During Covid, lockdowns coupled with government checks made demand rise. Those same lockdowns simultaneously made supply fall as businesses were shut down.

ATTEND OUR…

RISK MANAGEMENT

SEMINAR

BRING A GUEST

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

  (BREAKFAST)

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

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

Higher demand and lower supply equals higher prices and inflation.

To fight inflation the Fed has only one option – to reduce demand. After all, they have no way to impact supply.

How do they reduce demand? By making us all feel *poorer*.

How do they make us feel poorer? By reducing the value of our portfolios, real-estate, etc. and by raising unemployment.

To be clear, their intent is to cause the stock market to fall and for you to lose money.

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.

Is this just our opinion or is there evidence?

In his speech from Jackson Hole, Fed Chairman Jay Powell said this

"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."

While that didn't mention the stock market specifically, it did admit that they intend to cause "some pain".

But Minneapolis Fed President Neel Kashkari was a little more direct. When asked about the stock market ~3.5% decline after Powell's speech, Mr. Kashkari said…

"I was actually happy to see how Chair Powell's Jackson Hole speech was received"

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

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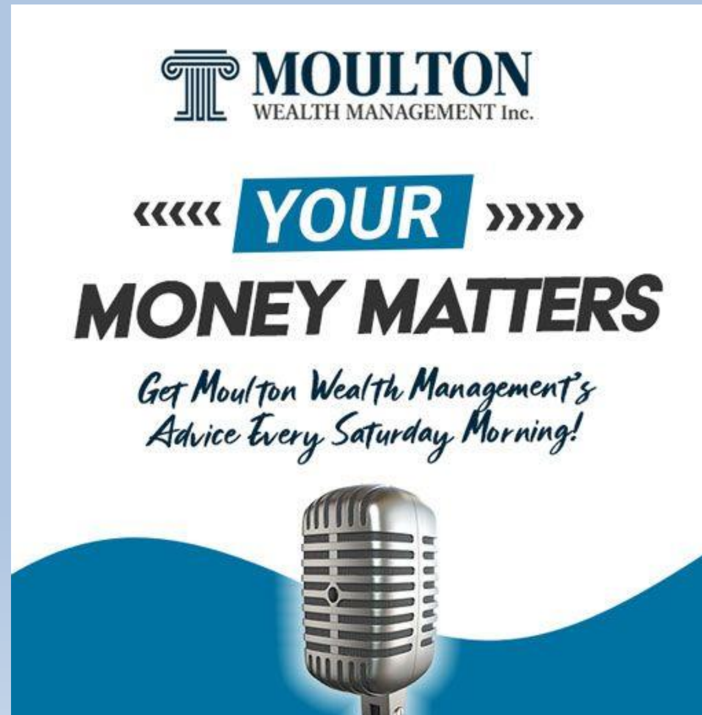

He was happy the stock market fell about -3.5% in one day and that you lost money. He went on to say…

> *"I certainly was not excited to see the stock market rallying after our last Federal Open Market Committee meeting," he said. "Because I know how committed we all are to getting inflation down. And I somehow think the markets were misunderstanding that."*

The Fed was unhappy the stock market rose but was happy it fell. I think they've made their intentions very clear.

Interestingly, Fed rate hikes may not be the biggest threat to your portfolio. Though less discussed, the Fed is also reducing their balance sheet through a procedure called Quantitative Tightening.

Quantitative Tightening is a process whereby the Fed reduces their balance sheet by letting bonds mature without replacing them. Going into the Great Financial Crisis, the Fed's balance sheet was roughly $900 billion. It is now about $9 trillion dollars. That's a 10 fold increase over the last 14 years.

How did it get so big? Repeated bouts of Quantitative Easing when the Fed used printed money to buy bonds from banks and even the open market. By doing so they flooded the economy with cash. History tells us when this happens it causes a misallocation of capital (stock bubbles, outrageous real-estate prices, crypto going to the moon, meme stocks, etc.).

Quantitative Tightening has the opposite impact. Starting in September (i.e. NOW), the Fed plans to remove $380 billion per month from their balance sheet. This compares to a total of $52 billion over the last 3 months combined.

