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 December 5, 2022

Last week's newsletter discussed big, one day stock moves in the context of bear markets. We also discussed why inflation may force the Fed to go further than many think. You can read it on our website or by clicking here *Newsletter - Moulton Wealth*.

If you didn't catch our radio show last Saturday, December 3rd, we encourage you to listen to the podcast you can find on our website or by clicking here *Your Money Matters*. In it we cover Fed Chair Powell's recent speech in detail and what it means to rates and the economy. We also discuss liquidity, an important factor in determining the direction of the stock market.

ATTEND OUR…

RISK MANAGEMENT

SEMINAR

BRING A GUEST

- **JANUARY 18TH @ 9:30 AM – SPOKANE**
- **JANUARY 25TH @ 11:00 AM - RICHLAND**

CALL **509-922-3110** TO RESERVE A SEAT *OR IF YOU WANT A SECOND OPINION ON YOUR PORTFOLIO!*

Maybe it's more prevalent in today's instant gratification world of social media and the internet, or maybe it's just human nature, but investors seem to expect their view – bullish or bearish – to be realized within a few weeks of its formation.

We've been bearish since early this year, giving multiple warnings that it was time to get conservative. As early as January we were selling the equity side of our clients' portfolios. Yet here we are entering December and the S&P-500 is "only" down about 15% although the tech heavy Nasdaq is down a more painful 27%. As such, it appears the bulls remain in charge and the path forward is higher. The market has taken the economic punch in the gut and remains standing.

Or has it?

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.

Remember the Fed's first-rate hike was +0.25% on March 17, 2022. The Fed themselves have told us that these hikes take anywhere from 6-18 months to really be felt in the economy. Let's assume it's the former – 6 months. That means that of the total hikes to date of 3.75%, only the first 0.75% has had any economic impact, again even assuming they are felt in 6 months, not 18 months. In other words, 80% of the Fed hikes to date have not yet impacted the economy. *And they're still going to raise at least 0.5% in the next meeting.*

Christian Drake of Hedgeye research offered a great analogy. If you get a nail in your tire, it doesn't go flat right away. Everything appears fine at first, and maybe for some time, until it eventually leaves you stranded somewhere down the road.

So while Wall Street dreams of a Fed pivot and a soft landing, let's just follow the macroeconomic chain of events and try to determine where it is headed; again from Christian Drake:

Revenue & Profits come from spending → But there is (increasingly) less money (Central Bank liquidity) → there is increasingly less wealth/tappable equity (wealth effect) → there is

Listen to Rial's and Don's radio show,

"Your Money Matters"

