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 January 2, 2023

Happy New Year!

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!*

We hope the new year brings all the joy and happiness you deserve. Last week's newsletter presented yet another piece of evidence that we are either in or entering a recession. Remember this is important for your portfolio. Bear markets are deeper, and last longer in recessions than those that don't accompany recessions. If we're right, and we are in a recession or enter one early in 2023, this bear market may not yet be half over. You can read it here: *Newsletter - Moulton Wealth*.

There's an old Chinese proverb (curse?) that says…

"May you live in interesting times."

In fact, it is not meant to wish a person good luck, but instead just the opposite. Well we've been living in interesting times for some years. And unfortunately 2023 may prove to be the most "interesting" of all.

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.

Let's review where we stand.

- December saw the S&P-500 fall -5.9%. The Dow Jones Industrial fell "only" -4.17%. And the technology heavy NASDAQ fell -8.73%.
- Speaking of the NASDAQ, it hit a new bear market closing low on Wednesday, December 28th. The closing lows for the S&P-500 and the Dow Jones Industrials remain in October and September respectively.
- For 2022, the S&P-500 closed down -19.44%. The Dow Jones Industrials fell -8.78% and the NASDAQ closed down -33.1%.

If the NASDAQ led on the way up, why should we expect it not to lead on the way down?

If so, its outsized December loss and new closing low only last week become very concerning.

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

Meanwhile, Wall Street continues to tell us not to risk manage, or to make any changes to our pie chart, buy and hold portfolio because…

1. The Fed will pivot – *they won't until inflation goes down considerably, and historically when they do pivot, the worst of bear markets begin.*
2. November through April are the strongest months of the year – *that may end up being true, but so far from November 1st through December we're down on the S&P-500 and the NASDAQ.*
3. December starts the Santa Claus rally – *Santa was feeling a bit pinched like the rest of us because December saw the S&P-500 fall -5.9% for the month. Annualized that's (yikes) 70.8%.*
4. The real Santa Claus rally is from Christmas through the first week of January – *again possible, but for the week the S&P-500 lost -0.14% despite Thursday's big rally.*
5. It's very unusual to have two down years in a row. In fact it's only happened four times since WWII – *that's true if you look at calendar years. But the fact this bear market fits a calendar year is coincidence. If you instead consider rolling 24 month periods it's happened 12 times. And when it did happen, it happened with the Fed tightening, every time.*

We could go on, but we suspect you get the picture.

When the first buy and hold argument falls apart, move on to the next and the next.

Eventually this market will bottom, like they always do, and the buy and hold crowd will cry "see, I was right". Of course, they might be "right" from much lower levels.

This week saw another FAANG stock return all the gains since the Covid bottom. The so called FAANG stocks are a group of high tech companies whose stocks led the rally for the last few years. They are comprised of **F**acebook (now Meta), **A**pple, **A**mazon, **N**etflix, and **G**oogle. The most recent to give back all the gains was Amazon, following Netflix and Meta, which both did it earlier this year.

Think about that for a minute. If you had held those three stocks equally in a portfolio from the bottom of the Covid bear market in March of 2020 until today, you would have seen gains of approximately +138% followed by a loss of -61.4%. From the bottom of the Covid bear market through Wednesday when Amazon joined this group, you would be down about -8.7%. More striking, the first two, Meta and Netflix, were down much more a month ago than was used in these numbers.

What a fabulous buy and hold ride it was!

We all know past performance is not necessarily indicative of future results and as always, nothing in this newsletter should be taken as a recommendation, but…

More specifically than the NASDAQ, if the FAANG stocks led on the way up, why wouldn't they also lead on the way down?

If they do, 2023 will be an interesting time.

We keep presenting the evidence, not because we "hope for" a deep recession and bear market. Far from it. Everyone does better when the market climbs.

We keep presenting the evidence to give you a chance to proactively protect yourself and hopefully avoid years of market gains being required simply to recoup past losses.

In our January 2023 snail mail newsletter, which is posted on our website, we work through the math, explaining why the third stage of bear markets sees the biggest declines. To be clear, we're likely ***just starting*** that third stage. *(Hint – it's falling earnings)*

If so, we are likely not even halfway to the bottom.

Don't wait until you have suffered unrecoverable losses before taking action.

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 three stages with the last being the most virulent, 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.

What's Your Risk Number?

