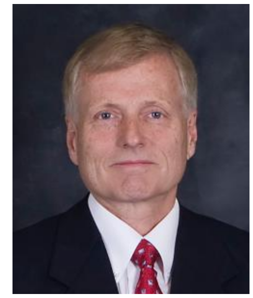
MOULTON WEALTH MANAGEMENT INC.

"MOLTEN HOT" MINUTES



SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of March 22, 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.

Are rising interest rates a problem?

This past week, Fed Chair Powell assured the market that he had no intention of raising interest rates or slowing bond purchases (i.e. money printing).

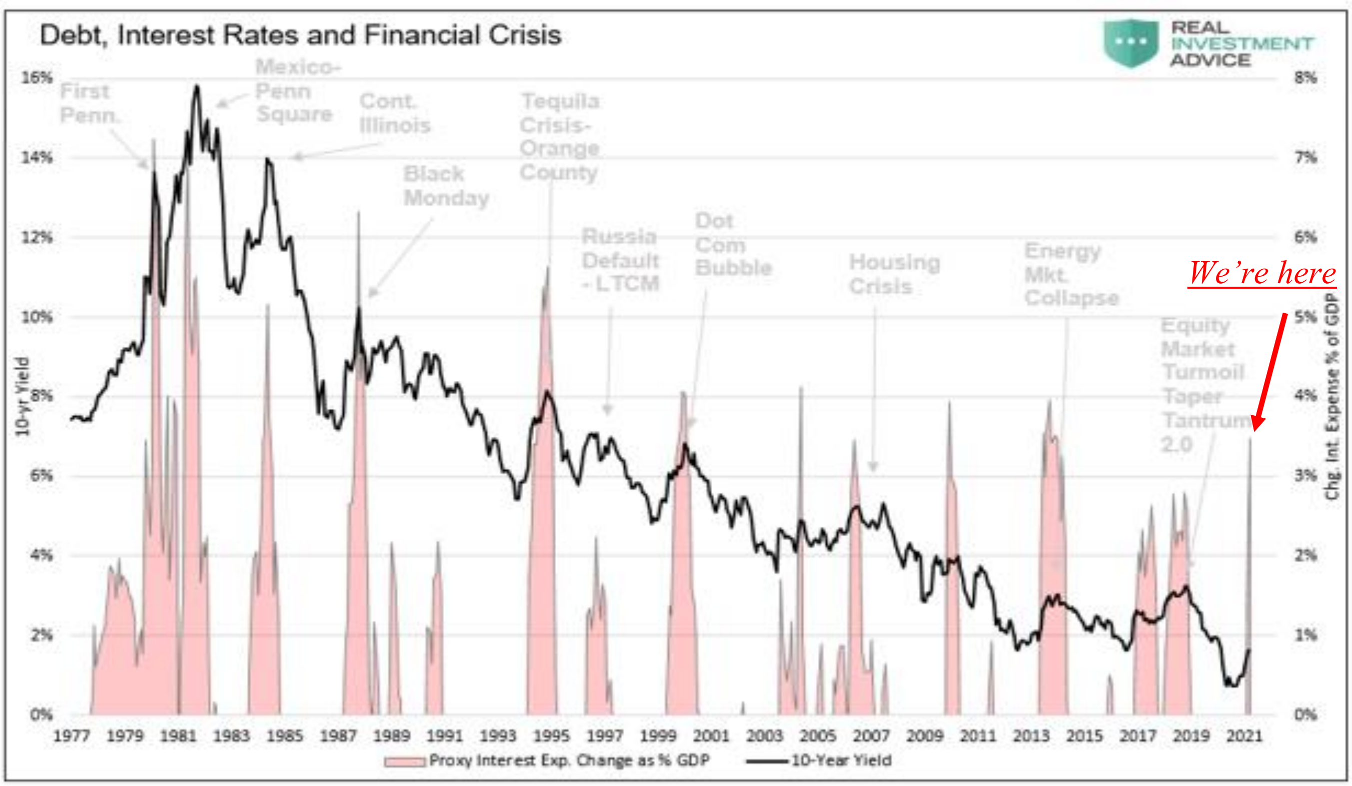
But is it his choice?

The Fed controls the short end of the interest rate curve (think savings account interest rates) but they don't control the long end (think the yield on long term bonds). The long end is controlled by the market. And right now the market is pushing the long end higher.

Should we care?

The long end of the market is a proxy for the interest expenses we pay; mortgage, car loans, credit cards, personal loans, etc.

