MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of May 19, 2025

Last week's newsletter reviewed inflation, the FOMC decision and Fed Chair Powell's relationship – or lack thereof – with President Trump. The Fed did not change rates during their last meeting, despite inflation falling, and President Trump didn't like it. You can read the newsletter here: Newsletter - Moulton Wealth.

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Last Saturday's radio show discussed inflation, interest rates, tariffs, and whether President Trump blinked in his attempt to rewire the world trading system with tariffs. You can listen to past radio shows here: *Radio Show - Moulton Wealth*.

Please see our 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.

Before Moody's announced their credit downgrade, I had written the newsletter about the tax bill being considered, primarily by Republicans. Before digging into it, let's consider what the downgrade means, and doesn't mean.

Moody's was the last of the big three credit rating services to downgrade U.S. Treasury debt from AAA. It was the first downgrade by Moody's in its 116-year history.

Standard & Poor's was the first credit rating service to downgrade U.S. Treasury debt in 2011. The market reacted significantly to the downside. Fitch Ratings also downgraded U.S. Treasury debt in 2021. The market reacted less negatively.

Moody's specifically cited the Republican's 'One Big Beautiful Tax Bill', and the fact it will add $3.5T to $5T more to the debt than if they did nothing, as the straw that broke the camel's back.

What do we think?

It is difficult for politicians to cut spending – as we've seen since Reagan – but very easy to give tax cuts. The result is spiraling debt.

Since we don't think it will be solved any time soon, it's up to we investors to brace our portfolios against it.

Specifically – and these are not recommendations – we should understand gold will likely benefit as a hedge against inflation and dollar devaluation. Long duration bonds will suffer for the same reasons. And stock market volatility will likely rise, but should benefit from more money in the system, created as the offset of higher U.S. debt.

It doesn't mean we think it's a good thing, but unfortunately likely a fact of where we are.

Make no mistake, though, if the 10-year U.S. Treasury rate rises enough because investors require higher interest payments to offset dollar devaluation (and that number is elusive), it will crash both stocks and bonds.

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

"Your Money Matters"

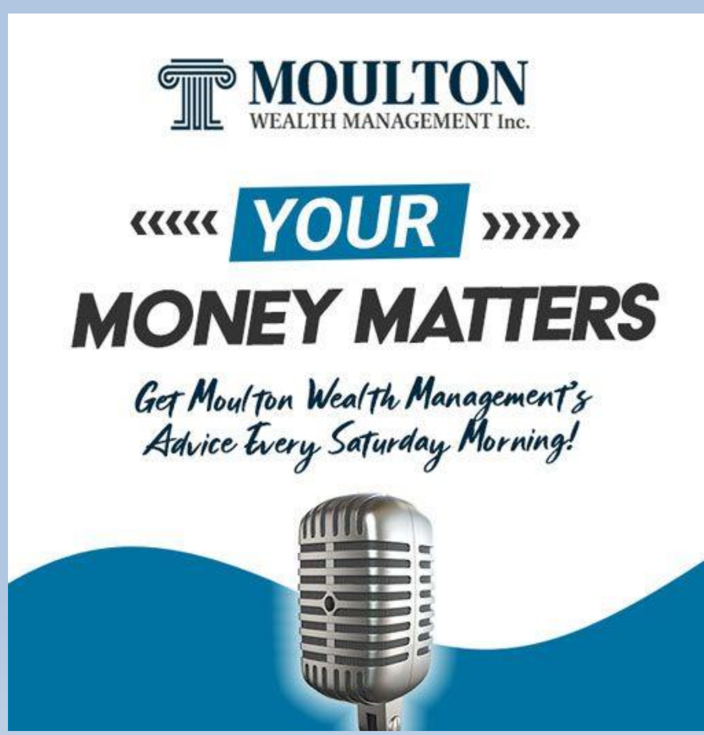
every Saturday Morning at

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



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Congress continues to work on President Trump's 'One Big Beautiful Bill'.

What is it?

A big tax extension / cut.