In the markets:

U.S. Markets: The major U.S. indexes ended the week lower in a second week of light holiday trading. Consumer staples and materials shares fell the most, while the consumer discretionary sector remained resilient. The Dow Jones Industrial Average pulled back -0.2% to 33,147, while the technology-heavy NASDAQ Composite ended down -0.3% to 10,466. By market cap, the large cap S&P 500 ticked down a scant -0.1%, while the mid cap S&P 400 pulled back -0.2% and the small cap Russell 2000 finished the week essentially flat.

International Markets: International markets finished the week predominantly to the downside. Canada's TSX retreated -0.6%, while the United Kingdom's FTSE 100 ended down -0.3%. On Europe's mainland, France's CAC 40 and Germany's DAX pulled back -0.5% and -0.1%, respectively. In Asia, China's Shanghai Composite rebounded 1.4%, while Japan's Nikkei ended down -0.5%. As grouped by Morgan Stanley Capital International, developed markets closed down -0.4% ad emerging markets added 0.3%.

Commodities: Commodities finished the last week of the year predominantly in the green. Precious metals finished in the green with Gold up 1.2% to $1826.20 per ounce, while Silver added 0.5% to $24.04. West Texas Intermediate crude added 0.9% to $80.26 per barrel, while the industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, ticked up 0.04%

December Markets Summary: December was a tough month for equities, but a good month for commodities. The Dow pulled back -4.2%, the NASDAQ composite dropped -8.7%. By market cap, large caps ended down -5.9%, mid-caps declined -5.7% and small caps fell -6.6%. December was also a poor month for international equities. Canada and the UK pulled back -5.2% and -1.6%, respectively. France retraced -3.9%, while Germany gave up -3.3%. China and Japan ended the month down -2.0% and -6.7%. By grouping, developed markets closed out December down -1.8% and emerging markets ended down -2.6%. On the other hand, commodities were mostly positive in December. Silver surged 10.4%, followed by Gold which added 3.8%. Copper gained 1.9%, but crude oil pulled back -0.4%.

Fourth Quarter Markets Summary: Most of the major U.S. stock indexes managed meaningful recoveries in the fourth quarter. The Dow rallied the most, rebounding 15.4%, but the NASDAQ composite ended the quarter down -1%. Large caps added 7.1%, while mid-caps rose 10.3% and small caps finished the quarter up 5.8%. Likewise, international equities finished the fourth quarter on solid footing. Canada rose 5.1%, while the UK rebounded 8.1%. France and Germany rallied 12.3% and 14.9%, respectively, while China added 2.1%. Japan finished up 0.6%. By grouping, developed markets rallied 17.7%, while emerging markets finished up 10.3%. Commodities, too, enjoyed a positive fourth quarter. Silver surged 26.3% while Gold added 9.2%. Crude rose 1% during the quarter, while copper jumped 11.7%.

2022 Markets Summary: Despite the fourth quarter rally, U.S. markets were down across the board for the year. The Dow finished down -8.8%--outperforming the NASDAQ composite by a wide margin, which finished 2022 down -33.1%. By market cap, large caps gave up -19.4%, mid-caps pulled back -14.5%, and the Russell 2000 finished the year down -21.6%. International markets were also down for the year with the notable exception of the U.K. Canada gave up -8.7%, while the UK's FTSE closed out 2022 up 0.9%. France ended the year down -9.5% along with Germany which gave up -12.3%. China finished the year down -15.1%. Japan closed the year down -9.4%. By grouping, developed markets ended 2022 down -14.4% and emerging markets finished the year down -20.6%. Major commodities finished the year mixed. Crude oil closed the year up 6.7%, followed by Silver up 3.0% but gold finished essentially flat down just -0.1%. The industrial metal Copper performed the worst, finishing the year down -14.6%.

U.S. Economic News: The number of Americans filing first-time unemployment rose slightly more than expected last week, but remained near historically low levels. The Labor Department reported initial jobless claims rose by 9,000 to 225,000. Economists had expected claims would rise by just 7,000. Meanwhile, the number of people already collecting benefits, known as 'continuing claims', rose by 41,000 to 1.71 million. That is the highest level since last February. Still, analysts don't see enough cooling in the labor market to stop the Federal Reserve from continuing to raise interest rates. The Fed projects the unemployment rate to rise to 4.6% in 2023 from 3.7% in November, but it hasn't budged so far. Thomas Simons, economist at Jefferies wrote in a note, "The labor market remains very tight. We expect it will soften eventually, but it is starting from a very significant position of strength and it will take a little while longer for the cracks to form."