Historically, a sharp rise in proxy interest expense as a percent of GDP has preceded economic crises. The following chart from Michael Lebowitz of realinvestmentadvice.com tells the story.



The 10 year yield closed at 1.73% last Friday. If it breaches 1.75% by April (which seems like a given at this point), the proxy interest expense should exceed all previous peaks since 1990.

Having said that, could the unbelievable amount of money being printed around the world create a different outcome?

Of all the money (all currencies) in existence around the world, ¼ of it was printed in the last year.

We doubt it.

It could certainly delay any crisis that is waiting to bloom, but it seems unlikely to do so indefinitely.

More debt and more printing won't solve a debt and printing problem.

Participate but protect.

We have a defense, do you?

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"?

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.

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.

What's Your Risk Number?

On to this week’s data…

U.S. Markets: The major indexes continued to hit record highs early in the week, but lost ground as bond yields reached their highest levels in over a year. The Dow Jones Industrial Average shed 150 points finishing the week at 32,627—a decline of -0.5%. The technology-heavy NASDAQ Composite declined a slightly steeper -0.8%. By market cap, the large cap S&P 500 retreated -0.8%, while the S&P 400 mid cap index and Russell 2000 small cap index declined -1.2% and -2.8%, respectively.

International Markets: International equity markets were mixed for the week. Canada’s TSX ended the week essentially flat, while the United Kingdom’s FTSE 100 ended down -0.8%. On Europe’s mainland, France’s CAC 40 also finished down -0.8%, while Germany’s DAX rose 0.8%. In Asia, China’s Shanghai Composite fell for a fourth consecutive week giving up -1.4%. Japan's Nikkei ticked up 0.2%. As grouped by Morgan Stanley Capital International, developed markets and emerging markets each added 0.2%.

Commodities: Precious metals had a second consecutive week of gains with Gold rising 1.3% to $1741.70 per ounce and Silver adding 1.6% to $26.32 per ounce. Crude oil declined for a second week. West Texas Intermediate crude oil retreated -6.4% to $61.44 per barrel. The industrial metal copper, viewed by some analysts as a barometer of global economic health due to its wide variety of uses, finished down -0.7%.

U.S. Economic News: The number of Americans filing first-time unemployment benefits rose to a one-month high last week, according to the Labor Department. Initial jobless claims increased by 45,000 to 770,000 in the week ended March 13. Economists had forecast new claims would fall to a seasonally-adjusted 700,000. Combined state and federal jobless claims totaled 1.02 million last week. They've yet to fall below 1 million since the onset of the pandemic last year, underscoring the massive damage to the U.S. economy caused by the coronavirus. The number of people already collecting traditional unemployment benefits, meanwhile, slipped a mild 18,000 to a seasonally adjusted 4.12 million. That's the lowest level since last spring.

Sales at U.S. retailers fell 3% in February the Census Bureau reported, but analysts expect the decline to be short-lived as the government begins sending stimulus checks to most Americans. Economists had forecast a small decline of just -0.1% in retail sales. In the report, sales fell in every major retail group except for groceries and gasoline, two major household staples. Sales at gas stations climbed 3.6% last month, largely due to higher prices at the pump. U.S. economist Andrew Hunter of Capital Economics wrote in a note, "With the next round of even larger stimulus checks already being sent out, we expect spending to see a renewed surge in March."

Confidence among the nation's home builders dipped to its lowest level since late last summer as concerns grow about the rising cost of building materials and higher interest rates. The National Association of Home Builders (NAHB) reported its monthly confidence index dropped two points to 82 in March—its lowest reading since August. Robert Dietz, chief economist at the NAHB said in the report, "Builder confidence peaked at a level of 90 last November and has trended lower as supply-side and demand-side factors have trimmed housing affordability." Sentiment declined across most parts of the country. The index fell in the West, Midwest, and Northeast, but remained flat in the South.

Manufacturing activity in the New York region hit an eight-month high this month, according to the latest data from the New York Federal Reserve. The New York Fed reported its Empire State Manufacturing Index rose 5.3 points to a reading of 17.4 in March. The result beat the consensus forecast of 15. The index sits at its highest level since last July and recorded its ninth consecutive reading above zero. In the details, the new orders index slipped 1.7 points to 9.1, while shipments surged 17.1 points to 21.2. Of note, the prices paid index rose 6.6 points to 64.4 in March—its second consecutive month of hitting a 10-year high.

