

**DONALD J. MOULTON**  
CFP®, RFC

**MOULTON WEALTH MANAGEMENT INC.**

## **MOULTON HOT MINUTES**

***SPECIALIZING IN RETIREMENT AND TAX PLANNING***

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### **Week of May 5, 2025**

**L**ast week's newsletter noted that high volatility, in both directions, happen much more often in bear markets than bull markets. The volatility we saw in April has been exceeded in only 23 months of ~97 years, or 2.44% of all months. The other 23 times were all during bear markets. You can read the newsletter here: [Newsletter - Moulton Wealth](#).

*ATTEND OUR...*

### ***FINANCIAL & TAX PLANNING SEMINAR***

***Including the "WIDOW'S PENALTY"***

*BRING A GUEST*

➤ **MAY 28<sup>TH</sup> - SPOKANE**

➤ **MAY 21<sup>ST</sup> - RICHLAND**

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

Last Saturday's radio show reviewed more fallout from the trade war. We also discussed the jobs report and more economic data. The soft data (i.e., surveys of what people think) is getting softer. You can listen to past radio shows here: [Radio Show - Moulton Wealth](#).

***Please see our website [www.MoultonWealth.com](http://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.***

Data can be “soft” or “hard”.

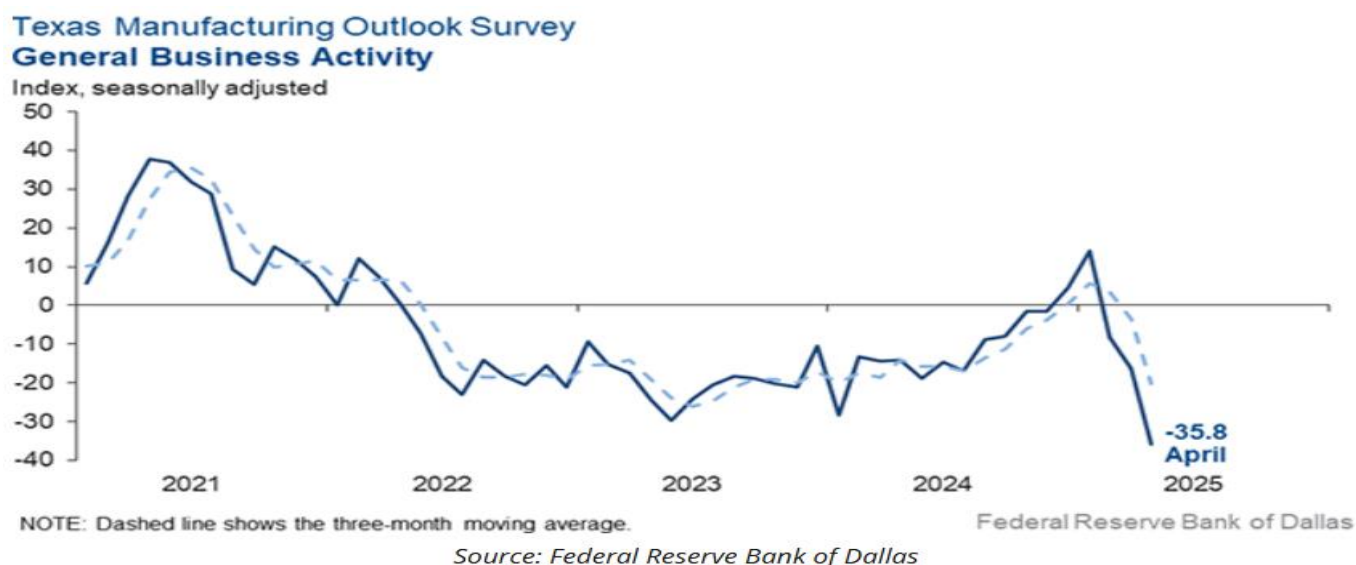
Hard data reports actual events, numbers, data, etc. These are like jobs, GDP, a company's profits and the like. They represent what actually happened.

