MOULTON WEALTH MANAGEMENT INC.

"MOLTEN HOT" MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of June 7, 2021

Per a disaster declaration by Governor Inslee, all gatherings are limited. 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.

"Invest in inflation. It's the only

FINANCIAL PHYSICAL

Due to the Lock Down, Seminars are on hold. If you'd like a phone based Financial Physical, please call…

509-922-3110

OUR FINANCIAL PHYSICALS REVIEW:

1. PROTECTION
2. ESTATE PLANNING
3. TAXES
4. RETIREMENT
5. INVESTMENTS

thing going up."

Will Rogers – Comedian / Actor

Will Rogers lived during much of the Great Depression, dying in a plane crash in 1935 at the age of 55. Of course unlike during the Great Depression, in 2021 the stock market continues higher on a wave of Federal Reserve and fiscal liquidity (i.e. money printing).

Will the inflation showing up in our 2021 numbers be "transitory" as the Fed tells us, or will it end up being more "sticky", as it now includes wage increases on a level not seen in some time? Inflation fueled by wage increases have historically been stickier, as wage increases are difficult to "take back".

We tend to think it will be transitory. But what if we're wrong?

SentimentTrader did research on stock performance during periods of a little known inflation signal, one that applies currently.

The May numbers have been reported and they showed the PPI (Producer Price Index) increased more than CPI (Consumer Price Index) by over 7%, on a year over year basis.

PPI is often thought to lead CPI, as first businesses experience inflation and then they pass it on to consumers. As such the numbers for May are concerning.

Since 1916, during periods when the PPI increase exceeded the CPI increase by 7% or more stocks struggled, to say the least.

The table on the following page is from SentimentTrader's research. What they found were 18 periods when PPI's increase was 7% or more greater than CPI's increase.

- During those times the Dow rose 6 times
- During those times the Dow fell 12 times
- The median increase during the 6 times it rose was +3.8%
- The median decline during the 12 times it fell was -9.9%
- The cumulative losses for the Dow over the 18 periods were -63.9%

So far the market doesn't seem to care about inflation, instead relying on the Fed to keep the party going.

And that might be reasonable.

After all, we're comparing today's numbers against a time when the economy was artificially shuttered due to Covid. As such many economic numbers on a year over year basis

Start PPI-CPI >= 7	End PPI – CPI >= 7	Dow % + (-)
Jan-16	Jan-18	(-11.9%)
Jul-22	Jun-23	(-9.5%)
Jul-33	Aug-34	+2.3%
Sep-34	Oct-34	+0.8%
Jan-35	Feb-35	+0.7%
Jul-41	Dec-41	(-13.8%)
Jan-42	May-42	(-7.5%)
Aug-46	Oct-46	(-10.6%)
Nov-46	Aug-47	+5.3%
Oct-47	Nov-47	(-1.3%)
Dec-50	Jul-51	+9.5%
Jun-73	Aug-73	(-0.5%)
Sep-73	Jan-74	(-9.7%)
Feb-74	Apr-74	(-2.8%)
Aug-74	Sep-74	(-10.4%)
Oct-74	Feb-75	+11.0%
Apr-08	Nov-08	(-31.1%)
Jul-11	Sep-11	(-10.1%)
Apr-21	?	?

are arguably skewed. Also the fiscal and Central Bank support is unparalleled in history outside possibly of World War II.

But even if you believe the inflation is skewed and/or transitory, it bears watching and possibly taking steps to protect yourself.

Participate but protect.

Does the investment plan include a sell strategy to protect your downside?

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.

On to this week's data…

U.S. Markets: The major U.S. indexes closed moderately higher in a shortened trading week. Energy shares performed best within the S&P 500 Index as oil prices reached their highest level in two years. The Dow Jones Industrial Average added 227 points to finish the week at 34,756 - a gain of 0.7%. The technology-heavy NASDAQ Composite rose 0.5% to 13,814. By market cap, the large cap S&P 500 gained 0.6%, while the mid cap S&P 400 finished the week flat, and the small cap Russell 2000 added 0.8%.

International Markets: Canada's TSX booked its third consecutive week of gains by adding 0.9%, while the United Kingdom's FTSE 100 rose 0.7%. On Europe's mainland, France's CAC 40 gained 0.5% and Germany's DAX added 1.1%. In Asia, China's Shanghai Composite finished down -0.2%, while Japan's Nikkei ended down -0.7%. As grouped by Morgan Stanley Capital International, developed markets finished the week up 1.1%, while emerging markets gained 2%.