The Federal Reserve announced its intention to remain in a holding pattern this week, saying it didn't anticipate raising interest rates until the end of 2023—despite signs of stronger economic growth and a pick-up in inflation. In its forecasts, the Fed sees GDP growth this year of 6.5% annual rate and said core inflation would rise slightly above its 2% target. In its assessment of appropriate monetary policy, seven of 18 Fed officials have penciled in a rate hike in 2023, up from 5 at the last "dot-plot" in December. Four officials expect a rate hike in 2022, up from one member in the December forecast. The Fed projections see inflation slowing to 2% in 2022 before picking up slightly to 2.1% in 2023. The central bank has said it will tolerate inflation slightly above target to make up for the years inflation has been below 2%.

International Economic News: Canada's response to the COVID-19 pandemic earned praise from the International Monetary Fund. The Canadian government and Bank of Canada's response to the pandemic was "timely, decisive and well-coordinated," the IMF said in a new report. In particular, the organization said Canada's economy would have had a "harmful," "even larger collapse" without emergency benefit spending from the government. Furthermore, the Bank of Canada helped avoid major disruptions in financial markets and is striking the right balance on interest rates, the report stated. However, the report also noted areas that needed improvement. The IMF report suggested Canada should do a broader review of its employment insurance system to address gaps in eligibility. "The crisis exposed gaps in Canada's social safety net that should be addressed," the report said.

Across the Atlantic, the Bank of England upgraded its outlook for the United Kingdom's economy, but stressed it was in no hurry to reduce its support to boost the recovery. In the minutes of March's Monetary Policy Committee (MPC) meeting, the Bank of England followed the footsteps of the United States Federal Reserve in not taking any action to return interest rates to their levels before the pandemic. The MPC said the news "on near-term economic activity had been positive", adding that "recent plans for the easing of restrictions on activity may be consistent with a slightly stronger outlook for consumption growth in 2021 Q2 than was anticipated in the February report".

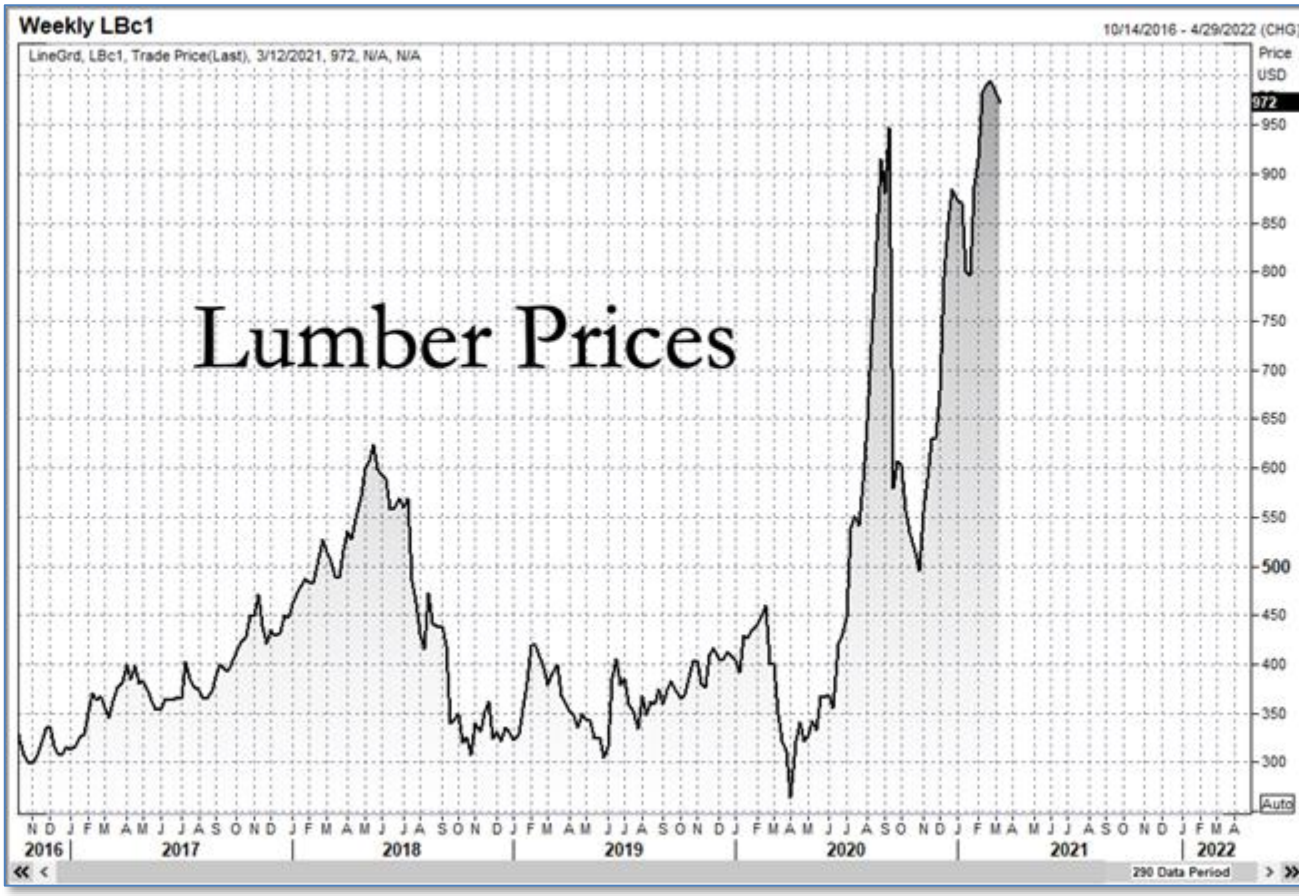
On Europe's mainland, French President Emmanuel Macron has put Paris and other regions under strict lockdown for a third time as hospitals run out of intensive-care beds for COVID-19 patients. Most stores will be required to close other than those selling food and other necessities. Furthermore, travel between regions will be banned. "The pandemic is accelerating," said Prime Minister Jean Castex. "The situation is worsening, and it is our responsibility to act so it does not get out of hand." New daily infections have risen to above 30,000 nationally in recent days, up more than 20% in a week. That is worse than the daily rates of new infections being logged in other countries like Germany at 10,000, Italy at 22,000, and Spain and the UK around 5,000.

