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 23, 2023

Last week's newsletter discussed the particulars in the Consumer Price Inflation print, which we think more important than simply relying on the average. It's the particulars that will drive Fed behavior. It also discussed speculation, which appears alive and well. You can read it here: *Newsletter - Moulton Wealth*.

Also, next month our report for Fourth Quarter 2022 will be out. In it we summarize the reasons why your portfolio composition today should be significantly different than what it was entering 2022. If not you're likely in for more, and deeper, market pain. It will also be posted on our website once it's sent, or call the office to join the mailing list.

ATTEND OUR…

RISK MANAGEMENT

SEMINAR

BRING A GUEST

- **JANUARY 25TH @ 11:00 AM – RICHLAND**
- **FEBRUARY 22ND @ 9:30 AM - SPOKANE**

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

Before we jump into the heart of this week's newsletter, note that GDP for the fourth quarter will be announced this week. While we think the Atlanta Fed's estimate of +3.5% annualized is high, we do think it will be north of +2%.

What does it mean? Is everything fixed as we will undoubtedly hear after the announcement? Let's think it through logically.

- CPI is still +6.5% overall, and north of +10% for food and +7% for shelter. The Fed wants +2%.
- The Fed is trying to slow the economy to fight inflation. A slower economy means slowing inflation.
- Powell is a student of history. In 1974 inflation was over +12%. It declined to about +5% in 1976. With falling inflation, the Fed was cutting rates to support the economy under the assumption inflation was dead. By 1980 inflation was +17%.
- That's a decline of about 7% before that "pivot". In our current situation inflation has fallen about 3%. Is it logical to expect the Fed to stop fighting inflation soon, even as Powell has repeatedly said he won't make the same mistakes as they did in the 1970s?

What will the Fed's reaction function be to this news; to pivot and begin cutting or to raise rates even further?

Meanwhile our research partner, Hedgeye's longer term forecast is for first and second quarter 2023 GDP to decline around the time Congress is fighting over the budget. And by the way, so far after 55 companies have announced, fourth quarter S&P-500 earnings are -4.49%.

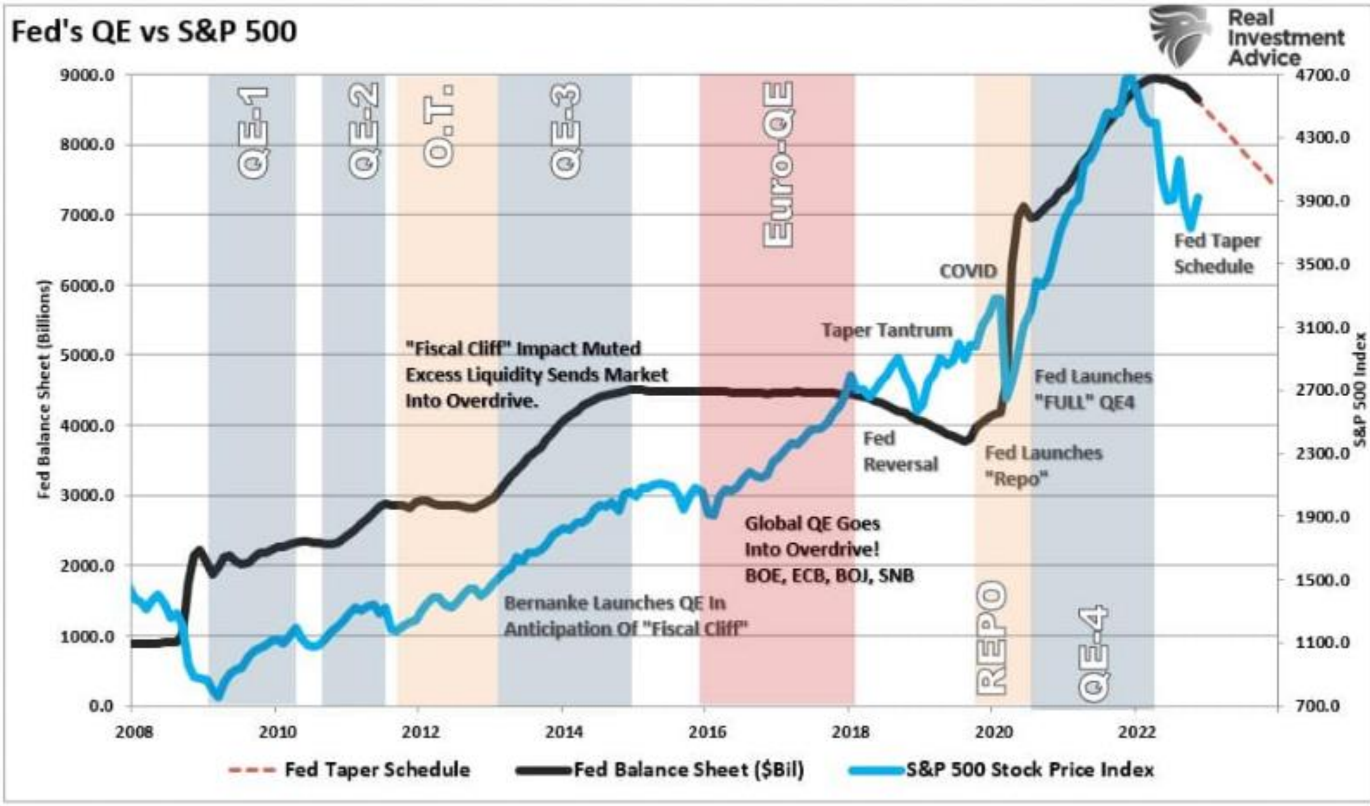
What could possibly go wrong?