The current tax code is set to expire at the end of this year. If it did, taxes would go up slightly for middle class, and quite a bit for wealthy tax payers. This is the last year of the tax cuts from President Trump's first term.

When Congress passes a spending or tax bill, with only a simple majority, it's done through something called reconciliation. That's how Republicans were able to pass the tax cuts in President Trump's first term. However, bills passed through reconciliation have a limit as to how much they can add to the national debt. Since the tax cuts in President Trump's first term added too much to the debt, they had to end. This is their last year.

However, Congress is currently working on a new tax bill. It will extend the current tax cuts along with some extras.

To help them be permanent, despite once again being passed (it hasn't yet but something will almost certainly pass eventually) by reconciliation – a simple majority – they are considering spending cuts and tariff offsets.

There are two versions of the bill, one from the Senate and one from the House. It's estimated the House bill will add $3.5T to the national debt over the next ten years, above and beyond if they did nothing. The Senate bill would add $5T.

And even these numbers understate the true impact, because they don't take into account the current tax cuts running out at the end of the year. Therefore expect the debt increases to be even higher.

What does the bill include?

The House wants to cut Medicaid as part of the bill. Medicaid is health insurance and support for the poor – especially kids – and disabled. However, there is growing concern that the system is being "gamed" by able bodied adults who could still work, but don't want to.

- States would be required to implement work requirements by 2029 for childless adults who do not have a disability, mandating they work 80 hours a month.
- Increase the price of doctor visits, mandating beneficiaries making above the federal poverty limit to co-pays of up to $35.
- Recipients would be required to fill out more paperwork, proving their status and income.

The Congressional Budget Office (CBO) estimates these changes would save about $912B over the next decade, with $715B coming from Medicaid and the Affordable Care Act cuts.

The CBO also estimates 8.6 million citizens could lose insurance coverage.

Senate Republicans are against Medicaid cuts. In large part Medicaid cuts, or not, account for the difference in how much the CBO estimates will be added to the debt by the two versions of the bill.

While campaigning, President Trump promised to eliminate taxes on tips, overtime work pay, and Social Security. Some of that is in the bill, but only for the next four years.

The bill allows workers in “occupations that traditionally and customarily receive tips” to claims a tax deduction for the sum of all tips that they received for the previous year. It would do the same for overtime wages. Neither deduction is available for anyone who is a “highly compensated employee.” It’s not yet clear if these are itemized deductions.

The “no tax on Social Security” is less direct. The bill provides and additional $4,000 standard deduction for seniors making less than $75,000.

There is also a provision in the bill to deduct interest on auto loans.

The child tax credit, which is set to fall from $2,000 to $1,000 at the end of this year, will be increased to $2,500 through 2028 and then drop to $2,000 and become permanent.

Electric vehicle credits will be eliminated, and an additional $250 registration fee will be added for EV owners.

One of the more intriguing additions is the creation of “Money Account for Growth and Advancement” – MAGA – accounts for babies. (You have to give credit to the creative ability of law makers when naming how they spend.) At birth, the government would pay $1,000 into these accounts for babies born from 2024 through 2028. After that, parents could put an additional $5,000 annually into the account. Although we assume these accounts would be tax deferred or even tax free, the details weren’t clear.

We’ve long thought an alternative to Social Security could happen in a similar manner. If the government put $42,000 into such an account for each person at birth, and indexed it to the stock market, it would likely grow to $1,000,000 by age 65. And that’s $1M in today’s dollars. This $1M account would then replace Social Security. Although it seems like a hefty initial investment, many receive more than $42,000 in Social Security every year.

Maybe the MAGA accounts are a move in this direction.

Some other notable parts of the bill.

- A repeal of President Biden’s student loan forgiveness plans.
- A 10 year ban on state level Artificial Intelligence laws.
- Billions of dollars for a missile defense system.

- $47 billion on border barriers, funding up to 700 more miles of a wall with Mexico.
- A big tax increase on large university endowments.
- An end to the Biden-era initiative to allow some to directly file with the IRS at no cost.

