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Week of February 06, 2023

Last week's newsletter discussed how the "average of things" that Wall Street likes to use in analysis is not always applicable to the "particulars of things" as we see them today. And the difference between the averages and particulars can be significant. You can read about it here: *Newsletter - Moulton Wealth*.

So that we don't bury the headline, let's discuss employment. Jobs announced last Friday were a huge upside surprise. Announced jobs gains were 517,000 in January vs expectations of 185,000. The market reaction was interesting in that it declined on the news. If the market is forward looking, and if that forward look sees the economic bottom is in and that the economy

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and stock market should continue higher, shouldn't a very positive jobs report make the market rise?

Regardless, here's the actual data.

- Seasonally adjusted month to month change in jobs in January 2023; +517,000
- Non-seasonally adjusted month to month change in jobs in January 2023: -2,505,000

Yes, the seasonal adjustment for jobs in January was +3,022,000 jobs.

Now to be fair, this is not a conspiracy, nor is it even unusual. Jobs historically fall the most of any month in January as temporary holiday workers are laid off. The adjustment is an attempt to smooth out that seasonal reality. In fact, the non-adjusted job losses in January 2023 were the least since 1995. The establishment survey (the one announced on the first Friday of each month and is based on payroll reports) shows year over year job gains of +3.3%. The household survey, based on a survey of households, shows year over year job gains of +1.9%. While it is a significant divergence historically, both are positive.

Maybe the market fell because it fears the Fed's reaction to this news?

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.

On to the markets.

There's a reason we named this newsletter "Divergences and Adaptation". In our radio show last Saturday (see it here: Your Money Matters Podcasts) we talked about three major ways people invest. Of course by definition these are generalizations and many investors use some of each (like us). But for discussion purposes…

1. Buy and Hold. This can be done in many different ways but the overwhelmingly buy and hold has become some form of indexing. Investors buy and hold index funds with the idea that over time they will go higher. The advantage of buy and holding index funds is it requires little work. Either because an investor or advisor doesn't want to, or doesn't know how to weigh all the data, they choose instead to ignore it all and simply focus on results over decades which are generally positive. The disadvantage is it requires investors to suffer significant losses which they may or may not be able to survive economically in retirement time periods that aren't measured over 50+ years.
2. Macro Based Investing. This approach requires investors and advisors to look forward and try to determine where the economy is headed. The idea is that if the economy is deteriorating and/or headed to a recession, then corporate profits will likely deteriorate

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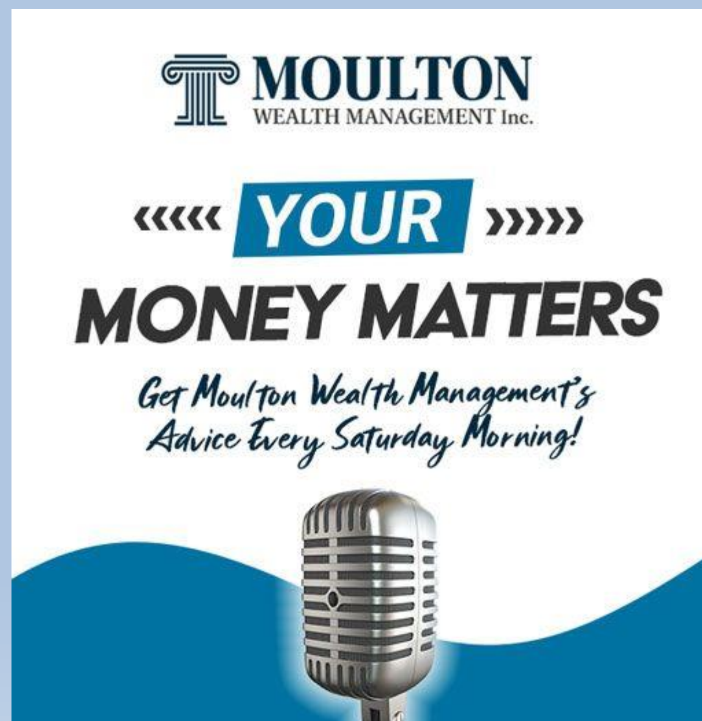

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and in turn stock prices. Of course, the opposite is equally true. The advantage of this approach is, assuming some accuracy, it should help investors reduce drawdowns and instead be on the “right side” of the economy and profits. The disadvantage is that the market may ignore the macro picture and rise or fall in a manner inconsistent with the economic flow.