It's hard to argue that Federal Reserve largesse has not had a dramatic impact on stock market gains since at least the Great Financial Crisis. Under Bernanke, then Yellen and finally early Powell, each time the market waivered, they were quick to announce a new program to help prop it up (though they may have used different terminology).

If fact, Lance Robert of Realinvestmentadvice.com created a chart tracking the S&P-500 price to the Fed balance sheet (i.e. the value of all the investments the Fed bought with new money, pumping it into the ~~markets~~. Oops, I meant *economy*.)

Bernanke called propping up the market "the wealth effect" and took it on as a third mandate for the Fed.

1. Fight inflation.
2. Support employment.
3. Create a wealth effect.



In a November 2010 Washington Post Op-Ed, Bernanke wrote that by the Federal Reserve actively pushing stock prices higher (our words, not his) it makes people feel richer and they will in turn spend more, therefore supporting the economy. *"Increased spending will lead to higher incomes and profits that, in a virtuous circle, will further support economic expansion."* (His words, not ours.)

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.

Call it what you want - a virtuous circle or a Pavlov's dog effect – it also creates a moral hazard. If investors become conditioned that the market will not be allowed to decline, the logical choice is to move from investing to speculation. If the casino is going to keep replacing the chips for free, why not go all in on every hand?

This became known as the "Fed Put" and now the "Powell Put". In options lingo a put is a predetermined sales price, or in other words a floor in prices.

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

"Your Money Matters"