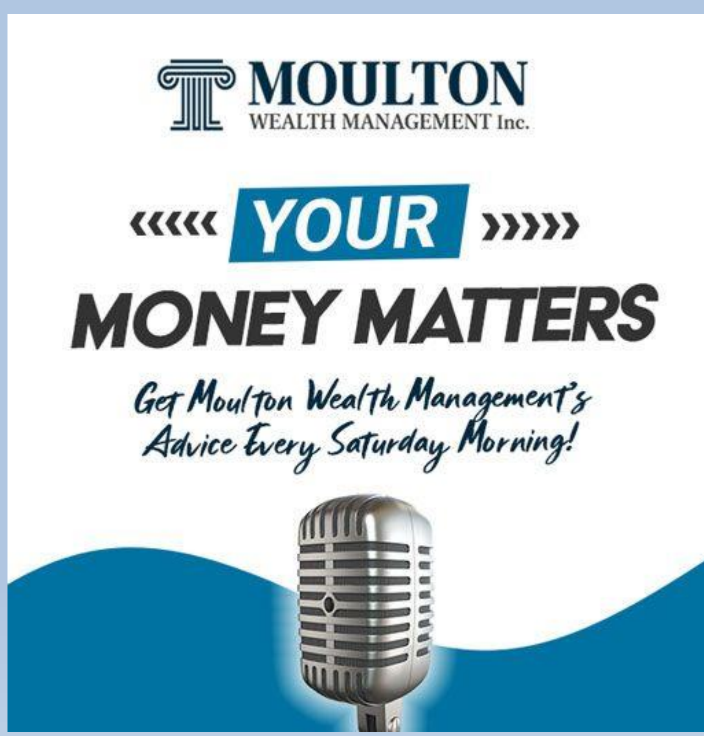
every Saturday Morning at

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



increasingly less discretionary income (negative real income growth for the longest stretch ever) → There is increasingly less savings to spend and cushion consumption → there is increasingly less spendable credit (higher rates, tighter standards and constricting credit availability) → Higher Rates means higher debt service and lower share of wallet for other discretionary consumption → So, you have less people with increasingly less real income, increasingly less savings and spendable credit, increasingly less purchasing power and historically difficult comps and profit growth is going to (accelerate/decelerate)? (Circle one).

Just for a bit of clarification since this was written largely for institutional investors, when he says "comps" he means "comparisons". We've discussed before that the market is more concerned about the direction and rate of change of data – whether it's getting better or worse and at what rate – than whether it's a good or bad number. This should make sense since investors are trying to determine where we'll be 9 months from now. When you think of the math behind whether things are getting better or worse and at what rate, it's important to pay attention to what we're comparing against. If the previous number was very good (the comp) then it will be more difficult for the rate of change to be positive and growing than if the previous number was very bad. In this case, the comps are becoming more difficult.

The tire may not yet be totally flat, but it is deflating.

Meanwhile Wall Street is doing its usual dance from one single data point to the next with the hope of keeping investors, always told that missing upside is the tantamount sin, fully invested.

The most recent "cure all" for the market downturn is that inflation has peaked. And although we think it likely it has, we're less sanguine about the odds of it falling quickly. Regardless, the newest "*hopium"* is that disinflation, coupled with an economy still in the "ok" zone, equals goldilocks and an economic soft landing.

But what if the economy continues to slow even as inflation doesn't fall as quickly as hoped?

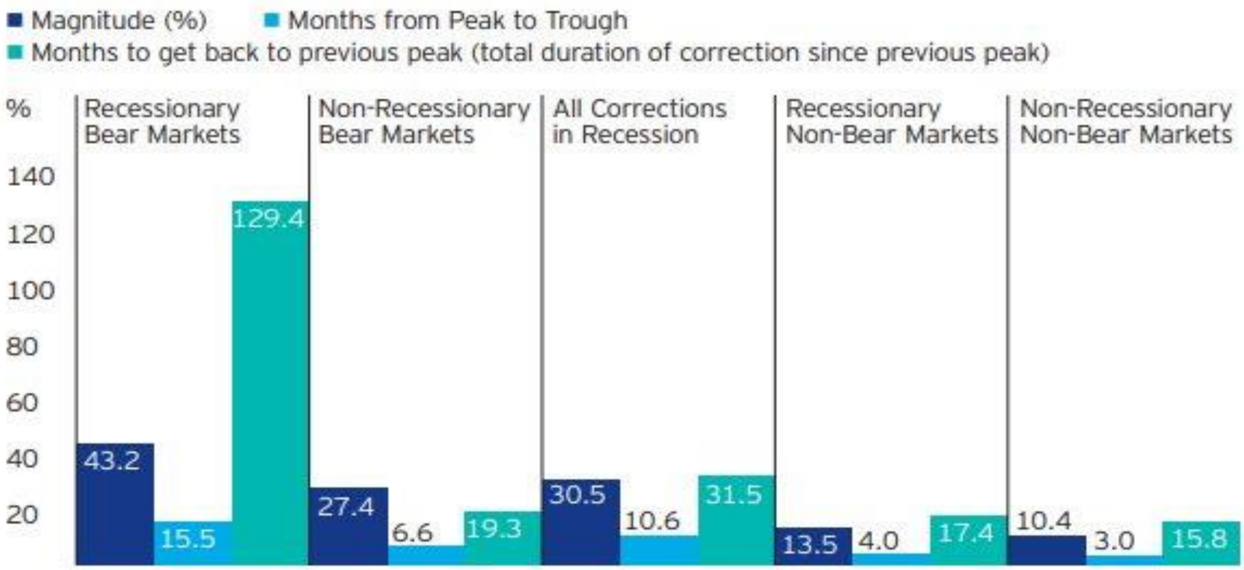
Then the goldilocks mask comes off, and a deepening recession becomes consensus reality. And that carries diametric implications.