Soft data reflects attitudes, expectations, opinions and feelings. Soft data may be more important because it often shapes and forecasts the hard data to come.

John Mauldin struggled to put the proper description to the most recent soft data. He tried words like “spongy, limp, squishy and weak”. He noted that the business surveys, as well as his own contacts, agree that CEOs of major firms and small businesses alike, are uncertain at best, and pessimistic at worse. Few, he tells us, are confident in any meaningful way.

The Dallas Federal Reserve Bank conducts monthly surveys of both manufacturing and service businesses. Although not national, their region has seen some of the best business growth in recent years. One would expect that if anyone is optimistic, it would be them.

Here's what the region's manufacturers had to say.



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

## ***"YOUR MONEY MATTERS"***

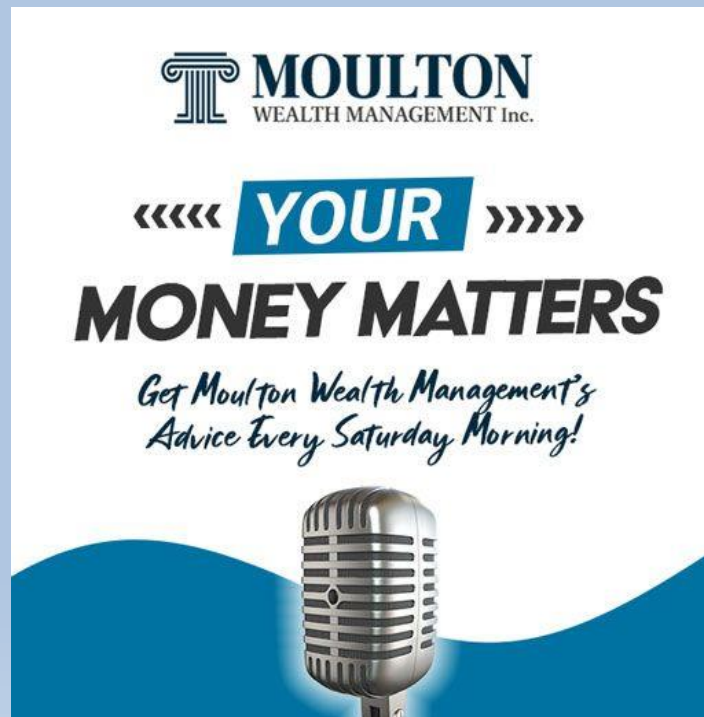
*EVERY SATURDAY MORNING AT*

*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](http://WWW.NEWSTALK870.AM) AGAIN AT 9:30 EACH SATURDAY MORNING*