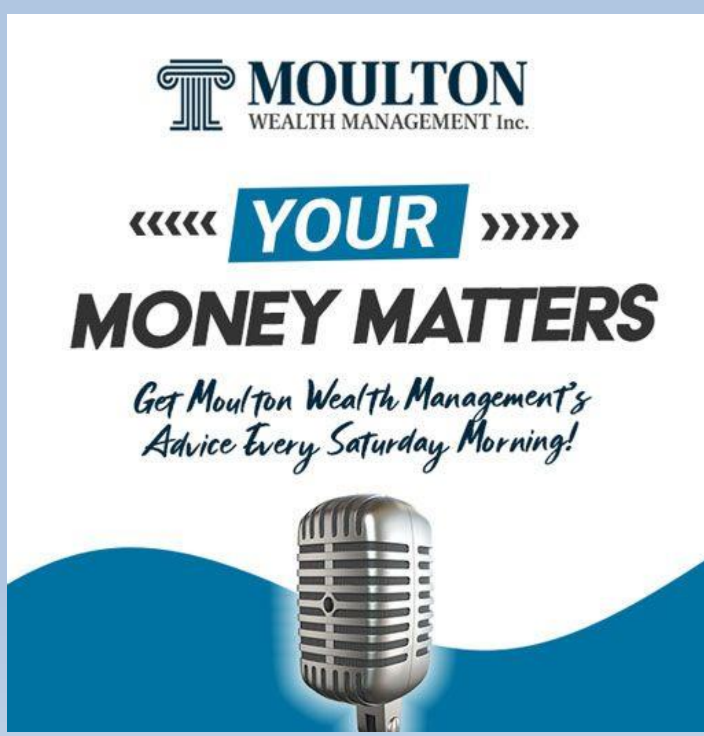
every Saturday Morning at

8:00 am on KXLY radio channel 920 am in Spokane

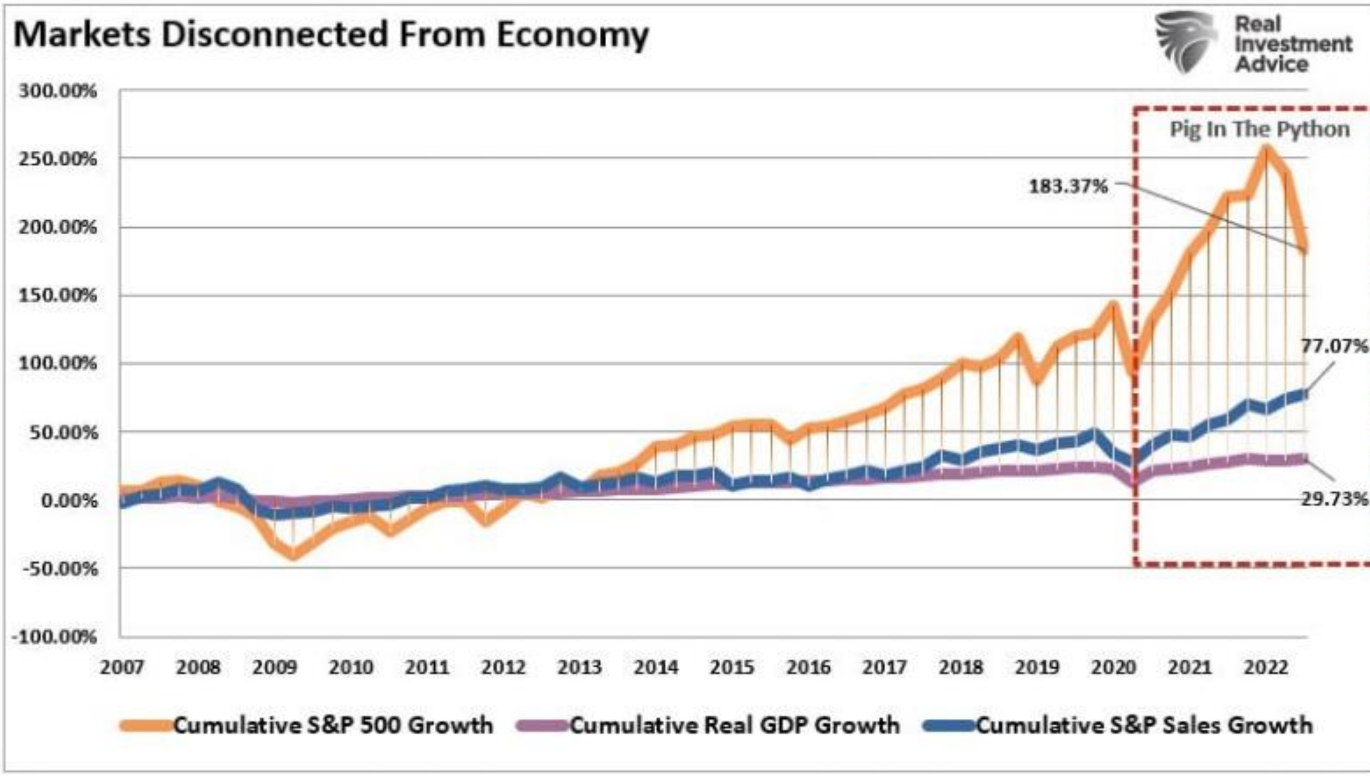
and at 9:30 am on NewsTalk Radio Channel 870 am in the Tri-Cities Area

listen live at www.newstalk870.am again at 9:30 each Saturday morning

Or visit our website moultonwealth.com for podcasts



Although calling it *virtuous* could be argued, pumping up stock prices definitely worked. Again, from Lance Roberts the following chart shows the S&P-500 cumulative stock price growth in yellow, sales growth in blue and GDP growth in purple, from 2007 until today.



If you remember the old Sesame Street song; *"One of these things is not like the others, one of these things just isn't the same."*

Even after the 2022 stock market decline, the growth in the price of S&P-500 stocks since 2007 has been 6x more than the growth in GDP and 2.3x more than the growth in sales. Sales were used rather than profits since the latter is subject to more accounting manipulation.