Peak Inflation → Consensus Exhale/Relief → Transition to Internalizing Recession's Reality.

Remember, if the market moves on the data's rate of change – and it does – even a shallow recession when finally acknowledged by consensus means we move from low probability to something higher than low probability which is a net negative.

Unfortunately, it is not likely to be a shallow recession.

And recessionary bear markets are much deeper and longer lasting than the "average" bear market Wall Street uses in its zeal to downplay the negative impact to your retirement. See the chart on the next page for comparisons of market behavior during recessions as opposed to non-recessions.



During recessionary bear markets (far left column) the average decline is -43.2%. It takes about 15.5 months to get that -43.2%. The time it takes to go from top to bottom and back to top averages 129.4 months. Compare that to non-recessionary bear markets.

Recessions make a difference.

In the Great Financial Crisis, the S&P-500 fell -24% from the start on October 9, 2007 until the Lehman bankruptcy on September 15, 2008. That was close to a year, and not that far off from what we've lived through this year.

Then in just over a month from September 15, 2008 to October 27, 2008 the S&P-500 fell ***ANOTHER*** 28.8%. And from September 15, 2008 to the ultimate bottom, about 5 months later, it fell ***ANOTHER*** 43%.

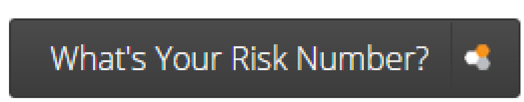
Not only do bear markets normally unfold in two stages with the latter stage being the more virulent, but it also demonstrates that risk happens slowly and then all at once.

What is your defensive plan?

There's still time.

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: The major U.S. equity indexes ended the week higher, supported by the possibility that the Federal Reserve may slow its pace of interest rate hikes. Growth stocks outperformed their value counterparts in the S&P 500 Index, while the technology-heavy Nasdaq Composite Index posted solid gains. The Dow Jones Industrial Average ticked up 0.2% to 34,430 while the NASDAQ rose 2.1% to 11,462. By market cap, the large cap S&P 500 added 1.1% last week, while the mid cap S&P 400 and small cap Russell 2000 gained 0.6% and 1.3% respectively.

International Markets: International markets finished the week mostly to the upside as well. Canada's TSX added 0.5%, while the United Kingdom's FTSE 100 gained 0.9%. On Europe's mainland, France's CAC 40 rose 0.4%, while Germany's DAX ended down -0.1%. In Asia, China's Shanghai Composite finished the week up 1.8%. Japan's Nikkei closed down -1.8%. As grouped by Morgan Stanley Capital International, developed markets gained 1.7%. Emerging markets rallied a strong 4.7%.

Commodities: Oil rebounded after three consecutive weeks of declines. West Texas Intermediate crude oil finished the week up 4.9% to $79.98 per barrel. Precious metals continued to shine with Gold rising 3.2% to $1809.60 per ounce, while Silver surged 8.5% to $23.25. 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 6.2%.

November Summary: The Dow rose 5.7% in November, while the NASDAQ added 4.4%. Large caps and mid-caps finished the month up 5.4% and 5.9%, respectively while small caps trailed, ending the month up 2.2%. November was also a positive month for the major international indexes. Canada and the UK rose 5.3% and 6.7%, while France and Germany rallied 7.5% and 8.6%, respectively. China finished the month up 8.9%, while Japan managed a more meager 1.4% gain. Taken as groups, developed markets jumped a big 13.2%, while emerging markets surged an even bigger 15.6%. Gold and silver rose 7.2% and 13.9%, respectively, but oil finished the month down -6.9%; copper ended the month of November up 10.8%.

U.S. Economic News: The number of Americans filing first-time unemployment benefits retreated last week after jumping the week before. The Labor Department reported initial jobless claims fell by 16,000 to 225,000 in the week ended November 26. Economists had expected claims to fall by just 5,000. The decline reverses a revised gain of 18,000 to 241,000 in the prior week. Meanwhile, the number of people already collecting benefits, known as 'continuing claims', rose by 57,000 to 1.61 million—its highest level since February. That number is reported with a one-week delay.

