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 October 3, 2022

Two weeks ago we warned that *"risk happens slowly and then all at once"*. You can read it here [Newsletter - Moulton Wealth](). September unfortunately bore out our concerns with losses in just the one month approximating half of all losses for the previous 8 months combined.

ATTEND OUR…

RISK MANAGEMENT

SEMINAR

BRING A GUEST

- **OCTOBER 19TH @ 9:30 AM – SPOKANE**

(BREAKFAST)

- **OCTOBER 26TH @ 11:00 AM – RICHLAND**

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

Index	September 2022 Return	Year to Date Return through Sept. 30, 2022
Dow Jones Industrial	-8.84%	-20.95%
S&P-500	-9.34%	-24.77%
NASDAQ	-10.5%	-32.40%
Russell 3000	-9.4%	-25.48%

Risk happens slowly, and then all at once.

Unfortunately the data does not necessarily point to the worst being behind us. We've warned for the better part of a year that we were headed into an economic construct of growth and inflation both slowing in rate of change; Quad 4 as named by our research partner Hedgeye. This is the worst set up for stocks. And unfortunately, they see it continuing into late 2023.

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. You can also read all the past newsletters and take the test to find your Risk Number.

Certainly one can argue that we didn't see inflation slowing in rate of change, due in large part to Russia invading Ukraine, but it now appears to be happening.

(A side note – slowing in rate of change and outright slowing can be two different things. Slowing in rate of change means "growing less quickly" while outright slowing means getting smaller. We actually think it likely we'll see both for inflation from here going forward.)

If the data doesn't change, this bear market could play out closer to the three year grind of the Dot.com bear market than the relatively faster Great Financial Crisis.

If you're a buy and hold investor and have done nothing to protect yourself for whatever reason, don't underestimate how much further this decline could go.

Let's do a little math exercise. The value of stocks is derived by two components: earnings per share and what investors are willing to pay for those earnings (referred to as multiples). Going back to 1945, the average earnings per share decline during recessions has been -26.5% with a median decline of -18.4% If we only consider the two real recessions since 2000 earnings per share declined on average -73%. *(We excluded the Covid recession because by definition it wasn't "normal" across virtually any metric.)* The P/E ratio or multiple normally declines to 14.5 in recessions. Earnings per share for the S&P-500 is currently expected to be $215 for the entirety of 2022.

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

"YOUR MONEY MATTERS"