3. Technical Analysis. This approach requires investors to watch market price action. The idea is that the technical investor doesn’t care about profits, the economy or anything else. Instead they believe that it is all reflected in stock prices. Further it’s irrelevant, they continue, because when all’s said and done stock prices rise when demand outstrips supply and vice versa, regardless of the reasons. The advantage of this approach is it relies solely on price action and in the end, that’s what we’re invested for. The disadvantage is it tends to be choppy in the sense that technicals can change and then change back. An investor relying on technical analysis has to accept they will likely be wrong more than right, but they can still be profitable if they make more when they are right than they lose when they are wrong.

We understand this is a gross generalization and may exclude some approaches. A “value” investor may look at individual stocks seeking “undervalued opportunities,” but in the end they likely fall into both macro and buy and hold. If you are a value investor you understand that buying when the economy is declining, even if the value is cheap, can be at least a short term mistake. Also you probably understand that “value” can remain cheap for a long time and requires a buy and hold approach. This is but one strategy some may argue is not included in our three approaches above.

Why do we bring this up?

Because right now we are getting two distinctly different messages.

Our macro work continues to signal a weakening economy. And this should make sense.

The Fed has raised rates arguably at the fastest pace in history and those hikes overwhelmingly represent a future weight on economic growth. *(Rate hikes or rate cuts are estimated to impact the economy approximately 6-12 months after they are made. The first rate hike was March 17, 2022. Of the 4.5% total Fed hikes to date, half or 2.25% haven’t yet impacted the economy if you lean towards “6 months to impact”. On the other hand, none of the 4.5% has impacted the economy is you lean towards “12 months to impact”. If we split the difference and assume 9 months we still have 4.25% headed our way.)* Even if the Fed stops hiking but holds them at these higher levels, it will continue to squeeze corporate earnings as well as consumer buying power.

Speaking of corporate earnings, they are falling in rate of change and there’s simply no way to sugar coat it. Yardeni research tells us that S&P-500 year over year operating earnings have fallen from about +90% in quarter 2, 2021 to about +4% in quarter 3, 2022. So far quarter 4,

2022 earnings are -2.87% with half of the companies having reported. Falling from +90% to -3.05% in 21 months is not a positive rate of change.

Could the earnings be skewed by some bad companies while the good companies are starting to do better? It's possible, but here are a three earnings reports from just last week.

- Apple missed estimates for the first time in 7 years. Overall sales were down -5.5% year over year with Mac sales down -28% and IPhone sales down -8%. Earnings per diluted share was down -10.4% year over year.
- Amazon posted its biggest loss ever after completing its least profitable holiday season since 2014. While net sales did rise by 9% year over year, earnings per diluted share fell by -97.8% (yes you read that right – it fell to $0.3 billion in fourth quarter 2022 from $14.3 billion in fourth quarter 2021).
- Google reported a revenue increase of +1% but an earnings per diluted share decline of -31.4%.

We understand these are but three companies, and all tech, but tech has been leading the market higher over the last 13 years. FactSet tells us if they take all the earnings reported and blend them with estimates for those who have not yet reported, it leaves them with estimated fourth quarter loss of -5.3% year over year.

On the other hand, the technicals are sending a different message.

The S&P-500 experienced what's referred to as a "Breadth Thrust" in mid-January 2023. Without getting into the math, it signals a broad and strengthening participation in the stock market. As defined by our research partner, Investech, the current thrust is not of a magnitude to qualify for their most reliable signal, but it is significant. Historically the markets have done well after breadth thrusts for the next 6+ months.

Investech also has their own proprietary measurement they call their Negative Leadership Composite. It has improved significantly and sits on the precipice of a more significant positive signal.

Having said all that the Coppock Guide, which has signaled the bottom of every bear market going back to 1920 with only 2 false signals still have not signaled the bottom of this one.

It's important to remember that none of this from the economic direction to the technicals are foolproof. Instead we use a "weight of the evidence" approach.

If the bear market is truly over and a new bull market has begun, this will have been one of the shortest and shallowest bear markets in history. It will also end with valuations at the highest of any bear market bottom, ever. That even includes the Covid bottom which was "saved" by

trillions of dollars being printed and thrown into the economy by Central Banks and Governments around the world.

Interestingly, one of the arguments for the economy suffering just a mild recession or maybe none at all is because a recession is considered “consensus”. The idea is that if everyone thinks something will happen, something else will happen instead. The consensus thought is that at worst a “mild” recession could occur. Note the 2023 recession outlooks from the major banks in the table.