The Labor Department reported the U.S. added 263,000 new jobs in November, a historically strong pace of hiring that's good for workers but also threatens to prolong high inflation. The unemployment rate remained at 3.7%--close to a 50-year low. The increase in employment last month was concentrated in hotels, restaurants, and healthcare businesses. Hiring also rose in construction and manufacturing, two areas of the economy that have been under more duress. Government employment increased by 42,000. On a negative note, retail employment shrank for the third month in a row, and warehouse and transportation jobs also declined. If the economy is slowing, it is not yet evident in the labor market.

Home prices continued to fall for a third consecutive month, according to S&P CoreLogic. S&P's Case-Shiller 20-city home price index fell 1.2% in September. The decline matched forecasts. Year-over-year home price appreciation is still up 10.4%, but that is predominantly due to the strong housing market at the end of last year. Since August, the annual rate of home price appreciation has tumbled 13.1%. On a monthly basis, all 20 cities posted declines led by the western region. Sales remained strongest in Miami, Tampa, and Charlotte. A broader measure of home prices, the U.S. national index, fell by a seasonally adjusted 0.8% in September. Most housing analysts don't expect conditions to improve anytime soon. Ian Shepherdson, chief economist at Pantheon Macroeconomics wrote in a note, "Prices have much further to fall before they adjust fully to the ongoing collapse in demand."

October pending home sales, which counts transactions in which a contract has been signed but not yet closed, fell for a fifth consecutive month. The National Association of Realtors reported pending home sales fell -4.6%, not quite as bad as the -5.5% economists were expecting. Sales fell in three of the four regions, with the Midwest registering an increase. From the same time last year, pending home sales were down a sharp 37%. Sales have stalled as mortgage rates have jumped, making houses less affordable. Pending home sales give analysts an early indication of future home sales data.

A key measure of inflation rose modestly in October, suggesting that recent red-hot price pressures may be cooling. The Personal Consumption Expenditures (PCE) index, rumored to be the Federal Reserve's preferred measure of inflation, slowed to an annualized rate of 6% in October from 6.2% in the prior month. Furthermore, the PCE's core index, which strips out the volatile food and energy categories, slipped to 5% from 5.2%. Core PCE had hit a 40-year high of 5.4% in February. The rate of inflation appears to be receding, but only very slowly. Chief North American economist Paul Ashworth of Capital Economics stated, "We expect to see a lot more good news on inflation over the coming months."

Confidence among the nation's consumers fell to its lowest level in four months as inflation continued to weigh on spending power and interest rates continued to rise. The Conference Board reported its index of consumer confidence fell two points to 100.2 in November, closely matching economists' estimates. A measure of how consumers feel about the economy right now slipped to 137.4 in November from 138.7 in the prior month. That's the lowest level in a year and a half. A similar confidence gauge that looks ahead six months fell to 75.4 to from 77.9 – a six-month low. As the Federal Reserve continues to raise interest rates to tame inflation, the higher borrowing costs make it more expensive for consumers to spend and invest. Lynn Franco, senior director of economic indicators at the board stated, "The combination of inflation and interest rate hikes will continue to pose challenges to confidence and economic growth into early 2023."

According to the latest GDP figures, the U.S. economy grew in the third quarter and is showing little sign of recession—at least yet. Gross Domestic Product, the official scorecard for the U.S. economy, grew at an annualized 2.9% pace in its final third quarter reading, revised up from its preliminary reading of 2.6%. GDP shrunk in the first two quarters of the year. The main engine of the economy, consumer spending, increased at a solid 1.7% annual clip in the third quarter, the government said. Previously the increase was put at a softer 1.4%. However, the largest contribution to growth in the third quarter came from a huge drop in the trade deficit—which accounted for practically all the 2.9% rise in GDP. The broader economy's performance was less impressive. Of note, the Atlanta Federal Reserve's GDP tracker predicts 4.3% growth in the fourth quarter, but S&P Global sees the economy expanding less than 1%.