Home prices fell for a fourth consecutive month as higher mortgage rates continued to weigh on the nation's homebuyers. S&P reported its Case-Shiller 20-city home price index fell 0.5% in October bringing the annual rate of price increase down to 8.6% from 10.4% in the previous month. Meanwhile, a broader measure of home prices, the national index, fell a seasonally adjusted 0.3% in October. In the report, Miami, Tampa, and Charlotte reported the highest year-over-year gains among the 20 cities. San Francisco and Seattle reported the worst annual gains, which have seen home prices fall by more than 10% from May. Craig J. Lazarra, managing director at S&P doesn't anticipate an improvement in the real estate market anytime soon. Lazarra wrote, "As the Federal Reserve continues to move interest rates higher, mortgage financing continues to be a headwind for home prices. Given the continuing prospects for a challenging macroeconomic environment, prices may well continue to weaken," he added.

The weakness in housing doesn't appear likely to improve anytime soon, according to the National Association of Realtors (NAR). The NAR reported pending home sales, transactions in which a contract has been signed but not yet closed, fell -4% in November to its lowest level since April of 2020. Analysts had expected pending home sales to drop just -1.8%. From the same time last year, pending home sales have plunged -37.8%. Contract signings fell in all regions across the country. Pending home sales fell the most in the Northeast—down -7.9%, followed by the Midwest, the South and the West. Pending home sales have fallen in all but one month in 2022. George Ratiu, senior economist at Realtor.com summed up the report succinctly, "Housing markets have entered a winter freeze."

Business activity in the 'Windy City' rebounded last month from lows not seen since the depths of the Great Financial Crisis. The Chicago Business Barometer rebounded to 44.9 in December from 37.2 in the prior month. Economists had expected a reading of 40.5. The manufacturing sector has been suffering from slow demand due to a weak global economy. Richard Moody, chief economist at Regions Financial Corp. wrote in a note to clients, "The next several months will be challenging for the manufacturing sector." The Chicago Business Barometer report is the last of the regional manufacturing surveys before the national Institute for Supply Management data is released next week.

International Economic News: Statistics Canada reported Canadian job openings were down in October to their lowest level since late summer of 2021. Job vacancies fell by 44,300 to 871,300 in the latest report. Vacancies in the construction industry led the way with a 20.4% drop month-over-month. Statistics Canada says no sector recorded a statistically significant increase in its number of unfilled positions, although vacancies remained near record levels in health care and social assistance.

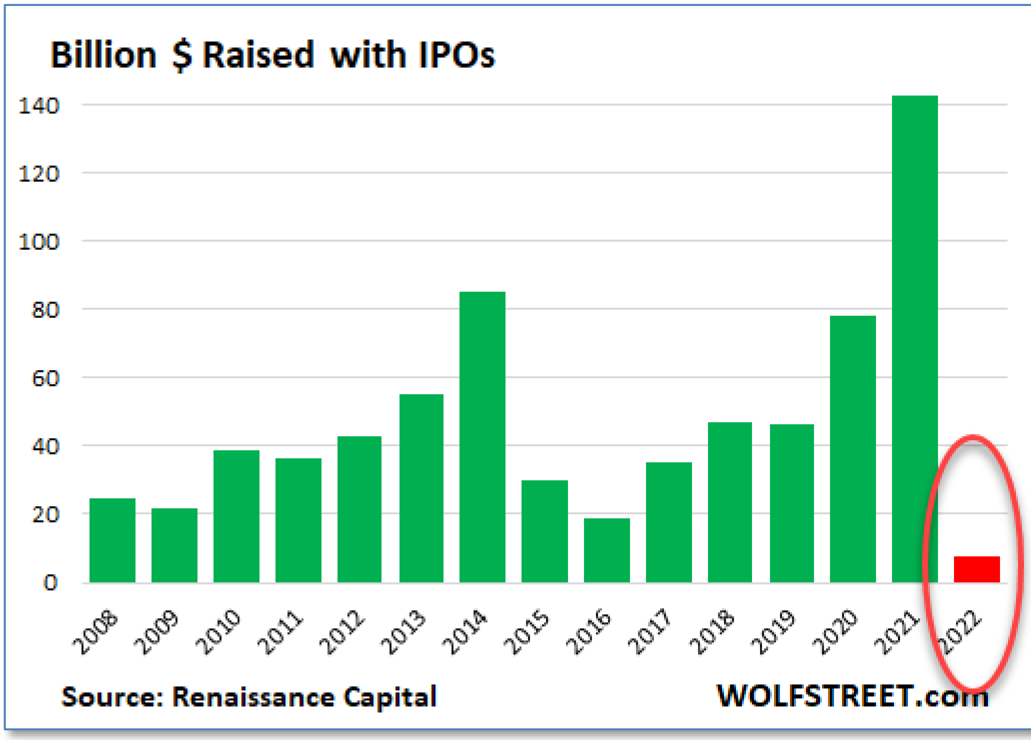
Across the Atlantic, U.K. Prime Minister Rishi Sunak blamed Covid and the war in Ukraine for what he described as a "tough" 12 months and warned that the country's problems won't disappear in 2023. In a video address Sunak stated, "Just as we recovered from an unprecedented global pandemic, Russia launched a barbaric and illegal invasion across Ukraine. This has had a profound economic impact around the world, which the UK is not immune to." Keir Starmer, leader of the United Kingdom's Labor party stated 2023 would be "a new chapter for Britain". During 2023, Starmer said, Labor would "set out the case for change", including more equal economic growth, a green jobs revolution and what he called "a completely new way of doing politics".

