MOULTON WEALTH MANAGEMENT INC.

"MOLTEN HOT" MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of January 25, 2021

Per a disaster declaration by Governor Inslee, all gatherings of 5 or more are suspended. If you were planning to attend a seminar and don't wish to wait until there is a change in the restrictions please call the office for a free Financial Physical.

George Friedman writes a research note called Geopolitical Futures. A recent note analyzed the U.S. economy's recovery in light of the jobs numbers. We thought it worthy of exploration.

For background, December brought us -140,000 net job losses for the month. That's the largest decline since last April, during the heart of initial lockdowns. Were these all restaurant and bar workers? Unlikely since those businesses have already faced restricted conditions for months. The travel industry is also an unlikely candidate since it is, if anything, improving.

More likely these losses are across a more diverse swath of industries.

Why are they cutting so much now? After all, it's reasonable to assume we've adjusted to a Covid-19 economy. In fact, with a new President Biden already elected before these December job decisions were made, one might argue that a new flood of free money would boost the economy ever more. Certainly this should tide us over until the vaccines "fix" the problem.

Regardless the -140,000 net jobs lost were the result of decisions made by business looking forward into 2021. These businesses, one would expect, have a profound understanding of their customer's appetite for goods and services.

Think about it. Most successful businesses already control costs; especially in this environment. The only remaining way to cut their expenses is by cutting employees. They don't take this step lightly, especially since the remaining employees, after nine months of Covid-19, are likely considered more valuable.

What are these businesses seeing that others are not?

First may be the fear that massive government money printing has only deferred an economic crisis. And deferring is not the same as preventing. Could it be that this deferment only acts as someone holding down the lid on a boiling pot?

It works, until it doesn't.

And then ***'boom!'***

Second may be uncertainty around the vaccination program. Vaccinating 330 million people in the U.S. is without doubt, a daunting task. The fact that no one knows when we can return to life as normal, including all its predictability, creates a certain level of uncertainty that requires a defensive stance.

Time is of the essence for many of these businesses if they are to survive.

Most economists and talking heads assure us that the market is looking forward to a bright future just around the corner. But it's wise to judge what someone thinks by their actions more than their words.

By their actions, businesses are at best not convinced; certainly not as much as the stock market. Mr. Friedman sums it up as follows:

At this point it's not the virus that scares business; it is that there is no way to grasp the amount of time it will take to get past it. And that is the major pressure weighing on the economy.

For now the pressure is being contained.

But remember, mounting pressures can explode.

We continue to be vigilant.

Do you have a defensive plan?

Protect your health and your wealth.

Where are you getting your advice?

Are they fiduciaries?

Are they a Certified Financial Planner™?

Do they have a background in accounting, tax, finance?

Do they review all areas of your financial life (like income taxes, risk management, estate planning) or just talk about stocks?

Who benefits most from their "advice"?

We are in the early stages of a financial crisis, fueled by massive leverage (debt) that could make 2008 look tame in comparison.

The virus was not predictable, but it is just the pin that pricked the bubble.

Don't let anyone tell you that "no one saw this coming".

Anyone paying attention should have seen this coming.

If you're not a client, what is your advisor telling you about our current situation? If your advisor is not discussing these issues with you, shouldn't (s)he be? How much work do you think it takes to keep up on all of this as we try to do, and how much easier do you think it would be to simply repeat over and over…

- Never sell
- You can't time the market
- You're a long term investor
- The market always comes back
- Etc., etc., etc.

Are you being told to stay invested after thoughtful analysis of world events, stock valuations, economic considerations, etc.? Or are you being told to stay invested due to a lack of thoughtful analysis of world events, stock valuations, economic considerations, etc.?

It's your money and it's your retirement.

Being told after the fact that 'everyone lost money' may make you feel better but it won't help pay your utilities.

Be careful.

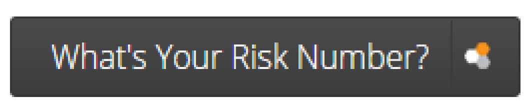
If you didn't like what happened to your portfolio in the dot.com bubble or the financial crisis bubble, but you've made no moves to change the way you invest, now may be the time to seriously consider your process – NOT after the market, and your portfolio, have crashed.