In real world capitalism, the growth in prices should approximate the growth in sales, profitability and GDP.

Danielle DiMartino-Booth worked at the Federal Reserve Bank of Dallas as advisor to President Richard Fisher for nine years, encompassing the Great Financial Crisis. She's also the author of a (not so flattering) book about the Fed titled "Fed Up". She's noted that before he became Chairman, Jerome Powell was vocally opposed to the idea of the wealth effect as pushed by the Fed. He warned that it would create bubbles in asset prices as well as income inequality since it would heavily benefit the wealthiest and penalize the poorest. As such she thinks…

…Fed Chair Powell is not only out to fight inflation, he also wants to reverse the idea of a "Fed Put".

Think about the implications if she is correct. It means the buy and hold approach to investing that has been so successful for the last 14 years is about to take a very large hit, and that investors will actually have to strive to protect themselves instead of blindly buying and holding.

It's why in last week's newsletter we wrote…

Be patient and protect yourself. The Fed is not going to bail out poor risk management by investors.

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

What's Your Risk Number?

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. indexes finished the week mixed as recession fears appeared to weigh on sentiment. The narrowly focused Dow Jones Industrial Average performed worst and gave back a portion of its strong rally in the first two weeks of the year, while the technology-heavy Nasdaq Composite recorded a modest gain. The Dow Jones Industrial Average fell over 900 points last week to finish the week at 33,375—a decline of -2.7%. The Nasdaq finished the week up 0.6% recording its third consecutive week of gains. By market cap, the large cap S&P 500 ended the week down -0.7%, while the mid cap S&P 400 retreated -0.9% and the small cap Russell 2000 ended the week down -1%.

International Markets: International markets finished the week mixed as well. Canada's TSX ended the week up 0.7%, while the United Kingdom's FTSE 100 ended down -0.9%. France and Germany finished the week down as well with France's CAC 40 and Germany's DAX each pulling back -0.4%. In Asia, China's Shanghai Composite rose for a fourth consecutive week, adding 2.2% and Japan's Nikkei gained 1.7%. As grouped by Morgan Stanley Capital International, developed markets finished up 0.7% and emerging markets added 1% (their fourth consecutive week of gains).

Commodities: Precious metals finished the week mixed. Gold managed a 0.3% rise to $1928.20 per ounce, while Silver pulled back -1.8% to $23.93. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, finished the week up 0.8%. West Texas Intermediate crude oil recorded a second week of gains, rising 2.2% to $81.64 per barrel.

U.S. Economic News: The week brought several additional signals that the economy was slowing significantly following the Federal Reserve's aggressive rate hikes in 2022. Most notable may have been Wednesday's report of a 1.1% drop in retail sales in December, which was roughly triple consensus estimates. A drop in sales at gas stations was a major contributor, but Americans pulled back on sales of furniture, electronics, and other discretionary purchases. Receipts fell a smaller but still steep 0.7% if auto dealers and gas stations are excluded. November sales data were also revised lower. Jeffrey Roach, chief economist at LPL Financial stated, "The trajectory for the U.S. economy is weakening and recession risks are rising for 2023."

The number of Americans filing first-time unemployment claims fell to a four-month low of just 190,000 as the U.S. labor market remains resilient. New applications fell from 205,000 in the prior week, the Labor Department reported. The last time claims were that low was in late September. Economists had forecast claims would total 215,000. Forty of the 53 states and U.S. territories that report jobless claims showed a decline last week. New York posted the biggest drop, reversing a surge in the prior week. Meanwhile, the number of people already collecting unemployment benefits rose by 17,000 to 1.65 million. While continuing claims remain low, a gradual increase since last spring suggests it's taking longer for people who lose their jobs to find new ones.

Sales of existing homes fell for the eleventh consecutive month in December. The National Association of Realtors (NAR) reported existing-home sales fell 1.5% to a seasonally-adjusted annual rate of 4.02 million in December. The nearly yearlong monthly decline is the longest streak since the NAR began tracking sales in 1999. Economists were expecting sales to drop to 3.95 million. The level of sales activity was lowest since November 2010, in the midst of the foreclosure crisis in America. Compared with the same time last year, home sales were down 34%. The median price for an existing home fell to $366,900 in December, from $370,700 in November.