*OR VISIT OUR WEBSITE [MOULTONWEALTH.COM](http://MOULTONWEALTH.COM) FOR PODCASTS*

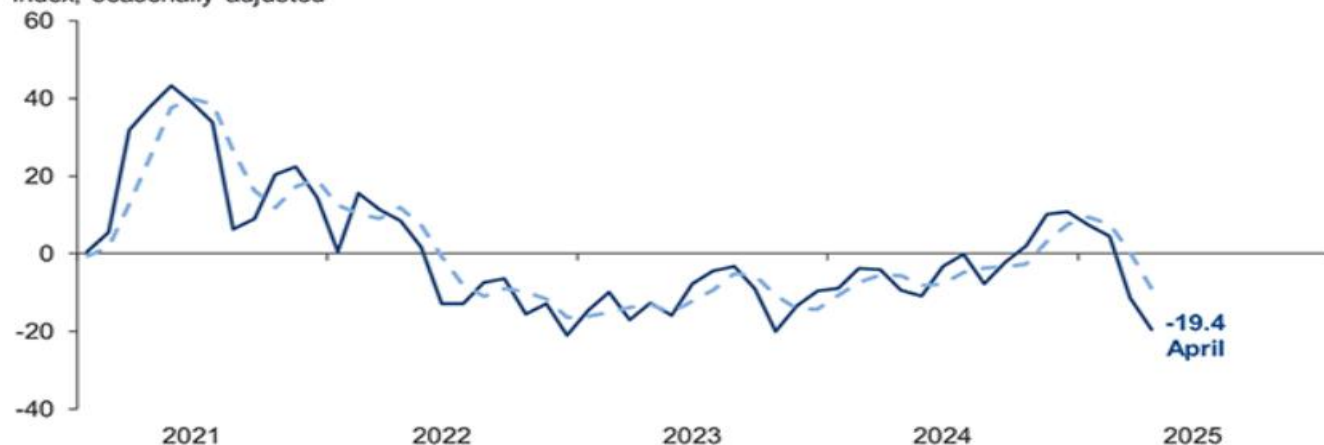


**509-922-3110**

Service businesses weren't much better.

### Texas Service Sector Outlook Survey General Business Activity

Index, seasonally adjusted



NOTE: Dashed line shows the three-month moving average.

Federal Reserve Bank of Dallas

Source: Federal Reserve Bank of Dallas

Notice that both had been improving for about two years, but turned downward – and sharply so – just in the last three months. Also note that both are below the 2022 inflationary bear market.

Respondents were allowed to make brief, anonymous comments. Here is one from a trucking company.

*"[We are] devastated. We are a trucking company specializing in transporting international shipping containers, and there is no other word that captures what we are facing. The fragile balance that underpins the global equipment supply chain has collapsed. Ocean container bookings have plummeted by 64 percent, which means 64 percent of our business has vanished overnight. Without incoming containers, there is nothing to reload, nothing to export and no way to keep our trucks moving.*

*"This loss of freight in the market will bleed into every area of transportation. I have already had to make the heartbreaking decision to lay off one third of my staff. Any further cuts would cripple our ability to operate at even the most basic level. At this point, we are staring down the very real possibility of shutting down entirely. Ten years of fighting to keep a company alive and people employed through a global pandemic, the freight recession of 2023–24, and now this."*

If you've ever started or run a business, you can feel this person's pain. You know how hard they worked to get where they are. Seeing it all fall apart has to be devastating.

Although most of the comments were negative, not all were. The following is from someone who thinks the tariffs will all be worked out.

*"I'm not too worried about the new tariffs. I think other countries will soon be negotiating with President Trump, and six months from now the national discussion will have moved on."*

However, comments like this one outweigh the positive spots:

*"There is really no way to predict anything accurately six months out or even six weeks out now for our industry, due to the tariff and trade uncertainty. Carve-outs for large electronics businesses (cellphones and laptops) leaves small business burdened to deal with tariffs on our own, which are likely to cause delays, cancellations and early product obsolescence on existing products and orders. We have already had to turn around and refuse shipments because customers cannot afford the tariffs, delaying our ability to build, which will eventually lead to job losses."*

*"If this continues for any length of time, many small companies are likely to be significantly hurt or even gone. **If we want to bring manufacturing back to the U.S., can we try not to kill the companies that can actually help do that before we get the chance? Maybe we can think about using a scalpel rather than a sledgehammer?**"*

*"The risk we face now is far greater, and less understood, than what we saw during the COVID shutdown. Consumers and businesses will limit investment and orders until there is some sense of stability, and we have already experienced this with smaller orders and delayed orders. It's chaos right now."*

This is the problem with heavy handed tariffs. I get what President Trump is trying to do, but there are real costs.

Scott Woldenberg is the CEO of Learning Resources, a Chicago based maker of educational toys for young children. Some 60% of their toys are made in China, so the 145% tariffs are devastating his business. After explaining why those toys can't be manufactured in the U.S. for various reasons (cost being at the top), he went on to express his view of the ultimate impact to the U.S. economy.