How might this impact stock prices? From Hedgeye Research analyst Josh Steiner.

- *The high watermark in risk assets occurred in early-to-mid November last year. What else happened around that timeframe? The first step-down in Fed purchases from $120B/mo to $105B/mo. (Our note – this means they only slowed their rate of increase in their balance sheet, they didn't start reducing it. Yet the market reacted negatively.) In fact, the timing coincidence was uncanny. The Nasdaq Composite peaked on November 18th and the first step-down in purchases occurred on November 15th.*
- *QE1 concluded on March 31, 2010. The S&P 500 and Nasdaq Composite peaked on April 23, 2010, just three weeks later. (Our note – QE1 was the first time*

they printed money and bought bonds. When it ended the stock market didn't like it.)

- *QE2 concluded at the end of June 2011. Both the S&P 500 and Nasdaq Composite peaked over the following two weeks. (Our note – the second time they printed and stopped, the second time the market didn't like it.)*
- *Post QE3, from Fall-2014 through Mid-2016, the Fed's security holdings remained largely unchanged. Over that same timeframe, the S&P 500 remained largely unchanged. (Our note – like a drug addict, the market seems more and more 'hooked' on free money from the Fed. When it's rising, the market rises. When it's flat the market is flat. And as you'll see next, when it declines, the market declines.)*
- *QT – Oct 2017 – Dec 2018 saw a not insubstantial wind-down on the Fed's securities holdings – a decline of around 15% all told. Over that comparable time, the S&P 500 was largely sideways and only resumed it uptrend over 2019 once the Fed announced it was ending its QT. (Our note – the fourth quarter of 2018 saw the S&P-500 fall just under 20% until the Fed announced they would sop QT and start a new bout of QE.)*

EPB Research tells us that between Fed tightening and slowing Fiscal spending, the smoothed 6 month annualized rate of real money growth is down about -5.6%.

That doesn't sound too bad until you realize that until now the fastest it contracted over the last 25 years was about -1% during the depths of the Great Financial Crisis.

Putting it all together.

1. The Fed wants the stock market to fall.
2. The Fed is raising rates and withdrawing liquidity, the latter of which directly correlates to stock market performance.
3. Including the day of Powell's speech, the S&P-500 has fallen five of six days and is down -6.5% from the Thursday, August 25th close.

I have a good friend who is also a client. He critiques (unsolicited mind you) our radio show and newsletters. Recently he told me that probably because of our background in accounting, we get caught up in the numbers in a way many don't understand. He urged us to sum it all up.

Regulations limit what we can or can't say in a public newsletter since we don't know who is reading and what their situation is, but we will end by saying this.

The weight of the probabilities tell us the stock market will likely continue to fall and probably significantly further.

There is an old saying on Wall Street.

“Risk happens slowly and then all at once.”

What it means is sometimes the market is slow to react to negative developments, lulling investors into complacency, right before it reacts with vigor and drops faster and to a greater degree than most imagine possible.

While some may take solace in the fact that the S&P-500 is only down about 17.7% year to date, with thoughts of *“if it were so bad, the market would be down a lot more so I’m smart to wait”,* don’t be one of them. The evidence is mounting.

Just as today, the evidence was mounting during the Great Financial Crisis. But at roughly the same time (nine months and six days after the peak) the S&P-500 was down only about 21.5%. Over the next 8 months the S&P-500 ***FELL AN ADDITIONAL 47.19%.***

Just as today, the evidence was mounting during the Dot Com Bubble. But at roughly the same time (nine months and six days after the peak) the S&P-500 was down only about 13.6%. Over the next 20 months the S&P-500 ***FELL AN ADDITIONAL 42.12%.***

You can act or not. But if you “wait to see” you could be making a decision to protect a portfolio that is one third smaller than it is today.

There will be an epic buying opportunity some time in our future if you have the wherewithal to participate. But if you let your portfolio dwindle too much you’ll likely be using years of gains simply trying to get back to where you are today.

Call or come to a free seminar to explore your options.

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.