In the New York region, a gauge that measures manufacturing activity dropped sharply in January signaling a deep contraction in activity. The New York Fed reported its Empire State Business Conditions index tumbled 21.7 points to -32.9 at the start of the year—its lowest level since the worst of the pandemic in May of 2020. Economists had expected a reading of just -7. The new orders index, an indicator of future activity, fell 27.5 points to negative 31.1 in January. Shipments fell 27.7 points to negative 22.4. The indexes for prices paid and prices received moved lower as well. Following the report, Gurleen Chadha, economist at Oxford Economics wrote in a note, "Manufacturing conditions in the U.S. are deteriorating and the worst is likely ahead."

The "Beige Book", a collection of anecdotal reports from each of the Federal Reserve's member banks around the country, reported businesses expect 'little growth in the months ahead'. Overall, economic activity in most of the 12 Fed districts over the past six weeks showed either slight increases or slight declines of activity. Only one regional bank--the New York Fed--reported a significant decline in activity. The labor market was a bright spot, with all but a few districts reporting that job growth continued. Firms still reported having difficulty filling open positions. Many firms were hesitant to lay off employees, reporting they planned to reduce headcount through attrition if needed. On the inflation front, selling prices increased at a moderate pace in most districts although many said the pace of increases had slowed from recent months.

International Economic News: Canada will enter a deeper recession than previously expected this year as the Bank of Canada's rapid interest rate hikes take hold and the U.S. economy enters a slowdown, according to a new report from Deloitte Canada. Deloitte had previously forecast in September that Canada would enter a short-lived recession, with growth stalling in the first quarter of 2023 before returning to positive territory in the second quarter of the year. At the time, the BoC had hiked its benchmark interest rate by 300 basis points. It has hiked rates an additional 100 basis points since then, bringing the current overnight rate to 4.25%. Interest payments on household debt in Canada have since soared, increasing by

16.2% on annual basis in the third quarter of the year--the largest increase on record. "It's fair to say that 2023 is shaping to be a rocky year for the Canadian economy," Deloitte Canada's National Economic Advisory Leader Trevin Stratton said.

Across the Atlantic, consumer confidence neared a historic low in the United Kingdom. Between inflation in the double digits and increasing energy bills, GfK reported its Consumer Confidence Index has dropped three points this month to -45. Confidence in the economy for the coming year fell to -54 and is 22 points lower than last January. According to Linda Ellett, UK head of retail and leisure consumer markets at KPMG, "Higher essential costs, a fear of further increases yet to come-particularly the April energy price cap rise-are weighing on consumer confidence, whilst increased spending on credit at Christmas is also weighing on many minds."

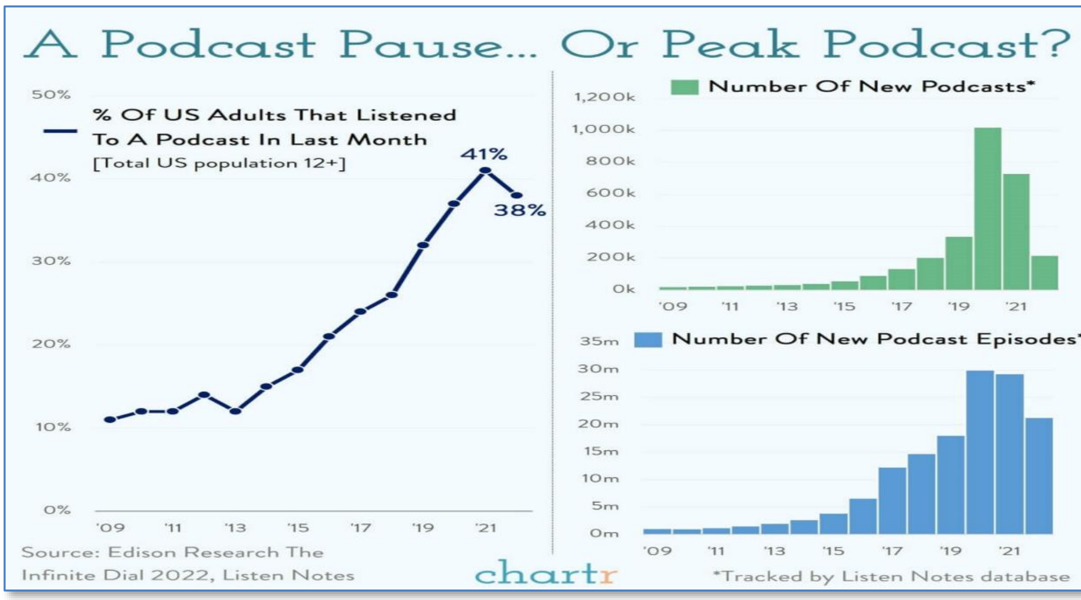
On Europe's mainland, nationwide strikes in France halted trains, blocked refineries, and curbed power generation, as French President Emmanuel Macron announced reforms that would raise France's retirement age from 62 to 64 and require more years of contribution to receive a full pension. Trade unions say more than two million protestors marched through French cities and are calling for new nationwide protests on January 31. The government has shown no inclination of folding as Macron vowed to push ahead with his pension reform plans. Unions say there are alternative ways of financing pensions and that the reforms are unfair to those who started working young or have physically demanding jobs.