Major Banks – 2023 Recession Outlook

Bank	2023 Recession Forecast
Bank of America	Mild recession, beginning in the first half of the year
Barclays	Shallow recession, beginning in the spring
Citi	Recession
Deutsche Bank	Recession in the second half of the year
Goldman Sachs	Recession narrowly avoided
J.P. Morgan	Mild recession, beginning late in the year
Morgan Stanley	No recession
PNC	Mild recession, starting in the spring
Wells Fargo	Modest recession, beginning midway through the year

Washington Post, Bloomberg

What if consensus is in fact wrong, not because we avoid a recession or that it is mild, but instead because the recession is deeper and more protracted than expected?

Again, from Investech, this is a table showing their recession warning dash board. Notice that their 21 forward looking measurements have turned from 17 measuring stable, 3 measuring caution and only 1 measuring warning a year ago, to 0 measuring stable, 3 measuring caution and 17 measuring warning currently. Coupling this with other measurements with outstanding to spotless track records such as yield curve inversion and the Bureau of Economic Development’s Leading

Status of Recession Warning Indicators

	Indicator	Jan 2022	May 2022	Aug 2022	Jan 2023
Sentiment	CEO Confidence	▲	▲	▼	▼
	Consumer Confidence	●	▼	▼	▼
	Consumer Sentiment	▼	▼	▼	▼
	NFIB Small Business Optimism	●	▼	▼	▼
Housing	New Home Sales	▲	▼	▼	▼
	Existing Home Sales	▲	▲	▼	▼
	NAHB Builder Confidence	▲	▲	▼	▼
	NAHB Traffic of Prospective Buyers	▲	▲	▼	▼
	Housing Starts	▲	▲	▲	●
	Building Permits	▲	▲	▲	▼
Leading Models	Leading Economic Index (LEI)	▲	▲	▼	▼
	LEI Rate of Change	▲	▲	▼	▼
	ECRI Weekly Leading Index	▲	▼	▼	▼
Leading Data	ISM Manufacturing Index	▲	●	●	▼
	ISM Services Index	●	●	●	▼
Monetary	Credit Spreads	▲	▲	▲	●
	Fed Yield Spread Model	▲	▲	▼	▼
	Inverted Yield Curve	▲	▲	▼	▼
Labor	Consumer Confidence – Jobs Plentiful	▲	▲	●	▼
	Job Openings	▲	▲	▼	▼
	Jobless Claims	▲	▲	●	●

▲ Stable ● Caution ▼ Warning

InvesTech Research

Economic Indicator leads us to believe a recession is likely inevitable, if not already in its initial stages.

While we have to respect the technical developments, we also feel remaining defensive in our "safety first" approach is appropriate.

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.

In the markets:

U.S. Markets: Most of the major U.S. stock market benchmarks extended their winning streaks into February, helped by some upside surprises in economic data and fourth-quarter earnings reports. The S&P 500 index reached an intraday high of 4,195 this week, its best level since late August. The narrowly-focused Dow Jones Industrial Average shed 52 points last

week closing at 33,926—a decline of -0.2%. However, the technology-heavy NASDAQ Composite tacked on its fifth consecutive week of gains rising an additional 3.3%. By market cap, the large cap S&P 500 finished the week up 1.6%, while the mid-cap S&P 400 added 3.4% and the small cap Russell 2000 closed up 3.9%.

International Markets: International markets were mixed last week. Canada's TSX ticked up 0.2%, while the UK's FTSE 100 added 1.8%. France's CAC 40 and Germany's DAX rose 1.9% and 2.2% respectively. In Asia, China's Shanghai Composite was essentially unchanged. Japan's Nikkei closed up 0.5%. As grouped by Morgan Stanley Capital International, developed markets pulled back -0.3% and emerging markets fell -3.4%.

Commodities: Commodities finished the week mostly to the downside. Gold pulled back -2.7% to $1876.60 per ounce, while Silver retreated -5.2% to $22.41. West Texas Intermediate crude oil fell -7.9% to $73.39, back to near its starting point at the beginning of the year. The industrial metal copper, viewed by some analysts as a barometer of global economic health due to its wide variety of uses, finished down for a second week, giving up -3.9%.