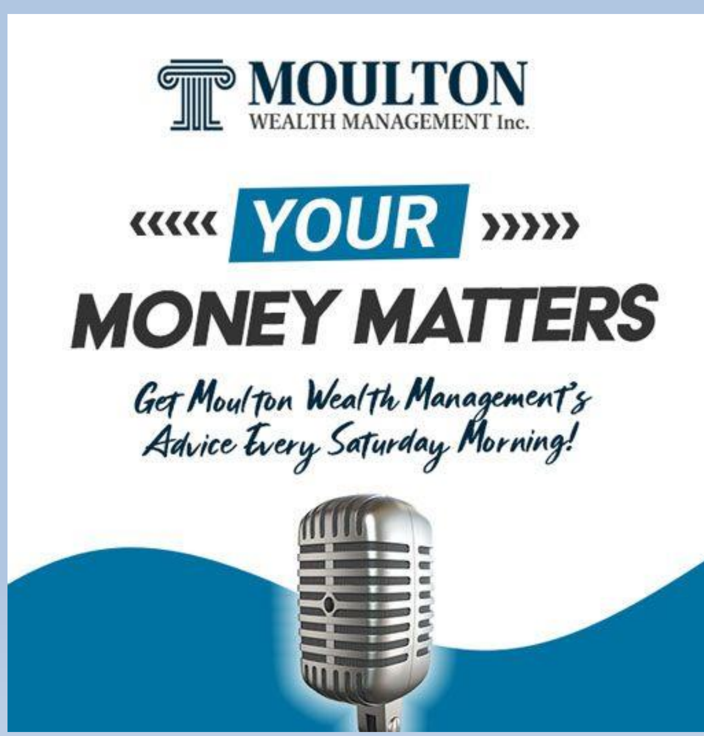
EVERY SATURDAY MORNING AT

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



- If earnings decline by the median of -18.4% in a recession they would be $175.44. Applying that to a multiple of 14.5 it indicates a fair value for the S&P-500 of 2543.88 or down another -29% from here. It would also imply a total top to bottom decline of -46.6%. This would be a lesser decline than either the Dot.com or Great Financial Crisis.
- If earnings declined by the average of -26.5% and again using a multiple of 14.5 we get a fair value of 2291.4 or down another -36% from here. It would imply a total top to bottom decline of -51.9%. This would be a slightly bigger decline than the Dot.com bear market but not as much as the Great Financial Crisis.
- If earnings declined by the average of the last two recessions, -73%... Well you can do the math on that one.

Before you write off the possibility of declines of this magnitude, note that John Hussman PhD, who predicted the -82% NASDAQ decline during the Dot.com bubble within 2% points, estimates the S&P-500 will fall by -50% to -70%!

If you thought it likely the market could fall another -30% to -40% from here would it be smarter to worry about "locking in losses" or would it be smarter to avoid losing another 1/3 or more of your portfolio?

It's important to remember, this is not "our prediction" because we don't make them. We're simply trying to open everyone's mind to what *could* happen, given the data set that we are now facing. Managing portfolio risk is not about knowing the market will decline, it's about weighing risks and positioning accordingly.

Certainly there will be bear market rallies along the way, even if a direr outcome is ultimately realized. That is the nature of bear markets. We already saw one from mid-June to mid-August and many talking heads assured us it meant this bear market was over.

As of Friday we've set new lows for the year.

One last thought about the current bear market from the Daily Shot. The chart on the following page shows how many years of previous gains were erased by various bear markets. Two things to note:

1. If we're near done it will be as mild as the 1987 crash which was followed by massive Fed intervention that we're unlikely to see due to inflation.
2. Notice the last inflationary bear market of 1982 and how many years of prior gains it erased, not to mention the Great Financial Crisis.

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: Turmoil in financial markets in the United Kingdom and hotter-than-expected inflation numbers at home sent stocks to their third consecutive weekly decline. In addition, the yield on the benchmark 10-year U.S. Treasury note briefly topped 4% for the first time since 2008. The Dow Jones Industrial Average shed 865 points falling to 28,726—a decline of -2.9%. The technology-heavy NASDAQ Composite retreated -2.7% to 10,576. By market cap, the large cap S&P 500 finished the week down -2.9%, while the mid cap S&P 400 gave up -1.6% and the small cap Russell 2000 ended the week down -0.9%. On a closing basis, the Dow, S&P 500 and NASDAQ Composite all set new lows for 2020 on Friday.

International Markets: Major international markets were a sea of red as well. Canada's TSX ticked down -0.2%, while the United Kingdom's FTSE 100 shed -1.8%. On Europe's mainland, France's CAC 40 and Germany's DAX declined -0.4% and -1.4%, respectively. In Asia, China's Shanghai Composite declined -2.1% and Japan's Nikkei plunged -4.5%. As grouped by Morgan Stanley Capital International, developed markets declined -1.3%, while emerging markets fell -3.1%.

Commodities: Precious metals managed to finish the week in the green. Gold rose 0.99% to $1672.00 per ounce, while Silver added 0.68% to $19.04. West Texas Intermediate crude rebounded slightly this week as well, rising 0.95% to $79.49 per barrel. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, gained 2.1%.

September and Q3 Summary:

U.S. Markets: For the month of September the NASDAQ fared the worst, falling -10.5%, while the Dow closed down -8.8%. The S&P 500 gave up -9.3%, the mid cap S&P 400 shed -9.4%, and small caps finished down -9.7%. Stocks closed down for a third consecutive quarter. In the third quarter, the Dow gave up -6.7%, the NASDAQ fell -4.1%, and the benchmark S&P 500 ended down -5.3%. The mid cap S&P 400 and small cap Russell 2000 finished the quarter down -2.9% and -2.5% respectively.