Break the cycle and make your portfolio decision based on where we are likely headed, not on where we've recently been.

If we can help, call our office now and set up a no obligation review.

We think investing today must include a defensive strategy and system. It's this system that helps us decide when "enough is enough" and that it is time to protect your portfolio. If you don't have a system you should consider it now. Regardless of what happens over the next week, month or several months, stocks are overvalued in our opinion and eventually they will reset with a significant market decline.

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.



On to this week's data…

U.S. Markets: The major indexes moved higher for the week, hitting new intraday highs before a pullback on Friday. The Dow Jones Industrial Average rose 183 points closing at 30,997 - a gain of 0.6%. The technology-heavy NASDAQ Composite surged 4.2% to 13,543. By market cap, the large cap S&P 500 rose 1.9%, while the midcap S&P 400 and small cap Russell 2000 added 1.6% and 2.1%, respectively.

International Markets: Major international markets finished mixed for the week. Canada's TSX declined -0.4% along with the United Kingdom's FTSE which gave up -0.6%. On Europe's mainland, France's CAC 40 declined -0.9% while Germany's DAX gained 0.6%. In Asia, China's Shanghai Composite rose 1.1% and Japan's Nikkei gained 0.4%. As grouped by Morgan Stanley Capital International, developed markets rose 1% while emerging markets gained 2.7%.

Commodities: Precious metals rose last week, with gold rising 1.4% to $1856.20 per ounce and silver adding 2.8% to $25.56. West Texas Intermediate crude oil had its first down week in three declining -0.3% to $52.27 per barrel. The industrial metal copper, viewed by some as a barometer of world economic health due to its wide variety of uses, ended the week up 0.7%.

U.S. Economic News: The number of Americans applying for first-time unemployment benefits fell slightly last week, but remained stubbornly high. The Labor Department reported initial jobless claims declined by 26,000 to a seasonally-adjusted 900,000 last week. Economists had expected a reading of 925,000. For perspective, claims had been running in the low 200,000's just before the pandemic took hold. Continuing claims, which counts the number of people already receiving benefits, declined by 127,000 to 5.18 million. That number is reported with a one-week delay.

Confidence among the nation's homebuilders remained strong but ticked down as coronavirus cases rose and the cost of building materials increased. The National Association of Home Builders' (NAHB) reported its monthly confidence index dropped 3 points to 83 in January. Economists had expected a reading of 85. Still, the index remains far above 50—the dividing line between growth and contraction. In the details, the index that measures sentiment regarding current sales fell 2 points to 90, while the index of expectations of future sales also declined 2 points to 83. The gauge regarding prospective buyers slipped 5 points to 68. By region, confidence weakened the most in the Northeast, followed by smaller declines in the West and South. Confidence ticked up 2 points in the Midwest.

The Census Bureau reported home builders started construction at a seasonally-adjusted annual rate of 1.67 million in December - a 5.8% increase over November. Furthermore, permitting of new homes, an indicator of future building activity, rose by 4.5%. Both figures came in above analysts' expectations reflecting growth in the single-family sector. On a monthly basis, single-family starts were up 12%, while single-family permits were up 7.8%.

On a regional basis, all parts of the country saw permitting activity increase except for the Northeast, where it fell 7.2%.

The U.S. economy got off to a good start in 2021 according to a pair of surveys from analytics firm IHS Markit. Markit reported its purchasing managers' indexes (PMI) for both the services and manufacturing sides of the economy improved this month. The PMI for the much larger services side of the economy rose to a two-month high of 57.5 in January, an increase of 2.7 points. Furthermore, the PMI for the manufacturing side of the economy climbed 2 points to a record 59.1. Of concern, however, was that hiring was especially soft among services companies (which employ more than 80% of America's workforce). Chris Williamson, chief IHS business economist stated, "U.S. businesses reported a strong start to 2021, buoyed by hopes that vaccine developments will mean the worst of the pandemic is behind us, and that the new administration will provide a stable and supportive environment for stronger economic growth."