U.S. factories face their toughest time since the start of the pandemic, recent data from the Institute for Supply Management (ISM) shows. ISM reported its Manufacturing index fell to a 30-month low of 49% in November—contracting for the first time since the pandemic. The last time the index was this low was in May 2020, near the end of a nationwide lockdown in the early stages of the pandemic. In the details of the report, the index of new orders dropped 2 points to 47.2%. Orders have been in negative territory in five of the last six months. In addition, the employment gauge fell 1.6 points to 48.4%, and some companies said they were resorting hiring freezes and even layoffs. Chief economist Ian Shepherdson of Pantheon Macroeconomics summed up the report, "Manufacturing clearly is struggling in the wake of significantly higher borrowing costs."

International Economic News: Canada saw stronger than expected economic growth in the third quarter, but economists warned the underlying data wasn't as positive as the headline suggested. Statistics Canada reported the economy grew at an annualized rate of 2.9% in the third quarter. While the economy experienced stronger than expected growth, economists warned of a slowdown in the fourth quarter. Of primary concern, household spending fell for the first time since the second quarter of 2021, ticking down -0.3%. Another sign the economy is slowing is the accumulation of inventories by businesses in the third quarter, despite inventories contributing positively to real gross domestic product. Statistics Canada said this marked the second consecutive quarter of large inventory accumulation.

Across the Atlantic, a decline in the workforce and shortages in the labor market weighed on potential growth for the United Kingdom from 2020 to 2024, the Organization for Economic Cooperation and Development (OECD) stated. Former Bank of England governor Michael

Saunders expects the UK's economy will be ranked in the second to lowest group among industrial countries. Saunders stated, "Low potential growth implies low growth in real living standards." Saunders expects growth in the UK workforce will subsequently slow from 2010-2019's average of 0.8% annually to 0% from 2020-2024—among the lowest of any industrial country. According to Saunders, the UK economy will manage an expansion of only 0.5% annually over the next four years.

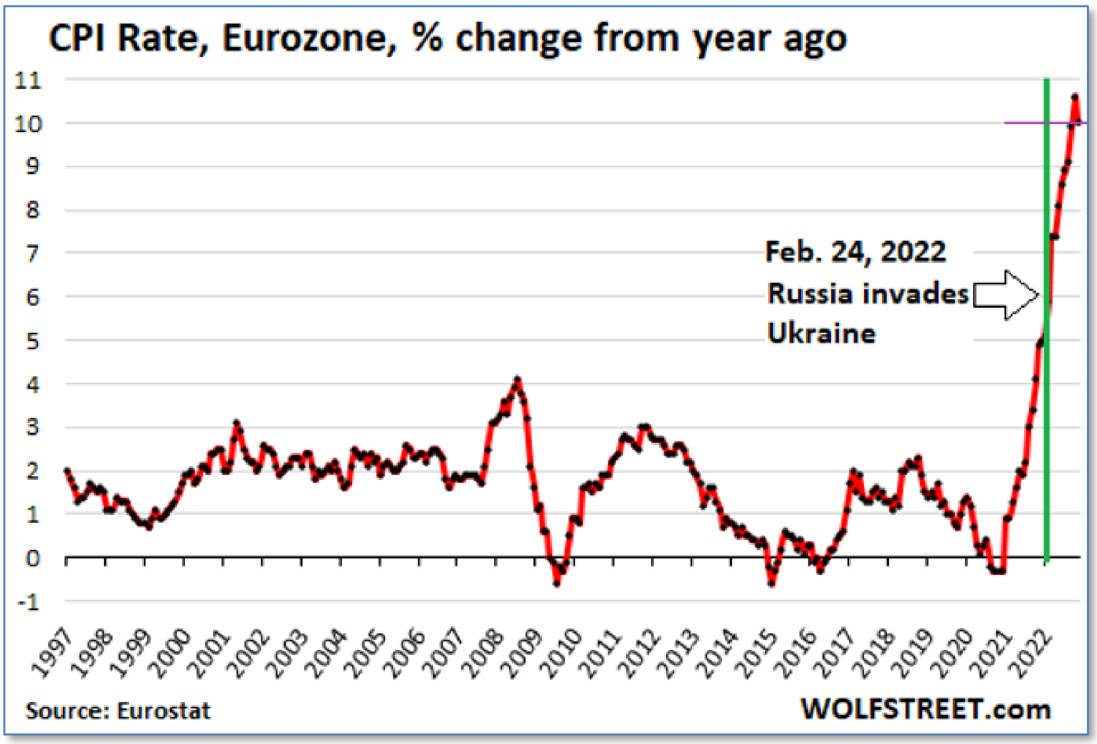
On Europe's mainland, France's credit outlook was downgraded to "negative" from "stable" by S&P Global Ratings as the nation's slowing economy and government measures to soften the impact of higher energy prices weighed on public finances. The downgrade comes amid France's already large general government debt, an implementation risk associated with its structural reform agenda, a wider economic slowdown and the European Central Bank's monetary tightening, S&P said in its report. Ratings agency Moody's, in its most recent rating action, affirmed France's rating at AA2, with a stable outlook.