International Markets: In September, Canada declined -4.6%, the UK lost -5.4%, and France and Germany ended down -5.9% and -5.4%, respectively. China retreated -5.6%, while Japan plunged -7.7%. Developed markets ended the month down -9.2% and emerging markets plummeted -11.5%. For the third quarter, Canada and the UK pulled back -2.2% and -3.8%, while France and Germany closed down -2.7% and -5.2%. China ended the quarter down -11%, while Japan ticked down a relatively modest -1.7%. Emerging markets as a group dropped -13% and developed markets ended down -10.4%.

Commodities: Precious metals were mixed in September. Silver gained 6.5%, while Gold shed -3.1%. Oil plunged -11.2% in September and Copper finished down -3.1%. In the third quarter, Gold and Silver declined -7.5% and -6.5%, respectively. Oil plummeted -24.8%. Copper finished the quarter down -8.1%.

U.S. Economic News: The number of Americans filing for first-time unemployment benefits fell to its lowest level in five months last week, a sign the labor market remains robust. The Labor Department reported initial jobless claims fell by 16,000 to 193,000 in the week ended September 24th. That's the lowest level of claims since late April. Economists had expected claims to rise by 2,000. Analysts note recent rate hikes by the Federal Reserve are not yet cooling the economy. In fact, the media continues to report more stories about shortages of skilled workers than layoffs. Ian Shepherdson, chief economist at Pantheon Macroeconomics, wrote in a note to clients, "With labor still very hard to find, firms probably are holding on to people who under normal conditions would have been laid off. At this point, then, the softening of the labor market which the Fed wants appears unlikely to come via rising layoffs."

Home prices across the country pulled back in July as mortgage rates approach levels not seen since 2007. S&P CoreLogic reported its 20-city home price index fell a seasonallyadjusted -0.4% in July, down from a 0.4% rise in June. The decline slowed the annual rate of increase to 16.1%, down from 18.7% in the previous month. The rate of rise has slowed sharply since reaching a peak of 21.2% in April. All 20 cities comprising the 20-city index reported lower home year-over-year prices. Tampa, Miami, and Dallas reported the highest year-over-year gains among the 20 cities in July. Price growth was strongest in the South and Southeast—up over 26% over the past year. San Francisco, Seattle, and San Diego reported the steepest fall in home prices. Craig J. Lazzara, managing director at S&P DJI, summed up the report succinctly, "July's report reflects a forceful deceleration." Stephen Stanley, chief economist at Amherst Pierpont, wrote in a note "The cooling has come fast and hard. Cities in the West posted the steepest increases during the pandemic, and they are reversing hard now."

Economic growth slowed in August, according to data from the Federal Reserve Bank of Chicago, adding to signs of an impending recession. The Chicago Fed's National Activity index (CFNAI) monthly decline in August was driven by weakness in production-related indicators, whose losses offset gains by the index's other components. The CFNAI, designed to gauge overall economic activity and inflationary pressures on a nationwide level, is composed of 85 economic indicators from four broad categories of data: production and income; employment, unemployment and hours; personal consumption and housing; and sales, orders and inventories.

Inflation in August was stronger than expected despite the Federal Reserve's efforts to bring down prices. The Personal Consumption Expenditures (PCE) index, rumored to the be the Federal Reserve's preferred measure of inflation over the CPI, rose 0.3% in August, up from a -0.1% decline in July. Excluding food and energy, so-called "core" PCE rose 0.6% for the month. On an annual basis, core PCE increased 4.9%--more than the 4.7% consensus forecast and up 0.2% from the previous month. The Fed generally favors core PCE as the broadest indicator of where prices are heading as it adjusts for consumer behavior. Regardless of which metric is chosen, CPI or PCE, the data shows inflation running well above the central bank's 2% long-run target.

Orders for goods expected to last at least three years, so-called 'durable goods', pulled back slightly in August because of lower demand for large aircraft, but investment rose in a sign the economy is still plowing ahead. The Census Bureau reported orders for durable goods fell -0.2% in August, less than the -0.5% decline economists had expected. More importantly, analysts note, 'core orders' jumped 1.3% last month showing surprising strength. Core orders exclude big-ticket items like military spending, auto manufacturing, and airplane manufacturing that can skew the report wildly one way or the other. Analysts look to core orders for a more reliable sign of demand in the broader economy. Senior U.S. economist Andrew Hunter of Capital Economics stated the drop in orders "wasn't as bad as we expected and suggests that business equipment investment is, for now at least, still holding up in the face of surging interest rates."