*"If you're paying 50 percent of your product costs in taxes (in the form of tariffs), you pay that the day it arrives in the country, and then what if you sell a product six months later? You have to carry that as a borrowing for six months, and that can really mount."*

*"That's one of the reasons why companies are feeling a strong need to raise prices now, because they pretty much have to raise the money to finance paying the taxes, because the taxes are paid first. Income taxes are paid after you make the money. **But tariffs are an asset tax. And so, you pay them basically to go into business.**"*

***“So, we have to raise the prices sooner than later because we need to accumulate that money so we can spend it on tariffs. That completely screws up the cash flow of your business.***

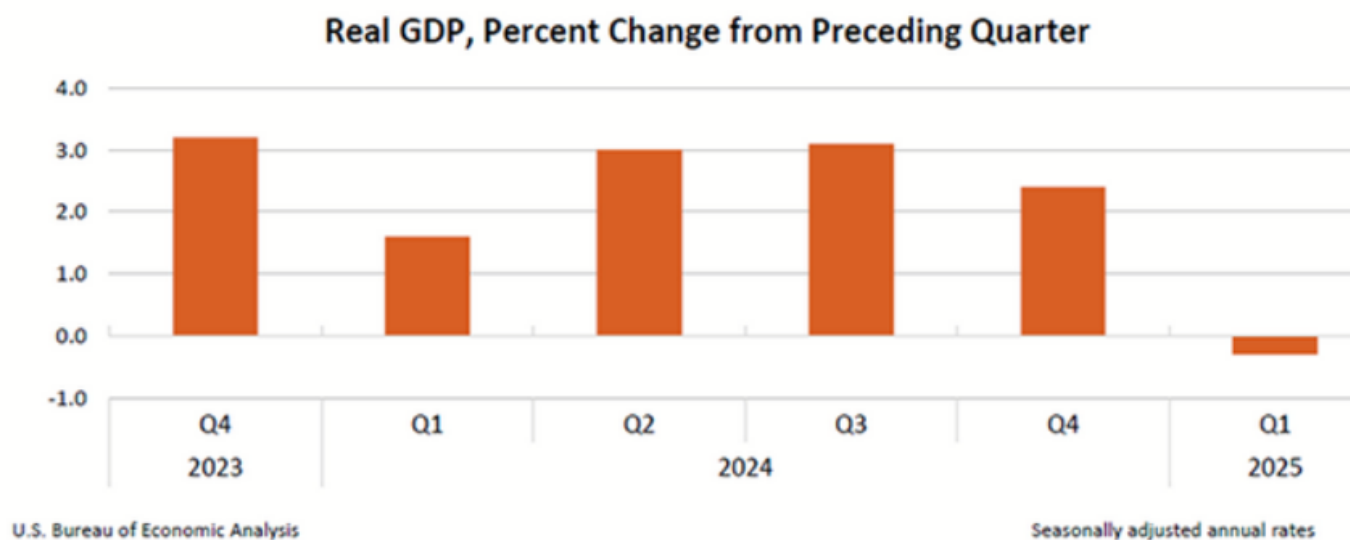
*“This plan is a mass self-improvement plan. If I have to raise my prices 50 percent, 70 percent, or whatever ridiculous number it is, what I tell people is, ‘You’re going to be paying that much more to buy exactly the same thing. And this is going to happen across a wide swath of things that you want to buy: shoes, sweaters, sunglasses, power tools, you name it.’*

*“The one thing I can promise you will not go up is your salary. So, you have the same amount of money, just everything will cost 50 percent more. What does that mean? That means that your standard of living just dropped because you can’t afford to buy what you could buy the day before. It’s an impoverishing policy and it’s so obvious.”*

Speaking of impoverishment, there was a report recently about the fast-growing BNPL (Buy Now, Pay Later) business. They allow you to buy things on credit, but if you miss the payments, the penalties are steep. Lending Tree says 25% of those using BNPL are buying groceries, up from 14% a year ago. And 41% had at least one late payment in the last year.