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In the markets:

U.S. Markets: Major U.S. stock indexes finished the week lower as investors continued to digest the implications of hawkish messages from Federal Reserve officials. The S&P 500 Index extended the daily losing streak that began with Fed Chair Jerome Powell's August 26 speech at the central bank's Jackson Hole conference. The Dow Jones Industrial Average ended the week down 965 points to 31,318 - a decline of -3.0%. The technology-heavy NASDAQ Composite gave up -4.2% to 11,631. By market cap, the large cap S&P 500 retreated -3.3%, the mid cap S&P 400 fell -4.3% and the small cap Russell 2000 declined -4.7%.

International Markets: Almost all major international indexes finished the week down as well. Canada's TSX retreated -3.0% while the United Kingdom's FTSE 100 gave up -2.0%. On Europe's mainland, France's CAC 40 ended down -1.7%, while Germany's DAX managed a slight 0.6% uptick. China's Shanghai Composite declined -1.5%. Japan's Nikkei gave up -3.5%. As grouped by Morgan Stanley Capital International, developed markets fell -3.6%. Emerging markets ended the week down -3.1%.

Commodities: Major commodities also finished the week to the downside. The traditionally-defensive asset Gold failed to deliver on that premise and shed -1.6% to $1722.60 per ounce, while Silver declined an even greater -4.6% to $17.88. Energy pulled back as well. West Texas Intermediate crude oil declined -6.7% to $86.87 per barrel, while Brent crude retreated -5.7% to $93.04. The industrial metal copper, viewed by some analysts as a barometer of global economic health due to its wide variety of uses, plunged -7.7%.

August Summary: August was a difficult month for U.S. stocks as all the major benchmarks finished the month in the red. The Dow shed -4.1%, while the NASDAQ fared the worst—down -4.6%. Large caps and mid-caps declined -4.2% and -3.3%, respectively. Small caps did the "least worst" and finished the month down -2.2%. August was difficult for international markets as well. Canada's TSX retreated -1.8%, and the FTSE declined -1.9%. France and Germany shed -5.0% and -4.8%, respectively. China gave up -1.6%. Japan was the only major market to finish the month up, gaining a modest 1.0%. As grouped by Morgan Stanley Capital International, developed markets ended the month down -6.1%. Emerging markets ended down -1.3%. In the commodities markets, Gold gave up -3.1%, while Silver plunged a large -11.5%. Oil finished the month down -9.2%, and copper closed the month of August down -1.6%.

U.S. Economic News: The number of people who applied for first-time unemployment benefits at the end of August fell to a nine-week low last week, showing no sign that a slowing U.S. economy is triggering widespread layoffs. The Labor Department reported new jobless claims declined by 5,000 to 232,000 in the seven days ended August 27. Economists had forecast new claims would total 245,000. New unemployment filings had fallen to as low as 166,000 in late March, while topping out at 261,000 recently. By most metrics, the labor market remains extremely tight—too tight in the view of the Federal Reserve. The central bank wants to see hiring slow and unemployment rise slightly to help ease inflation. Meanwhile, the number

of people already collecting benefits, so-called “continuing claims”, rose by 26,000 to 1.44 million. That number is reported with a one-week delay.

The U.S. added over 315,000 new jobs in August according to the Labor Department’s monthly jobs report, showing businesses still have a big appetite for hiring even as the economy slows. The increase in hiring basically matched economists’ estimates. Economists had forecast 318,000 new jobs would be created. Meanwhile, the unemployment rate ticked up slightly to 3.7% - mostly because more people entered the workforce in search of jobs. That number is at its highest level in six months. In the report, professional businesses led the way with 68,000 new employees added, while employment also rose in health care, hotels and restaurants, retail, manufacturing, and finance. No major industry reported a decline in employment, a sign of broad strength in the labor market. Jennifer Lee, senior economist at BMO Capital Markets summed up the report succinctly, “So was this good or bad? Both. This does not change the view that the labor market is ‘clearly out of balance,’ to quote the Fed chairman, and will keep the central bank tightening into year-end.”