The German government's council of economic advisers said it expects Europe's largest economy to shrink by roughly 2% in the first quarter of this year due to lockdown measures to contain the coronavirus. The council cut its full-year 2021 gross domestic product growth forecast to 3.1% from 3.7% previously. It expects the economy to reach its pre-crisis level at the end of 2021 and to grow by 4% next year. "The biggest downside risk remains the development of the coronavirus pandemic. The question how quickly the economy can get to normal mainly hinges on the vaccination progress," the council said in a statement, giving the first official forecast for the impact in the first three months of the year.

In Asia, China's central bank is stepping up liquidity support for domestic businesses and increasing its monitoring of cross-border capital flows as concerns grow over the side effects of Washington's massive new fiscal stimulus. The moves by the People's Bank of China come amid a growing divergence in the economic policy responses by the United States and China—with Washington boosting stimulus while Beijing has already started to taper its support. Beijing officials and policy advisers have been highly critical of US President Joe Biden's newly signed $1.9 trillion American Rescue Plan, warning that it could cause massive capital flows and imported inflation that could exacerbate domestic financial risks. "The [US Treasury bond] yield hike driven by inflation expectations will lead to a revaluation of asset prices, or even turmoil in financial markets. Domestic markets are unlikely to remain unresponsive," Zhang Xiaohui, former assistant governor of the central bank, stated.

Japan made it official: due to coronavirus concerns, no overseas spectators will be allowed at this summer's Tokyo Olympics. The organizers came to the decision during a high-level meeting just five days before the 121-day Olympic torch relay starts in Fukushima Prefecture. The government had already concluded that welcoming overseas spectators for the global sporting event is not feasible, given that the threat from the virus is far from over and fears that foreign travelers could lead to the spread of more contagious variants. About 1 million tickets are believed to have already been sold abroad.

Finally: You think GameStop and Bitcoin trading has been crazy? Maybe not if you've had to buy lumber. In fact, if you are in the market for a new home, you may want to close the deal sooner rather than later. Construction costs are soaring and appear only to be going higher. Lumber prices hit $1000 per thousand board feet, an all-time high in recent weeks, and has risen more than 300% since the pandemic low last spring. Paul Jannke, Forest Economic Advisors LLC.'s principal of lumber said, "Production is going to have a hard time keeping up with demand growth as the world economy bounces back from Covid-19 in 2021-22." So how much are these rising costs adding to a new home's construction cost? The National Association of Home Builders estimates rising lumber prices have added a stunning $24,400 to the cost of a home over the past ten months. Now don't forget to add in the rising price of copper, which has gone up 87% in the trailing year…well, you get the picture. (Chart on the following page is from zerohedge.com)



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

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

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

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

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

WEEKLY FOCUS – THINK ABOUT IT

"Inflation is when you pay fifteen dollars for the ten dollar haircut you used to get for five dollars, when you had hair."

Sam Ewing – Author

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.

https://realinvestmentadvice.com/what-interest-rate-triggers-the-next-crisis/
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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, FactSet.)