Factory activity in the mid-Atlantic region surged at the beginning of the year to its highest level since the pandemic began, according to data from the Philadelphia Federal Reserve. The Philly Fed reported its business conditions index jumped to 26.5 in January—a 17.4 point increase from December. The reading was far above the consensus forecast of 10.5. In the details, the six-month outlook rose to 52.8, from 43.1 last month. New orders, employment and shipments all jumped in January. Of concern, there were signs of inflationary pressures in the supply chain. Manufacturing has been a bright spot in the U.S. economy as it's more insulated from the stringent social distancing guidelines that weigh heavily on the services sector. Oren Klachkin, lead U.S. economist at Oxford Economics wrote in a note, "Looking ahead, manufacturing will stay on an upbeat track though we expect growth to soften as vaccines and the economy's reopening unleash pent-up demand for deeply-damaged services."

International Economic News: Bank of Canada governor Tiff Macklem said at a news conference that Canada's economy is flush with enough stimulus to survive the current downturn and doesn't need additional help from monetary policy. Macklem said policy makers considered whether more measures were needed to stimulate growth, including a cut of their 0.25% overnight policy rate, but determined that "we have a considerable amount of stimulus in place." The bank is expecting a quick recovery from a shrinking economy in the first quarter of 2021, to extraordinarily strong growth of 4% in 2021 and 5% the year after.

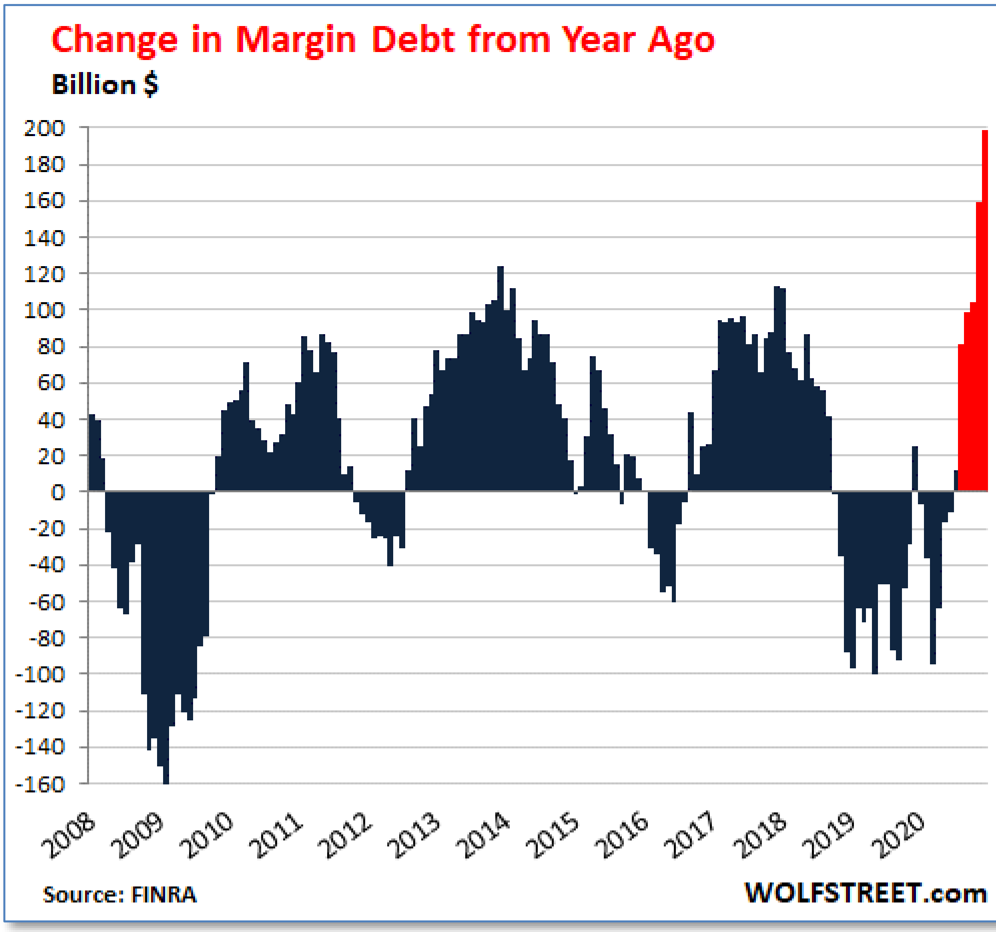
Across the Atlantic, the Bank of England's chief economist Andy Haldane made a similar forecast stating he expects Britain's economy to begin to recover "at a rate of knots" [a British idiom for "very fast"] from the second quarter of this year, as vaccines against COVID-19 continue to roll out. Haldane said the huge economic shock delivered by the initial lockdown in March and April last year, when output fell 25%, was likely to prove more transient than the 2008-09 global financial crisis that generated a large overhang of bad debts. Britain is now rolling out vaccines faster than almost anywhere else in the world and the government hopes to be able to ease restrictions significantly by Easter and rein in costly economic support measures. "If we get that recovery that I expect to start coming on stream, probably at a rate of knots from the second quarter, that will hopefully...improve the prospects of re-employment," Haldane said.