January summary: All of the major U.S. indexes finished the month of January in the green. The Dow gained 2.8%, while the NASDAQ surged 10.7%. The S&P 500 added 6.2%, while mid-caps and small caps rose 9.1% and 9.7% respectively. The month of January was very positive for international markets as well. Canada and the UK rose 7.1% and 4.3%, while France and Germany gained 9.4% and 8.7%. China's Shanghai Composite added 5.4% and Japan rose 4.7%. Developed markets surged 9% and emerging markets jumped 9.1%. Precious metals ended the month of January mixed. Gold finished the month up 6.5%, but Silver ended down -0.8%. Oil ended down -1.7%, but Copper jumped 10.9%.

U.S. Economic News: The number of Americans filing claims for first-time unemployment dropped last week to a nine-month low, even as more firms announced layoffs. The Labor Department reported initial jobless claims fell by 3,000 to 183,000, signaling the U.S. labor market remains tight. Economists had forecast new claims would total 195,000. Twenty-seven of the 53 U.S. states and territories that report jobless claims showed an increase last week, most of them small. The rest reported declines. Meanwhile, the number of people already collecting benefits, known as 'continuing claims', fell by 11,000 to 1.66 million. That number is reported with a one-week delay.

The number of new jobs created in January rose by over 500,000 according to the latest data from the Bureau of Labor Statistics. The reading was much stronger than economists' forecasts of 187,000 new jobs. However, some analysts were quick to point out that the government's formula for seasonal swings in hiring sometimes exaggerates employment levels in January. It's not clear yet whether that was the case last month. In addition, the government reported the unemployment rate slid to a 54-year low of 3.4% from 3.5%. That's the lowest level since 1969. Hotels and restaurants (128,000 new positions) led the way, but hiring was also strong among health care providers and white-collar professional businesses. The only

part of the economy to shed jobs was information services, a category that includes the media and some high-tech businesses.

The number of job openings rose to a five-month high of 11 million in December, a further sign that the labor market remains extremely tight despite a slowing economy and growing numbers of layoffs in the tech sector. In addition, almost 4.1 million people quit jobs in the final month of 2022, marking the 19th month in a row it's topped the 4 million-mark. The biggest increase in demand for labor was at hotels and restaurants as they sought to keep up with the desire of Americans to dine out and travel. However, Julia Pollack, chief economist at ZipRecruiter contends the government report exaggerates the true demand for labor. "It is our belief that the current number of job openings … vastly overstates the current strength and tightness of the labor market," she said.

Home prices fell for a fifth consecutive month in November, according to the latest data from Case-Shiller. S&P CoreLogic reported its Case-Shiller 20-city home price index fell a seasonally-adjusted 0.5% in its latest reading. Home prices were still up 8.6% year-over-year, but down from 10.4% in October. A broader measure of home prices, the national index, fell by a seasonally-adjusted 0.6%. Miami, Tampa, and Atlanta reported the largest annual home price gains among the 20 major cities. Still, there is some optimism that home prices may be bottoming. Mortgage rates have backed off about 100 basis points since their October highs. Doug Duncan, chief economist at Fannie Mae stated that he expects housing to help keep the economy from a severe downturn.

The Federal Reserve hiked interest rates again this week, but foresees only a "couple more hikes" in its battle with inflation. The Federal Reserve approved a 0.25 percentage-point increase in key U.S. interest rates lifting its short-term benchmark rate to a range of 4.5-4.75%. The decision followed six larger consecutive rate hikes as the Fed stepped up its efforts to reign in the worst bout of inflation in 40 years. Fed Chairman Jerome Powell said a "disinflationary" process is under way at a press conference after the decision. Yet he also reiterated the Fed needs to see "substantially more evidence" that price pressures are evaporating. The central bank did alter some parts of its statement to indicate it would raise rates in smaller increments. In December, the bank's interest-rate-setting panel forecast that its benchmark rate would top out at around 5% to 5.25%. That suggests two more rate hikes of a quarter point, as alluded to by Powell. "The [Fed] has moved past stage one, debating how fast to raise rates, to stage two, debating how far to raise rates," said chief economist Chris Low of FHN Financial. "Stage three will be debating how long to keep rates at their peak."

Confidence among the nation's consumers slipped at the start of the year as worries over an impending recession continued to grow. The Conference Board reported its index of consumer confidence slipped almost 2 points to 107.1 in January. Economists had expected the index to rise to 109.5. While the index had hit an 11-month high at the end of 2022, it is well below the levels associated with a healthy economy. In the report, the measure of how consumers feel about the economy right now rose to 150.9 in January, from 147.4 in December,

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while the similar gauge that looks ahead six months dropped 5.6 points to 77.8. Notably, a reading below 80 often signals a recession within the next year, the board said, but the expectations index has hovered below that level in every month except for one since March 2022. Ben Ayers, senior economist at Nationwide stated the survey reflects, “waning confidence in the state of the economy in 2023. We project that a moderate recession will take hold by mid-year.”