That’s a loud warning about the consumer led economy. Tariffs will only make it worse.

This while GDP, even before tariffs kick in, is in decline. GDP is the speedometer for the economy. It was **-0.3%** in the first quarter of 2025, the first negative read since the inflation bear market of 2022.



Source: BEA

There are technical reasons that tariff “front running” by businesses could be responsible for some of the GDP weakness, however the same argument for consumer spending would make GDP rise. Regardless, it sure seems as if the economy has suddenly down-shifted.

Even if the administration does a 180 degree turn, and decides or negotiates 0% tariffs tomorrow, much of the damage has been done.

First, it's highly unlikely we will see such a reversal on tariffs.

Second, we have no idea if other countries will jump back into the same economic relationships we had before the tariffs. Trade is largely based on predictability and reliability. We are very unpredictable and unreliable right now, and may be for the next four years.

Third, even if the first two work out in our favor, there is an economic hole. It takes a container ship four weeks to sail from China to L.A., six weeks to Houston and Chicago (with some of the latter by rail), and eight weeks to N.Y. That means that even an immediate resumption of trade would still result in a ~ two-month hole in commerce.

David Bahnsen weighs in on a slowing economy, and the domino effects:

*“Supply chains are complicated things, and any attempt for a portfolio manager with a macroeconomic focus to unpack the particulars of supply chains as if they were monolithic would be highly unsatisfying. That said, we know general high level timing things, filled with caveats as they are, and we can safely say the following:*

- *Containers in transit have already begun delays and cancellations*
- *Deliveries to ports are likely to see substantial declines by mid to late May*
- *Trucking demand then ceases/collapses from there*
- *Store shelves begin to seem emptier by early June*
- *Layoffs likely follow the second, third, and fourth of the above steps*
- *Then a recession call gets easier to make (if it hasn't been made already)*

*“Resuming trade is the first domino that softens or reverses all the others. Capex and New Orders probably do not turn back on like a light switch, but the lights cannot even begin to fade up until the switch is hit, which cannot happen while trade is so diminished. This is the domain most worth watching.”*

This doesn't mean it won't ultimately all work out for the best. But make no mistake, the risks are high, and the probability of many bumps to the economy – and your portfolio – are even higher.

If you are retired or close to retirement, hoping it all works out is not our idea of a solid risk management strategy.



## ***Eventually the market comes back, but the years lost never do.***

Regardless, if you lose too much principal, growth no longer matters. A high percentage return on a low principal base, produces fewer dollars to spend, than a lower percentage return on a large principal base.

And regardless, if market declines are introducing stress into your retirement life, as your advisor says to simply “ignore it”, that’s not being a **SCWIPAR**. It means you’re not living your **“second childhood without parental supervision”**.

Does this mean we think the decline will continue? We don’t know, nor do you, nor do the talking heads on television or the internet, nor do advisors telling you to simply buy and hope.

What it means... risk is rising. And if you are retired or close to retirement, the math does not work in your favor.

## ***We believe that growth is important, but protection of principal is even more important.***

We’re told the market always comes back, but consider the gains required to make up those losses.

<u>Portfolio Loss</u>	<u>Required Gain to Recover Losses</u>
10%	11%
20%	25%
30%	43%
40%	67%
50%	100%

The market may come back, but will your portfolio? This is especially important to consider in the context of withdrawals necessary to fund living needs. If you are withdrawing 4% annually to supplement Social Security, or for fun, a 40% decline in your portfolio means you are now withdrawing 6.7%, assuming you continue with the same dollar amount.

How many years of good gains do you want to spend just trying to recoup past losses?

The two-day decline on Thursday and Friday a week ago, was the 5<sup>th</sup> largest two-day decline since 1950. Despite even more losses after previous large two-day declines, the good news is stocks were up nicely over the following year, three year and five-year periods.

Then why did we reduce risk?