The number of jobs openings in the nation rose to 11.2 million in July, the first increase in four months. However, companies aren’t as anxious as they were to fill the open spots - the number of jobs being filled slipped for a fourth month. The so-called “quits rate”, rumored to be the Federal Reserve’s preferred measure of the health of the labor market as it is presumed a worker would only leave a job in favor of a more lucrative one, dipped to 2.7%. However, despite the decline it remains near the peak of 3% it reached at the end of 2021. Indeed Hiring Lab senior economist Ann ELIZABETH Konkel stated, “While there are some signs of cooling, all in all the labor market is still hot. Layoffs remain low and the elevated quits rate and job opening continue to be signals of strength.”

The rate of home price rises continued to slow sharply, according to the latest report from S&P Case-Shiller. Case-Shiller’s 20-city home price index slowed to an 18.6% annual increase in June, down almost 2 full percentage points from its previous reading. The annual rate of home price increases has slowed sharply since reaching its peak of 21.2% in April. A pair of Florida cities, Tampa and Miami, reported the highest year-over-year gains among the 20 cities in June, along with Dallas, Texas. Cleveland, Minneapolis, and Washington D.C. reported the lowest year-over-year gains. A broader measure of home prices, Case-Shiller’s national index, rose just 0.3% from May to June. That was the lowest monthly increase in two years. Stephen Stanley, chief economist at Amherst Pierpont, wrote in a note, “The housing sector is weakening sharply. June is the first month that the official price data began to show the shift to cooler demand for homes.”

Confidence among the nation’s consumers rose for the first time in four months predominantly due to falling prices at the gas pump. The Conference Board reported its measure of consumer confidence jumped 7.5 points to 103.2. Economists were expecting a reading of just 97.4. In the details, the measure of how consumers feel about the economy right now, the ‘present situation index’, rose 5.7 points to 145.4, while a similar gauge that assesses

how consumers feel about the next six months jumped to 75.1 from 65.6 - its highest level in four months. Lynn Franco, senior director of economic indicators at the board stated, "August's improvement in confidence may help support spending, but inflation and additional rate hikes still pose risks to economic growth in the short term."

A key measure of manufacturing activity held steady in August, as new orders and employment turned positive, while inflation lessened. The Institute for Supply Management (ISM) reported its U.S. manufacturing index came in at 52.8. While the reading matched its worst headline number since early in the pandemic, it was better than expected. Economists had forecast the index to slip to 51.8. Readings above 50 signify growth. One red flag: Numerous executives said inventories are too high. In the details, the index of new orders rose 3.3 points to 51.3, while the employment gauge turned positive climbing 4.3 points to 54.2. The prices index, a measure of inflation, sank to 52.5 - its lowest level since June 2020. That gauge has fallen five months in a row since peaking in March at 87.1. Oren Klatchkin, lead U.S. economist at Oxford Economics said, "The final months of 2022 will be quite challenging for manufacturers. Soft domestic demand and recession worries will weigh on growth."

International Economic News: The Canadian economy grew at an annual rate of 3.3% in the second quarter, missing estimates. In its latest report, Statistics Canada showed the economy expanded for a fourth consecutive quarter, driven by increased businesses and household spending. Businesses ramped up their investments in inventories, which served as the major contributor to the growth. Businesses also increased their investments in engineering structures and machinery and equipment. According to the federal agency, real GDP grew by 0.8% in the second quarter, with the economy staying flat in May before seeing growth of 0.1% in June. Of note, an early reading for July points to a contraction of 0.1%.

Across the Atlantic, the British pound suffered its worst month since the aftermath of the Brexit referendum, and analysts expect the sterling to fall further as a "slowing economy and political paralysis" grip the U.K. Analysts say the United Kingdom faces a rapidly deteriorating cost-of-living crisis as food and energy prices soar, with millions of households facing poverty this winter. The pound lost 4.5% versus the U.S. dollar in August, falling to just $1.16 - the lowest since March 2020. Fears of a long recession and the likelihood of higher public spending to cope with the cost-of-living crisis has sent the interest rate on Britain's debts soaring towards its biggest monthly rise in almost 40 years.