Confidence among the nation's consumers hit a five-month high this month, predominantly due to the fall in gas prices. The Conference Board reported its index of U.S. Consumer Confidence rose 4.4 points to 108 in September. Economists had expected a reading of 104.5. Falling gas prices eased the anxieties of Americans feeling the pain of high inflation, but now rising interest rates are increasing the borrowing costs for houses, cars, and just about everything else. In the details, a measure of how consumers feel about the economy right now rose 4.3 points to 149.6 in September, while a similar gauge that looks ahead six months climbed to 80.3 from 75.8—the highest level in seven months.

International Economic News: Canada's economy grew in July, bucking expectations of an imminent decline. Statistics Canada reported Canada's gross domestic product expanded by 0.1% in July, as growth in mining, agriculture and the oil and gas sector offset weakness in manufacturing. While the economy eked out slight growth in July, the data agency's early look at August's numbers shows no growth. Economist Royce Mendes with Desjardins wrote in a note, "The economy fared better than anticipated this summer, but the showing still wasn't much to write home about." Still, the performance of Canada's economy throughout the fiscal year — 3.6 per cent growth in Q1 and 4.2 per cent thus far in Q2 — remains one of the best in the world.

Across the Atlantic, the Bank of England took emergency action this week to stabilize its financial markets and head off a crisis in its broader economy. The central bank warned that crumbling confidence in the economy posed a "material risk to U.K. financial stability" and announced it would buy long-term government bonds over the next two weeks to combat a recent slide in British financial assets. "Were dysfunction in this market to continue or worsen, there would be a material risk to U.K. financial stability, ″ the bank said in a statement. "This would lead to an unwarranted tightening of financing conditions and a reduction of the flow of credit to the real economy.″ The British pound plunged to a record low against the U.S. dollar following the government's announcement, and yields on U.K. government debt soared.

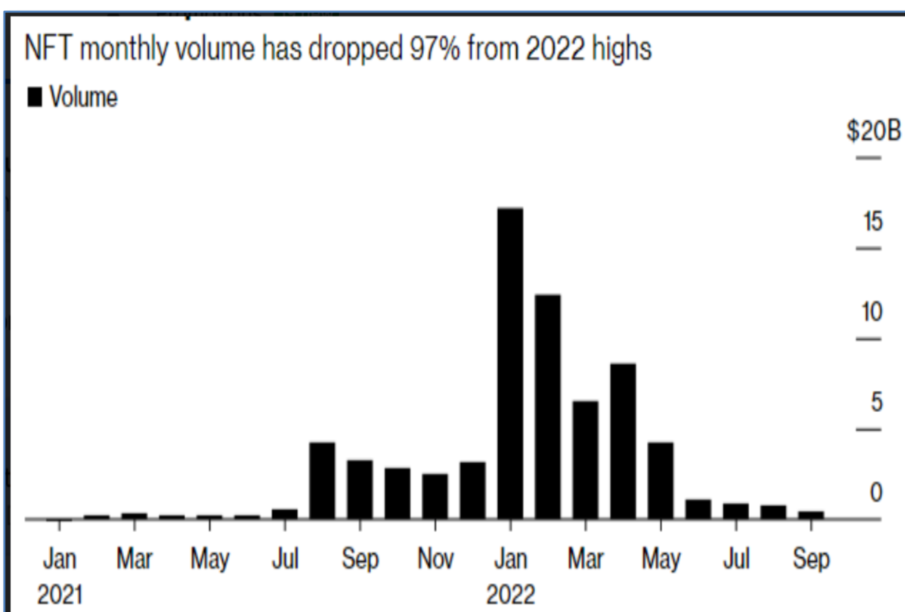
On Europe's mainland, France's finance minister said the fight against inflation is his biggest priority as he delivered the 2023 budget. "The most important and most urgent challenge for France and other European nations is to bring down the inflation pressure," Finance Minister Bruno Le Maire said. The ministry said it had budgeted 45 billion euros ($43.6 billion) next year to cap increases in gas and power prices at 15%. Le Maire said that "uncertainty has never been greater" about the economic outlook for next year as the war in Ukraine continues to rage and Russia's moves remained unpredictable. The Finance Ministry forecast earlier this month that the economy would grow 2.7% this year before slowing to 1% next year, while the central bank expects 0.8% next year at most.