To get all of this done, Republicans plan to raise the debt ceiling by $4 trillion, staving off a default that could arise in the next few months. Regardless of this bill, Congress will have to address the debt ceiling soon. The federal government is expected to exhaust its borrowing ability sometime in August, 2025.

If it's a $4 trillion hike, it will be, by far, the biggest hike in the debt ceiling ever.

Regardless of the long term financial irresponsibility of adding $3.5T to $5T more to the debt over the next ten years, this bill will almost certainly be a tailwind for the stock market.

Unless the bond market revolts.

Bond yields have been rising. This makes the Treasury's job of rolling over $10 trillion of debt in 2025, much more expensive. If bond investors keep selling, and yields keep rising, it will require a re-think of our debt trajectory. It will also be a hammer to stock and long term bond prices.

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.

Portfolio Loss	Required Gain to Recover Losses
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 5th 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.

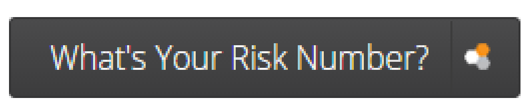
Then in just over a month from September 15, 2008 to October 27, 2008 the S&P-500 fell ***ANOTHER*** 28.8%. And from September 15, 2008 to the ultimate bottom, about 5 months later, it fell ***ANOTHER*** 43%.

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.

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

"One Big Beautiful Debt Downgrade."

Yours truly,

Rial R. Moulton, CFP®, CPA / PFS, RFC
Certified Financial Planner™

Donald J. Moulton, CFP®, RFC
Certified Financial Planner™

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

The Barclays Global Aggregate Bond Index *(formerly Lehman Brothers Global Aggregate Index), is an unmanaged market-capitalization-weighted benchmark, and tracks the performance of investment-grade fixed income securities denominated in 13 currencies. The index reflects reinvestment of all distributions and changes in market prices.*

The Barclays U.S. 1-10 Year TIPS Index *is an unmanaged index composed of inflation-protected public obligations of the U.S. Treasury that have a remaining maturity of one to ten years.*

The Barclays U.S. Aggregate Bond Index *is an unmanaged benchmark index composed of U.S. securities in Treasury, Government-Related, Corporate, and Securitized sectors. It includes securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $250 million.*

The Barclays U.S. TIPS Index *is an unmanaged index composed of all U.S. Treasury Inflation- Protected Securities rated investment grade, have at least one year to final maturity, and at least $250 million par amount outstanding.*

The Barclays U.S. Treasury Index *is an unmanaged index composed of U.S. Treasuries.*

The CDX IG 12 *is a benchmark high-grade derivatives index, which measures the cost of insuring a basket of U.S. investment-grade corporate debt against defaults.*

The Chicago Board Options Exchange Volatility Index (VIX) *tracks the expected volatility in the S&P 500 over the next 30 days. A higher number indicates greater expected volatility. Common usage: The Chicago Board Options Exchange Volatility Index (VIX), a barometer of market volatility.*

The Dow Jones Industrial Average *is a widely followed market indicator based on a price-weighted average of 30 blue-chip stocks that trade on the New York Stock Exchange which are selected by editors of The Wall Street Journal.*

The Dow Jones Wilshire Real Estate Securities Index (RESI) *is used to measure the U.S. real estate market and includes both real estate investment trusts (REITs) and real estate operating companies (REOCs). It is weighted by float-adjusted market capitalization.*

The JP Morgan Emerging Market Bond Index *is a total-return, unmanaged trade-weighted index for U.S. dollar-denominated emerging-market bonds, including sovereign debt, quasi-sovereign debt, Brady bonds, loans, and Eurobonds.*

The JP Morgan EMBI Global Diversified Index *tracks the performance of external debt instruments (including U.S.-dollar-denominated and other external-currency-denominated Brady bonds, loans, Eurobonds and local market instruments) in the emerging markets.*

The JP Morgan GBI-EM Global Diversified Index *tracks the performance of local-currency bonds issued by emerging market governments.*

The MSCI World Index *is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index represents 23 developed market countries.*