On Europe's mainland, after Gazprom cut deliveries to major French utility Engie, France accused Moscow of using energy supplies as "a weapon of war." Engie announced Gazprom would be delivering less gas due to an "unspecified contractual dispute". The main conduit for Russian gas into Europe, Nord Stream 1, was shut off for maintenance this week and with winter coming, demand from businesses and households to fill storage facilities has further kindled France's soaring energy costs. France's Energy Transition Minister Agnes Pannier-Runacher stated, "Very clearly Russia is using gas as a weapon of war and we must prepare for the worst case scenario of a complete interruption of supplies." When asked if Gazprom will restart gas

flows through Nord Stream 1, Kremlin spokesman Dmitry Peskov stated, "There are guarantees that, apart from technological problems caused by sanctions, nothing hinders the supplies."

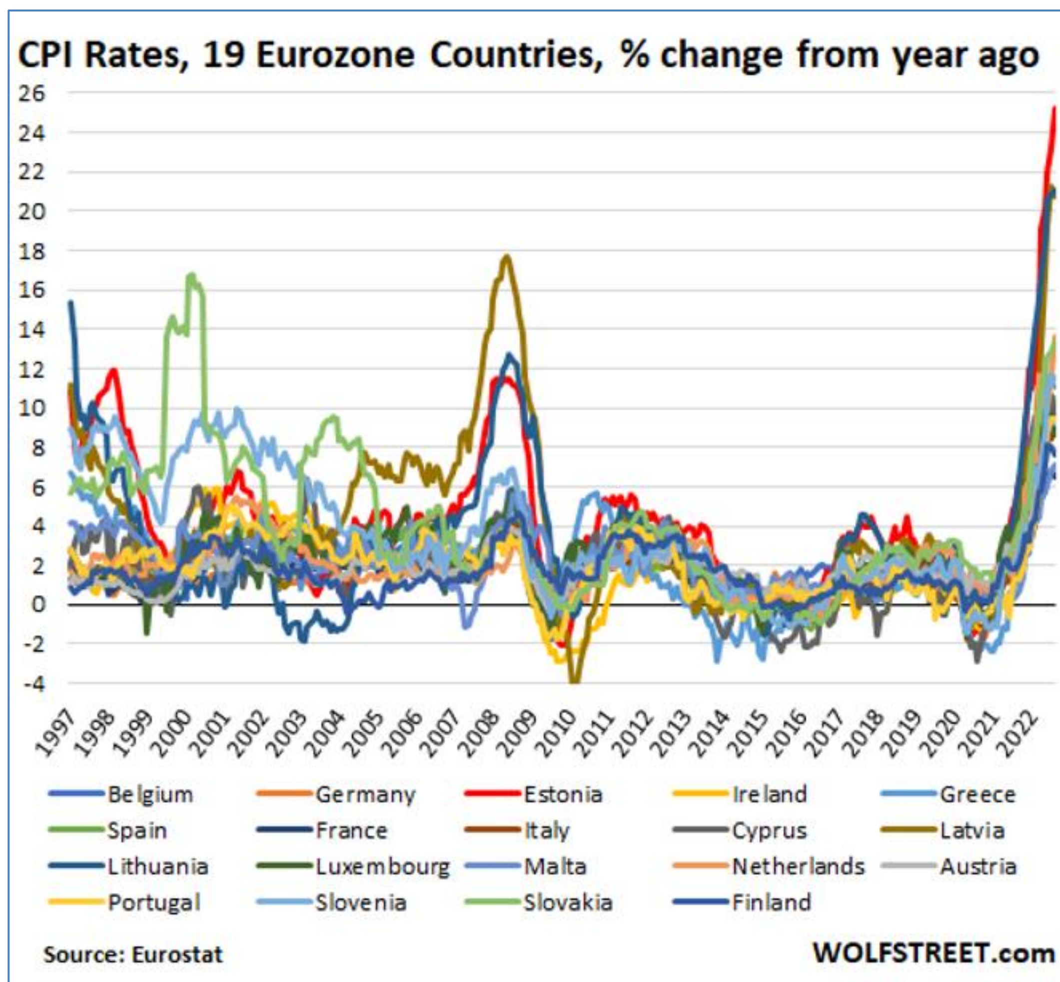
Rampantly-rising energy prices forced Europe's top steelmaker to close plants. ArcelorMittal, the world's largest steelmaker, stated exorbitantly high energy costs have forced a series of smelter closures with production becoming uneconomical. The reasoning was that rising energy prices devastatingly impact the company's competitiveness in steel production. Reiner Blaschek, CEO of ArcelorMittal Germany, wrote, "As an energy-intensive industry, we are extremely affected. With gas and electricity prices increasing tenfold within just a few months, we are no longer competitive in the market that is 25% supplied by imports." By the end of September, two plants in Germany, one in Bremen and another in Hamburg, will both be partially closed. With Russian energy giant, Gazprom, decreasing output from Nord Stream 1, power prices will further curb industrial output.