Germany, Europe's economic powerhouse, could become a 'bankrupt state' according to the Vice President of Germany's federal parliament, the Bundestag. Wolfgang Kubicki said Germany could soon become a dysfunctional, bankrupt state if it stays on the same path it is currently on and fails to deal with the ongoing energy crisis in light of its imbalanced financial policies. According to the Parliament's deputy speaker, the extra money Germany is currently planning to spend on energy imports from around the world outside of Russia would be withdrawn from other areas, as the surplus can be "neither printed on a money printing machine nor covered by taxpayers." According to the Ifo Institute for Economic Research, the ongoing energy crisis as a result of the war in Ukraine is "wreaking havoc" on the German economy and they project it could lead to a -0.3% drop in GDP next year.

In Asia, manufacturing activity in China contracted further in November as the government enacted strict COVID 19-related curbs. Industrial profits fell -3.6% year-to-date through November, down from -3.0% in October, China's National Bureau of Statistics reported. Zhu Hong, a senior NBS statistician, highlighted a rebound in COVID outbreaks and lackluster demand in November that curbed industrial production and placed increasing pressure on Chinese businesses. Analysts have noted China's economy has been weighed down by anti-virus curbs in big manufacturing hubs such as Guangzhou and Zhengzhou, a protracted property crisis, and slowing exports.

Japan's government will make raising wages a top priority in its economic policy next year, Deputy Chief Cabinet Secretary Seiji Kihara said in an interview this week. "The biggest challenge for Japan's economy is a lack of wage growth. Unless wages rise, consumption won't pick up and companies won't increase investment," Kihara said. Kihara added that while companies ultimately decide how much they will pay, the government can achieve higher wages through tax incentives. The remarks echo those of Bank of Japan (BOJ) Governor Haruhiko Kuroda, who has stressed that achieving higher wages would be crucial for the economy to sustainably achieve its 2% inflation target, driven by strong domestic demand. Prime Minister Fumio Kishida's administration has seen approval ratings plunge due in part to worries over the rising cost of living.

Finally: Investors that have spent any more than a few years in the markets are aware of boom-bust cycles. In the IPO (or 'Initial Public Offering') market, the boom-bust cycle has never been more pronounced than in the past two years. IPO's hit their speculative high in February of 2021 as extraordinarily easy money policies fueled a boom. In 2021, almost 400 IPOs made it to market while this year that number collapsed to just 71. On the basis of money raised, the collapse has been even more stunning. The worst prior collapse was during the Financial Crisis in 2008 and 2009, yet even then three times as much money was raised via IPOs compared to 2022. From a sky-high $142 billion raised in 2021 to a puny $7.7 billion in 2022, the IPO market cratered by almost 95%. (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

"If the FAANG stocks led on the way up, why wouldn't they also lead on the way down?"

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.

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.)