Four reasons:

1. Past performance is not necessarily predictive of future results.
2. Past averages can hide significant anomalies that may up-end a retiree's lifestyle.
3. President Trump's tariffs are the highest the U.S. has had since 1908. That was before we even had income taxes in the U.S. They are higher than the Smoot Hawley tariffs of 1930, which many point to as ushering us into the Great Depression.
- 4. But the biggest reason is our math based, objective signals told us to.**

When appropriate, those same signals will tell us to begin moving back into equities.

A few of questions you might have:

1. Isn't this trying to time the market?

No, it's managing risk. We fully acknowledge we don't know what the market will do over the next week, month or year. But we do know that the biggest risk to a retiree who needs their portfolio to fund expenses, is a large loss of principal, with years trying to just break even. The market came back after the Dot.com bear market, but it took 13 years to sustainably reach new highs. And that included artificially low interest rates and money printing, both of which will be untenable with higher inflation. How long do you want to wait? How long can you afford to wait?

2. Won't I come out ahead by hanging in there?

Maybe and maybe not; no one knows. Certainly, there have been times when we've reduced risk and the market moved higher, meaning we had an opportunity loss. And there have been times when the market kept moving lower. Regardless, in both instances we reduced the risk our clients were under. Those who espouse buy and hope are essentially telling you they're comfortable gambling with your retirement. They're comfortable with you always taking maximum risk. We are not. Opportunities come along daily in the stock market, but if losses are too great, you won't have the principal remaining to participate.

3. What do you do with the money once you've sold?

It goes into the safety of fixed income, primarily short-term U.S. Treasuries, still yielding over 4%, along with gold.

4. I don't want to pay income taxes, so what can I do?

No one likes income taxes, and a "non-qualified" or taxable account can be trickier. There are several options, such as introducing hedges to help offset losses. For

clients, we prepare a tax projection first, to quantify the taxable gains realized by sales, and more importantly, the increase in taxes the sales would cause. Then we strategize with them to balance a reduction in risk against an increase in taxes. Ultimately, it comes down to our sixth Investment Principle:

## ***It's better to pay taxes on gains, than to lose principal and deduct losses.***

Paying taxes is a problem, but it's a high-class problem. It means you made money. Reward yourself with the privilege of realizing gains.

### 5. If I've done nothing yet, should I sell now?

That can't be answered in a newsletter. We have to have more information about you, your spouse, your family, your goals and your financial picture. What you can do is come to a seminar or call the office. I will say this, we don't think this market has bottomed. *We also believe it's never too late to optimize your portfolio's allocation.*

Investments are but one topic we cover at our seminars, and discuss in our consultations. Retirement can be a time of great joy and freedom. But leaving aspects of your finances unaddressed, adds uncertainty and stress. It's why it is so important to look beyond just your investments. In our free, initial consultations we review these five critical areas:

1. **Protection** – how do you protect against disasters such as a fire, lawsuits and health issues?
2. **Estate Planning** – what is the best estate plan for you and for your heirs? Is the one you have set up properly? And did you know that no matter how good, your estate plan likely does not cover your biggest assets? They certainly don't govern IRAs, 401ks, 403bs, 457s, Roth IRAs, life insurance or annuities.
3. **Income Taxes** – we'd all like to pay less income taxes, but how? Tax planning is becoming harder and harder to find. Your tax preparer is likely overworked, and doesn't have the time, or expertise, to tax plan in consideration of your entire financial picture. We strive to suggest strategies to save taxes over time for you, for your spouse, and for your heirs.
4. **Retirement** – the biggest question we get is “*do I have enough money?*” If you've not yet retired, you can always decide to delay, assuming it's your choice. But if you're already retired, you need to resolve this as early as possible, so smaller changes can make a bigger impact. Our Family Index will tell you a lot about what you need to know.
5. **Investments** – when asked how they pick investments, we receive a variety of answers. Most say they look at 5- or 10-year returns, and assume those will continue

into the future. Some get tips from friends or off the internet. Still others are frozen with indecision, and don't really know what they have, or even when or how they got them. This is especially problematic for surviving widows and widowers, who were not the partner "in charge" of the investments. While any of these can work for a time, many, if not most, will ultimately fail, especially in bear markets. We think it's critical to understand how much risk you are taking, what the downside could be, and to decide, BEFORE IT HAPPENS, if you can financially survive. If not, you need to implement a strategy to minimize this risk, again, before it happens.