A key barometer of factory activity contracted for a third consecutive month. The Institute for Supply Management (ISM) reported its manufacturing survey fell 1 point to 47.4 and touched the lowest level since the pandemic. Economists had expected the index to come in at 48. “We knew the first half [of 2023] was going to be a little bit of a struggle,” said Timothy Fiore, chairman of the survey. The last time the index was that low was in May 2020 during the early stages of the pandemic. In the report, the index of new orders dropped 2.6 points to 42.5 (of note, that sub-index has never been that low except during previous recessions). The employment gauge slipped 0.2 points to but remained positive at 50.6. Companies remain hesitant to let workers go given the difficulty finding quality replacements amid the worst labor shortage in decades. Following the release, Andrew Hunter, senior U.S. economist at Capital Economics stated, “The ISM report reinforces our view that the U.S. economy is heading for recession. The silver lining is that weakening demand is continuing to exert downward pressure on inflation.”

International Economic News: Canada’s Deputy Prime Minister and Finance Minister Chrystia Freeland said the two major spending pressures on the federal government are health care and the global transition to a clean economy. After meeting with the provincial and territorial finance ministers, Freeland said Biden’s Inflation Reduction Act, which includes electric vehicle incentives for manufacturers in Canada and Mexico, has changed the playing field for global competition for capital. Freeland said that Canada needs to invest in the transition or risk being left behind. "I cannot emphasize too strongly how much I believe that we need to seize the moment and build the clean economy of the 21st century," Freeland said.

Across the Atlantic, the Bank of England raised interest rates by 50 basis points and dialed back the severity of its recession forecast. The Monetary Policy Committee (MPC) voted for its second consecutive half-point rate hike, which brought the main Bank rate to 4%. In its decision statement, smaller hikes and a cessation to the hiking cycle may be addressed in future meetings. “Annual CPI inflation is expected to fall to around 4% towards the end of this year, alongside a much shallower projected decline in output than in the November Report forecast,” the Bank stated. The Bank is expecting the economy to contract throughout 2023, as energy prices remain high, and rising market interest rates restrict spending. However, the forecast from last November, for a four-quarter GDP decrease of 2%, has been revised down to just 0.7%. Hussain Mehdi, macro and investment strategist at HSBC Global Asset Management, said “The big question is now the speed in which the MPC can reverse course on rates. A downside risk for markets and the economy is a long period of restrictive policy to deal with persistent underlying inflation,” he said.