German exports fell more than expected in October, as high inflation and supply chain snags hit demand in its key trading partners. Germany's Federal Statistics Office reported exports declined by 0.6% in October, twice as much as analysts had predicted. October marked a second consecutive month of falling exports after September saw an unexpected 0.5% drop. Shipments to Germany's top export partner, the United States, fell the most - down 3.9% in October, while exports to other European Union member states were down 2.4%. Imports were also much weaker than expected, posting their sharpest drop since January, down 3.7%. "The German export engine is noticeably juddering," said German chambers of commerce and industry (DIHK) trade chief Volker Trier. "High inflation rates and a tight monetary policy in important sales markets are dampening international demand."

The world's second-largest economy, China, is forecast to grow at its slowest pace in three decades as China enforces its zero-COVID policy sparking historic protests. Protests flared up after a fire in an apartment building in the city of Urumqi killed at least 10 people. Some alleged that lockdowns obstructed the rescue of victims. Consumer sentiment among the country's 1.4 billion people has been battered by relentless lockdowns and travel restrictions. Kristalina Georgieva, the managing director of the IMF, said the outlook for China was "exceptionally uncertain" and "dominated by risks."

Japan's factory output fell for a second consecutive month in October, as stalling global demand and lingering supply bottlenecks put a lid on manufacturers' production plans. The slowdown in business activity highlights challenges for the world's third-largest economy, which has been lagging behind its peers in recovering from the pandemic. At least one analyst doesn't expect that to improve anytime soon. Shumpei Fujita, economist at Mitsubishi UFJ Research and Consulting wrote in a note, "The pickup in production is pausing. For October-December, (Japan's) production will likely be almost flat or slightly decrease from the previous quarter."

Finally: In a speech to the European Parliament this week, European Central Bank President Christine Lagarde stated "We do not see the components or the direction that would lead me to believe that we've reached peak inflation and that it's going to decline in short order." Of the 19 countries that use the euro, the Consumer Price Index (CPI) ex-energy rose to a record 7% in November. Inflation in the energy component alone was a whopping 34.9% from the same time last year, bringing overall inflation to 10.0% - the second worst reading in the history of the Eurozone. Some of the Eastern countries in the Eurozone are particularly hard hit by inflation, with several topping 20% year-over-year, like Latvia 21.7%, Estonia 21.4%, and Lithuania 21.4%. And although politicians who seek to escape responsibility frequently scapegoat Russia's invasion of Ukraine, the truth is that more than half of the Eurozone's inflation occurred prior to the invasion. A less self-serving analysis might place some blame on the flood of pandemic money-printing by the world's central banks and deficit-spending stimulus binges by their respective governments. (Chart from Wolfstreet.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

Unfortunately, it is not likely to be a shallow recession.

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.

https://app.hedgeye.com/

The Barclays Global Aggregate Bond Index *(formerly Lehman Brothers Global Aggregate Index), is an unmanaged market-capitalization-weighted benchmark, and 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, Statistics Canada, Yahoo! Finance, stocksandnews.com, marketwatch.com, wantchinatimes.com, BBC, 361capital.com, pensionpartners.com, cnbc.com, FactSet.)