Europe's main economic powerhouse, Germany, just reported its highest inflation in 70 years as economists warn of the risk of a deep recession. German inflation soared to 10.9% in September, accelerating from 8.8% in August. It was the first time German inflation has reached double-digits since 1951. The increase is expected to lift overall Eurozone inflation to a new record of 9.7%. Chancellor Olaf Scholz responded to soaring energy costs this week by announcing a 200 billion euro cap on gas prices, which he described as a "defensive shield" to be financed by extending an off-balance sheet fund set up to provide aid during the coronavirus pandemic. "Inflation is running red hot in Germany," said Carsten Brzeski, an economist at Dutch bank ING, adding that it was "hard to see" how the European Central Bank could not raise interest rates by 0.75 percentage points for a third consecutive time at next month's meeting.

In Asia, for the first time in more than 30 years, China's economic growth has been put behind the rest of the Asia-Pacific region in World Bank forecasts. In its biannual report, the World Bank said the annual growth outlook for East Asia and the Pacific region had been downgraded from 5% to 3.2%. However, much of that decline was due to economic problems in China, which constitutes 86% of the region's economic output. The World Bank forecast GDP growth in China – the world's second largest economy – of just 2.8% for 2022, while the rest of the 23-country region is expected to grow an average of 5.3%, more than double 2021's 2.6% rise. The forecast for China puts its GDP growth behind its neighbors for the first time since 1990.

Japanese Finance Minister Shunichi Suzuki said authorities stood ready to respond to speculative currency moves, a warning that comes days after Tokyo intervened in the foreign exchange market for the first time in more than two decades to stem a fall in the yen. Suzuki also stated Japan's government and the Bank of Japan were on the same page sharing concerns about the currency's sharp declines. "We are deeply concerned about recent rapid and one-sided market moves driven in part by speculative trading," Suzuki said. "There's no change to our stance of being ready to respond as needed" to such moves, he added. Analysts state Japan likely spent a record around 3.6 trillion yen ($25 billion) last week in its first dollar-selling, yen-buying intervention in 24 years to stem the currency's sharp weakening.

Finally: NFT's, which stands for "non-fungible tokens", are cryptographic digital assets that exist on a blockchain with unique identification codes and metadata that distinguish each from all others. Unlike cryptocurrencies, like Bitcoin, that are identical and, therefore, can serve as a medium for transactions, NFTs are unique and intended to represent some real-world asset like a work of art, music, photos, etc. NFTs have been made to represent things as widely varied as NBA "Top Shot" photos and Twitter



founder Jack Dorsey's very first tweet ever, in which he wrote: "just setting up my twttr." At one time in the not too distant past, NFTs were touted as being "the next big thing". Recently, however, trading in NFTs has absolutely plummeted—now down 97% from the peak in January of this year. The fading NFT mania is part of a wider, $2 trillion wipeout in the crypto sector overall as rapidly tightening monetary policy starves speculative assets of investment flows. (Chart from Bloomberg.com)

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 you thought it likely the market could fall another -30% to -40% from here would it be smarter to worry about "locking in losses" or would it be smarter to avoid losing another 1/3 or more of your portfolio?

Yours truly,

Rial R. Moulton

Rial R. Moulton, CFP®, CPA / PFS, RFC
Certified Financial Planner™

Donald J. Moulton

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.

https://lplresearch.com/2020/04/24/how-far-do-earnings-typically-fall-in-recessions/
https://www.hussmanfunds.com/rsi/valuerecessions.htm
How I See The Markets Today - Dave Newman - Hedge Fund Telemetry

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.)