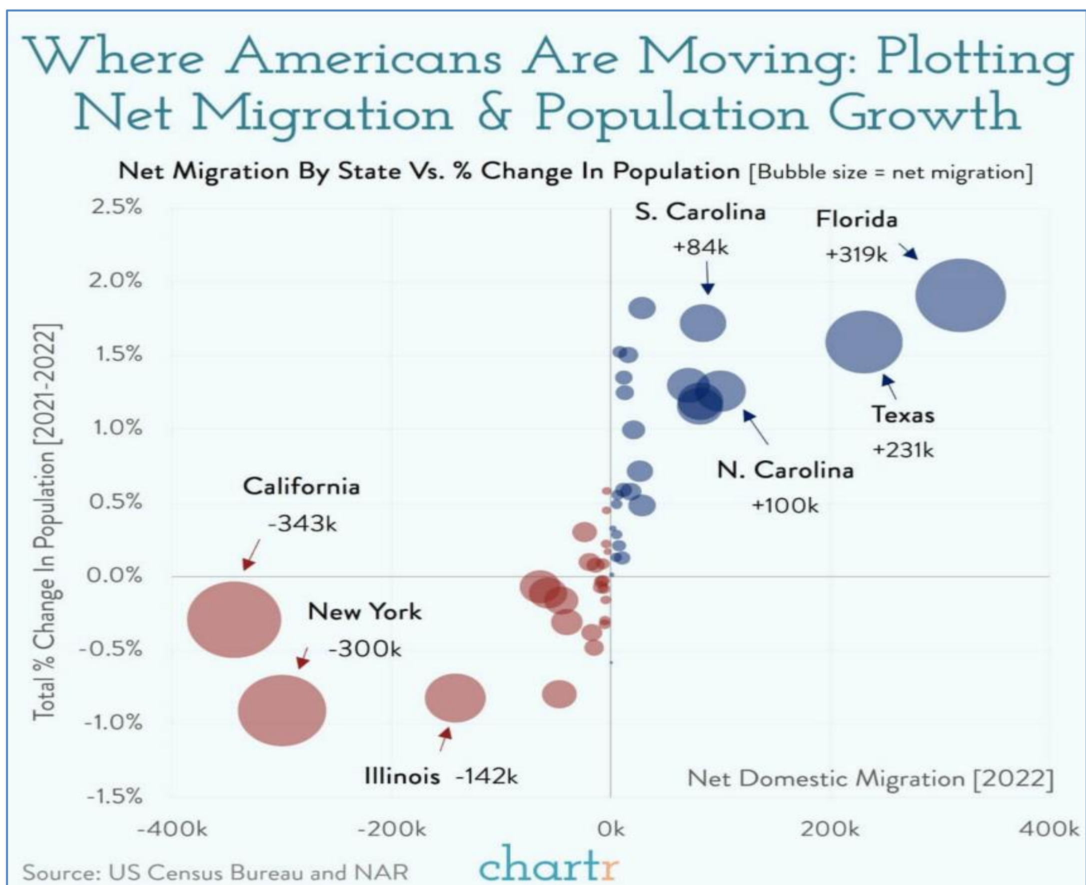
On Europe's mainland, the French economy managed a slight expansion in the fourth quarter, as government policies cushioned households and businesses from high energy prices. The economy grew by a marginal 0.1% according to preliminary data from the country's statistics office, Insee. Household consumption declined by 0.9% on quarter, suggesting inflation took its toll on spending, Insee said. Business investment slowed sharply but contributed positively to growth, as it did foreign trade. France's economy expanded by 2.6% in 2022 as a whole, helped by resilient demand and the rebound in the services sector.

Germany's economy unexpectedly shrank in the fourth quarter, a sign that Europe's largest economy may be entering a recession. Germany's Federal Statistics Office, Destatis, reported GDP decreased 0.2% quarter-on-quarter. Economists had expected a flat reading. VP Bank chief economist Thomas Gitzel stated, "The winter months are turning out to be difficult - although not quite as difficult as originally expected." Still, Gitzel notes that while signs of a severe recession of the German economy remains absent, "a slight recession is still on the cards." The government has said the economic situation should improve from spring onwards, and last week revised its GDP forecast upward for 2023 -- predicting growth of 0.2%, up from an autumn forecast of a 0.4% decline.

In Asia, the International Monetary Fund (IMF) expects China's economy to rebound this year as mobility and activity pick up after the lifting of pandemic restrictions. According to its latest projections, China's economy is set to expand 5.2% this year, versus 3% last year. That's good news for the global economy as China's economy is now expected to contribute a quarter of total global growth this year. Still, China faces significant headwinds—a contraction in real estate, a shrinking population, and slowing productivity growth. According to the IMF, China's economy needs comprehensive macroeconomic policies and structural reforms to secure the recovery and "promote balanced, green, and inclusive growth."

The average Japanese worker hasn't had a raise in 30 years as the country has suffered from a prolonged period of deflation. However, that situation has changed as inflation has now become a major issue in the world's third-largest economy. Inflation in Japan hit a 41-year high of 4.0% in December. While low compared to rest of the developed world, the Japanese are more used to prices going down rather than up. "In a country where you haven't had nominal wage growth over 30 years, real wages are declining quite rapidly as a result [of inflation]," said Stefan Angrick, a Tokyo-based senior economist at Moody's Analytics. Last month, Japan recorded its biggest drop in earnings, once inflation is taken into account, in nearly a decade.

Finally: New data from the Census Bureau and the National Association of Realtors reveal which states have been the biggest winners (and which the biggest losers) as the nation's population continues to shift. Florida topped the 2022 net migration chart with an influx of over 300,000 people choosing to call the Sunshine State their new home. Florida was followed by large increases in Texas (up 231,000) and South Carolina (up 84,000). The biggest losers were the states of California (-343,000), New York (-300,000), and Illinois (-142,000). Chart on next page. (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

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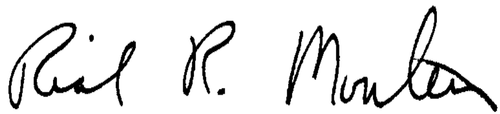

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[S&P 500 Earnings Season Update: February 3, 2023 (factset.com)]

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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.)