Germany's BDI Industry Association reported the German economy is expected to contract by 0.3% in 2023, predominantly due to the Europe's energy crisis. German economic output weakened in the final quarter of last year but had grown 1.9% over the whole of 2022. BDI President Siegfried Russwurm acknowledged mild recessionary trends predominating at the start of this year, but that things should improve in the spring. The BDI forecasts exports of goods and services increasing by 1.0% this year, with global trade rising 1.5%. The BDI president said that Germany is falling behind other countries with lower energy prices stating, "The cost factor of energy has for long not only weakened energy intensive companies, but has also had a noticeable impact on the entire value chains of industry."

In Asia, China recorded its first population decline in 60 years. China's National Bureau of Statistics (NBS) said the population fell last year to 1.4 billion. Analysts said this was the first decline since former leader Mao Zedong's Great Leap Forward, which caused the great famine in 1961. President and Chief Economist at Pinpoint Asset Management, Zhiwei Zhang said, "The population will likely trend down from here in coming years. This is very important, with implications for potential growth and domestic demand." The population drop came alongside the announcement of one of China's lowest annual economic performances in half a century. The economy expanded 3% last year, far below the government's target. The reading underscored the economic challenges of a shrinking labor force and a growing number of retired people.

While banks around the world have raised interest rates in response to global inflation, the Bank of Japan has steadfastly maintained its benchmark interest rate at a longstanding low of -0.1%. Last month, Japan's consumer inflation rate hit 4%--a 41-year high and double the Bank of Japan's target level. Damian Thong, who heads Japan equity research at Macquarie Group stated, "Producer prices have been rising at a much faster pace than consumer prices for some time, but now companies are passing these costs on to consumers." "We believe that the BOJ will [eventually] end its negative interest rate policy," he added. Even after the jump in prices, Japan still has one of the lowest inflation rates in the world.

Finally: It may be time to add podcasts to the list of trends that peaked in 2020 and are now returning to Earth. A multitude of media empires were created by podcasters such as Joe Rogan as audio giants like Spotify poured money into the industry. However, data from Edison Research shows the boom may be over. After years of growth, listener numbers fell last year after just 38% of adults surveyed said they had listened to a podcast in the last month. Furthermore, Listen Notes, a podcast database, confirmed over 1 million new podcasts were launched in 2020. Last year, however, that same database tracked just 217,000 new shows—an 80% drop. (Chart from chartr.co)



Get a physical! We invite you to attend a seminar and come in for a "financial physical", even if you think your current approach is fine. Much like going to the doctor for a physical despite feeling great, you want to make sure any negative issues you may not be aware of are caught early and addressed. For example…

- Do you need a process to help manage losses during the next bear market?
- Have you addressed your investment process and adjusted it for what is going on in the world?
- If not, what are you waiting for?

At the bottom of the 2007 - 2009 bear market the S&P-500 index returned to levels last seen in 1996.

The drop didn't retrace only a few months or even a couple years.

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

WEEKLY FOCUS – THINK ABOUT IT

"What could possibly go wrong?"

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.

Investment services offered through Moulton Wealth Management, Inc., an independent Registered Investment Advisor. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. Yahoo! Finance is the source for any reference to the performance of an index between two specific periods. Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Consult your financial professional before making any investment decision. You cannot invest directly in an index. Past performance does not guarantee future results. Investments in securities do not offer a fixed rate of return. Principal, yield and / or share price will fluctuate with changes in market conditions and, when sold or redeemed, you may receive more or less than originally invested. No system or financial planning strategy can guarantee future results.

To unsubscribe from the "Molten Hot" Minutes please reply to this e-mail with "Unsubscribe" in the subject line, or write us at 1220 N. Mullan Road, Spokane, WA 99206.

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.)