On Europe's mainland, business activity in the Eurozone fell to a two-month low this month, preliminary data from Markit showed. The region is grappling with growing COVID-19 infection rates and tighter restrictions as an apparent new strain of the virus spread. Markit's flash composite PMI for the euro zone, which looks at activity across both manufacturing and services, dropped to 47.5 January, versus 49.1 in December. A reading below 50 represents a contraction in activity. Chris Williamson, chief business economist at IHS Markit, said a double-dip recession for the Eurozone was looking "increasingly inevitable." "Tighter Covid-19 restrictions took a further toll on businesses in January," he said in a statement. European Central Bank President Christine Lagarde acknowledged that the pandemic still posed "serious risks" to the bloc's economy.

Just over a year after the world's first coronavirus cases were identified in China, the country's economy has bounced back from the pandemic. China's economy grew by 2.3% last year, according to data from the country's National Bureau of Statistics. The steady economic recovery was largely expected, and puts China on a track that other countries haven't achieved. Nicholas Lardy, a China specialist at the Peterson Institute of International Economics stated, "It's likely that China could be the only major economy that has significant positive economic growth in 2020." China also reported a record $75.4 billion surplus in November, after exports to the rest of the world jumped 21.1% compared to the previous year. Despite the tariffs imposed by former U.S. President Donald Trump, much of that increase was accounted for by exports to the United States.

Japan's government maintained its view that the Japanese economy is "picking up" in its assessment for January, despite growing fears that the latest state of emergency imposed this month over the novel coronavirus could deal it a fresh blow. In its monthly report, the Cabinet Office revised its views downward on private consumption and corporate business sentiment amid a third wave of virus infections. On a positive note, the report also showed an upgrade of its assessments of business investment and housing construction as the initial shock of the pandemic on the world's third-largest economy has eased. "The Japanese economy is still in a severe situation due to the novel coronavirus, but it is showing movements of picking up," the office said, using the same wording for the seventh month in a row.

Finally: Video game retailer GameStop (a recent stock of interest for internet day traders) surged 51% on Friday and over 83% last week on no news that would remotely justify such a move. That kind of trading action is reminiscent of the height of the dot.com era insanity. Also reminiscent of that time is the current level of margin debt—the amount of money individuals and institutions borrow against their stock holdings in order to buy even more stock. Margin debt spiked by $56 billion in December and $53 billion in November—by far the two largest month-to-month increases on record. Along with spikes in the price of Bitcoin, any electric vehicle maker (or any manufacturers rumored to be thinking about making electric vehicles), and any penny stocks with a similar name to something Elon Musk mentioned in a tweet, now add margin debt as further evidence of a very “frothy” market.



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…

- Have you addressed your investment process and adjusted it for what is going on in the world?
- Do you need a process to help manage losses during the next bear market?
- 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

"We're just a bubble in a boiling pot."

Jack Johnson – Athlete

Yours truly,

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Certified Financial Planner™

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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.

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The Barclays Capital Credit Index *is an unmanaged index composed of U.S. investment-grade corporate bonds.*

The Barclays Global Aggregate Bond Index *(formerly Lehman Brothers Global Aggregate Index), an unmanaged market-capitalization-weighted benchmark, 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, CNBC, FactSet.)