In Asia, China is suffering from one of its worst earnings recessions on record as Beijing's zero-COVID policy and an evolving real estate crisis weigh on the country's listed companies. More than 4,800 Chinese companies listed in Shanghai, Shenzhen and Beijing have now released their earnings for the first half of the year and in the words of one analyst, "it was a bloodbath." As many as 53% posted a decline in net profit, according to data from Wind and Choice, two major financial information services in the country. That was almost as bad as 2020, when companies posted their worst earnings season on record as the country came to a near standstill during the initial coronavirus outbreak. By another measure, though, the start of this year was worse. The number of companies reporting a loss hit a record high of nearly 900 in the first half. In 2020, about 780 companies lost money. Larry Hu, chief China economist for Macquarie Group, said the poor earnings reflected China's slowing economy, which is being dragged down by the real estate slump, the worsening Covid situation, and the weakening global economy.

In the world's third largest economy, Bank of Japan board member Junko Nakagawa asserted the need to keep that country's monetary policy ultra-loose for the time being. While robust overseas demand and the weak yen have boosted manufacturers' profits, supply disruptions caused by China's strict Covid-19 lockdowns have hurt Japanese exports and output, Nakagawa said. Domestic consumption is picking up, though the fallout from a broad range of price hikes for daily necessities clouds the outlook, she said. "For the economy to recover, it's crucial that the damage to consumption from price rises remains minimum," Nakagawa said. The BOJ has pledged to keep monetary policy ultra-loose to support a fragile economic recovery, remaining an outlier among other central banks that are raising interest rates to combat soaring inflation. Japan's core consumer prices rose 2.4% in July from a year earlier, marking its fastest pace in seven-and-a-half years.

Finally: As bad as inflation seems in the U.S., it is much worse in the Eurozone where inflation jumped 9.1% in August - a new record for Eurozone data that goes back to 1997. Estonia led the way with a huge 25.2% rise, while Germany hit a record 8.8%. After years of

money printing by the European Central Bank (ECB) that turned into an absolute torrent during the pandemic, inflation "suddenly" spiked in early 2021. By July 2021, Eurozone inflation had shot past the ECB's inflation target of 2%, and by August inflation had hit 3% and continued shooting higher. At the time, the ECB parroted the Federal Reserve's line that this inflation was "transitory", and it continued on its course of non-stop money printing. By January 2022, just before Russia's invasion of Ukraine, Eurozone inflation had shot to 5.1%, with two Baltic States already in the double-digits. And since the invasion of Ukraine, the upward trajectory of inflation has continued unabated. The chart below, from wolfstreet.com, represents every European central banker's nightmare.



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?

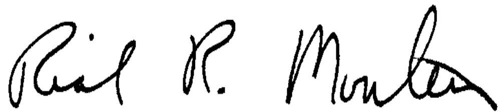
At the bottom of the 2007 - 2009 bear market the S&P-500 index returned to levels last seen in 1996.
The drop didn't retrace only a few months or even a couple years.

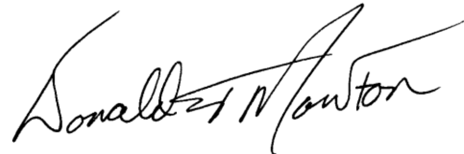
We discuss many of these issues on the weekly radio show and invite you to listen.

WEEKLY FOCUS – THINK ABOUT IT

"The weight of the probabilities tell us the stock market will likely continue to fall and probably significantly further."

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.

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https://www.bloomberg.com/news/articles/2022-08-29/neel-kashkari-happy-to-see-the-stock-market-s-reaction-to-jackson-hole

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.)