The MSCI All Country World Index *is a market-capitalization-weighted index composed of over 2,400 companies, and is representative of the market structure of 46 developed and emerging market countries. The index is calculated with net dividends reinvested in U.S. dollars.*

The MSCI EAFE Index *is an unmanaged, market-capitalization-weighted equity index that represents the developed world outside North America.*

The MSCI Emerging Markets Index *is a free float-adjusted market-capitalization-weighted index designed to measure the performance of global emerging market equities.*

The NASDAQ Composite Index *is a market-value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system.*

The Russell 1000 Index *includes 1000 of the largest U.S. equity securities based on market cap and current index membership; it is used to measure the activity of the U.S. large-cap equity market.*

The Russell 2000 Index *includes 2000 small-cap U.S. equity names and is used to measure the activity of the U.S. small-cap equity market.*

The S&P 500 Index *is a capitalization-weighted index made up of 500 widely held large-cap U.S. stocks in the Industrials, Transportation, Utilities and Financials sectors.*

Investing Terminology

Alpha *is a measure of a portfolio's return above a certain benchmarked return.*

Alternative Investments *are investments that are not one of the three traditional asset types (stocks, bonds and cash). Alternative investments include hedge funds, managed futures, real estate, commodities, and derivatives contracts.*

Asset-Backed Securities (ABS) *are bonds backed by a pool of loans or accounts receivable and commonly include payments from credit cards, auto loans and mortgage loans.*

Austerity *refers to measures taken by a country's government in an effort to reduce expenditures and a budget deficit.*

Beta *is a measure of the volatility or systematic risk of a security or a portfolio in comparison to the market as a whole.*

Book-to-Price Ratio *is the inverse of the price-to-book ratio, which is calculated as the market value of a security divided by its book value. A lower the price-to-book ratio for a security may mean the security is undervalued, and vice versa (the higher the book-to-price ratio, the better the value).*

Commercial Mortgage-Backed Securities (CMBS) *are pools of commercial mortgage loans that are packaged together and sold to the public. They are usually structured in tranches, or classes of risk, so that investors can determine how much risk they want to take on. In general, CMBS carry less prepayment risk than loans backed by residential mortgages.*

Corporate Bonds *are debt securities issued by corporations to raise money; these bonds usually pay higher coupon rates than government or municipal bonds.*

Correlation Risk *refers to the change in the marked to market value of an asset when the correlation between the underlying assets changes over time.*

Credit Ratings *are an assessment of the risk of default of a company or country. The higher the credit quality (or rating), the lower the perceived risk of default.*

Cyclical Sectors or Stocks *are those whose performance is closely tied to the economic environment and business cycle. Managers with a pro-cyclical market view tend to favor stocks that are more sensitive to movements in the broad market and therefore tend to have more volatile performance.*

Debt-to-Equity Ratio *is calculated as long-term debt divided by common shareholders' equity, and measures the amount of a firm's leverage, or debt.*

Donor Advised Funds *are private funds administered by a third party and created for the purpose of managing charitable donations on behalf of an organization, family, or individual.*

Duration *is a measure of a security's price sensitivity to changes in interest rates. Specifically, duration measures the potential change in value of a bond that would result from a 1% change in interest rates. The shorter the duration of a bond, the less its price will potentially change as interest rates go up or down; conversely, the longer the duration of a bond, the more its price will potentially change.*

Excess Returns *are investment returns from a security or portfolio that exceed a benchmark or index with a similar level of risk.*

Grantor Retained Annuity Trust *is an estate planning technique that minimizes the tax liability existing when intergenerational transfers of estate assets occur. An irrevocable trust is created for a certain term or period of time. The individual establishing the trust pays a tax when the trust is established. Assets are placed under the trust and then an annuity is paid out every year. When the trust expires, the beneficiary receives the assets estate and gift tax free.*

High Yield Debt *is rated below investment grade and is considered to be riskier.*

Managed Futures *strategies use futures contracts as part of their overall investment strategy. They provide portfolio diversification among various types of investment styles and asset classes to help mitigate portfolio risk in a way that is not possible in direct equity investments.*

Market Capitalization *is calculated as the number of 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.*