For many, worrying about investments, along with all the other retirement concerns, is not something they feel comfortable doing. Many would rather spend retirement enjoying themselves.

Working with an advisor may help.

It doesn't matter if you lose money because you pay more than you need to in taxes, get sued or have a disaster, lose it because your estate plan is not implemented properly, or take a big loss during a stock market decline...

***It's all lost money!***

We offer free, no obligation "Financial Physicals" where we address all of these potential land minds, in addition to your longer term, retirement cash flow needs.

Come to a seminar and decide if a Financial Physical could be helpful.

Hope for the best but plan for the worst.

If you're not a client, what should you do with this information?

***Prepare!***

Procrastination and Planning both start with a P, but they are not the same.

***Failing to prepare,  
is preparing to fail.***

Come to a seminar and find out how you might protect yourself. In our seminars, and at initial, free, consultations called “Financial Physicals” we discuss the five areas most important to financial health for retirees or those close to retirement.

1. Protection
2. Estate Planning
3. Income Tax
4. Retirement
5. Investments

Risk management is key for success in all of those areas.

Consider exploring how you might add a defensive strategy to your investment approach.

Maybe this time is different, and if you're a buy and hold investor with no defensive strategy, you're betting your portfolio, and possibly your retirement, on it.

Attend a seminar or call the office to find how adding a defensive strategy to your portfolio could help because...

Sure, the market comes back, eventually...

## ***How long can you afford your portfolio to be down significantly?***

Currently risk-free rates approximate 4.2% compared to what the market “might” make (or more importantly lose) over the coming months, and considering the growing mountain of evidence of an oncoming recession, it seems negligent not to at least explore your options.

***This is even more important if your spouse is not as savvy about  
investments as you are.***

The Great Financial Crisis was triggered by the popping of a bubble in real-estate. ***The bubble in real-estate today is bigger by most measures.***

The Dot.com bear market was triggered by the popping of a bubble in equity valuations. ***The equity bubble is bigger today by most measures.***

Neither the Dot.com nor the Great Financial Crisis bear markets had inflation, or nearly as much debt across consumers and businesses as we have today.

If the Dot.com bubble resulted in the S&P-500 falling ~ -50% and the NASDAQ falling over ~ -80%...

If the Great Financial Crisis saw the S&P-500 fall ~ -57% and the NASDAQ falling over ~ -50%...

***How much might a market fall with levels exceeding both of those along with inflation and higher leverage?***

You don't have to remain locked into the same approach as you had when these risks didn't exist. You are allowed to protect yourself. You can step away and then come back when the risks decline. Call us to find out how.

***It's time to focus on return of your money rather than return on your money.***

To be clear, we'll have a great buying opportunity at some point in the future. Usually that happens with the market crashing and most investors disgusted with the thought of investing. If you lose much of your net worth, participating will be difficult.

***"You can't buy low if you don't sell high."***

Patience and asset protection will be key.

***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 so far.

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 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?



**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.***

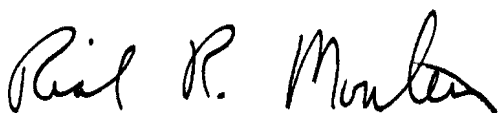
***The drop didn't retrace only a few months or even a couple years.***

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


## WEEKLY FOCUS – THINK ABOUT IT

***“The soft data is getting softer.”***

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 420 N. Evergreen Road, Suite 100; Spokane, WA 99216.**

**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 companies 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.