Commodities: Gold had its first down week in five, giving up 0.7% to $1892.00 per ounce. Likewise, Silver retreated -0.4% to $27.90. Crude oil hit new highs for the year. West Texas Intermediate crude rose 4.9% to $69.62 per barrel. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, finished the week down -3.2%.

U.S. Economic News: The number of Americans filing for first-time unemployment benefits fell below 400,000 for the first time since the coronavirus pandemic took hold more than a year ago. The Labor Department reported initial jobless claims dropped by 20,000 to 385,000 in the week ended May 29th. It was the fifth consecutive decline in initial jobless claims. Economists had forecast new claims would slip to 393,000. Of note, new unemployment claims remain almost twice as high as they were before the pandemic--new applications had been running in the low 200,000s before the viral outbreak in early 2020. Continuing claims, which counts the number of Americans already receiving benefits, rose by 169,000 to 3.77 million. That number is reported with a one-week delay. Ian Shepherdson chief economist of Pantheon Macroeconomics stated, "Claims remain elevated by normal standards, but the downward trend has been relentless in recent months, and a return to the pre-Covid level, in the low 200,000s, over the summer seems a decent bet."

The U.S. added a modest 559,000 jobs in May, falling short of Wall Street expectations. Economists had forecast 671,000 new jobs would be created. The unemployment rate, meanwhile, slipped in May to a pandemic low of 5.8% from 6.1%. Economists say early retirements, a lack of child-care options, lingering fear of the coronavirus and generous unemployment benefits explain why more people haven't returned to work. The bulk of the new jobs in May were created by the businesses that suffered the biggest declines in employment during the pandemic. Restaurants added 186,000 new jobs last month as more Americans went out to eat. Other service-oriented businesses such as hotels, museums, parks and entertainment venues also added scores of new jobs. However, employment shrank in construction and retail. Home builders still can't find enough skilled tradespeople despite an industry boom.

American manufacturers have been flooded with new orders for all sorts of goods, but they are struggling to keep up amid widespread shortages of materials and labor. The Institute for Supply Management (ISM) reported its manufacturing sector index rose 0.5% to 61.2% in May. Economists had expected a reading of just 60.7%. Yet the ISM manufacturing report showed production and hiring actually slowed and companies fell further behind in filling new orders. Backlogs rose to the highest level on record. Economists state the economy is recovering so rapidly from the coronavirus pandemic that big strains are being put on many companies. Nor is demand expected to slow down anytime soon. A measure of future activity, new orders, rose to 67% - near a 17-year high.

On the vastly larger services side of the U.S. economy, ISM reported its survey of businesses such as retailers, restaurants, and hotels climbed 1.3 points to a record high of 64% last month. Readings above 50 signal expansion, while those above 60 are considered exceptional. "The rate of expansion is very strong, as businesses have reopened and production capacity has increased" said Anthony Nieves, chairman of the survey. Economists had forecast the index would total 62.5%. All 18 service industries tracked by ISM expanded last month - a rarity. The indexes for production and new orders both increased and topped the 60% mark, pointing to an explosion in demand.

The Federal Reserve's 'Beige Book', a collection of anecdotal reports from each of its member banks, sees a pickup in U.S. economic growth in its latest report. The U.S. economy expanded at a "moderate pace" in April and May as consumer spending picked up and manufacturing activity increased, the report found. In the report, the St. Louis Fed noted, a job fair held by a dozen restaurants to find 100 workers drew barely a dozen applicants, while the Atlanta Fed reported firms in their region believed labor shortages would abate this fall.

International Economic News: Data released last week showed that Canada's economy likely contracted in April, its first decline in a year, due to widespread lockdowns amid a third wave of coronavirus infections. In its preliminary estimate, Statistics Canada said the economy contracted 0.8% in April. Real GDP had grown 11 months in a row through March, when it grew 1.1%. Economists said the April decline was largely expected and is unlikely to change the Bank of Canada's outlook for interest rate hikes. The Canadian economy grew 5.6% on an annualized basis in the first quarter, as restrictions were eased, and buoyed by strong housing investment and more mortgage debt. The gain missed analyst expectations of 6.7%.

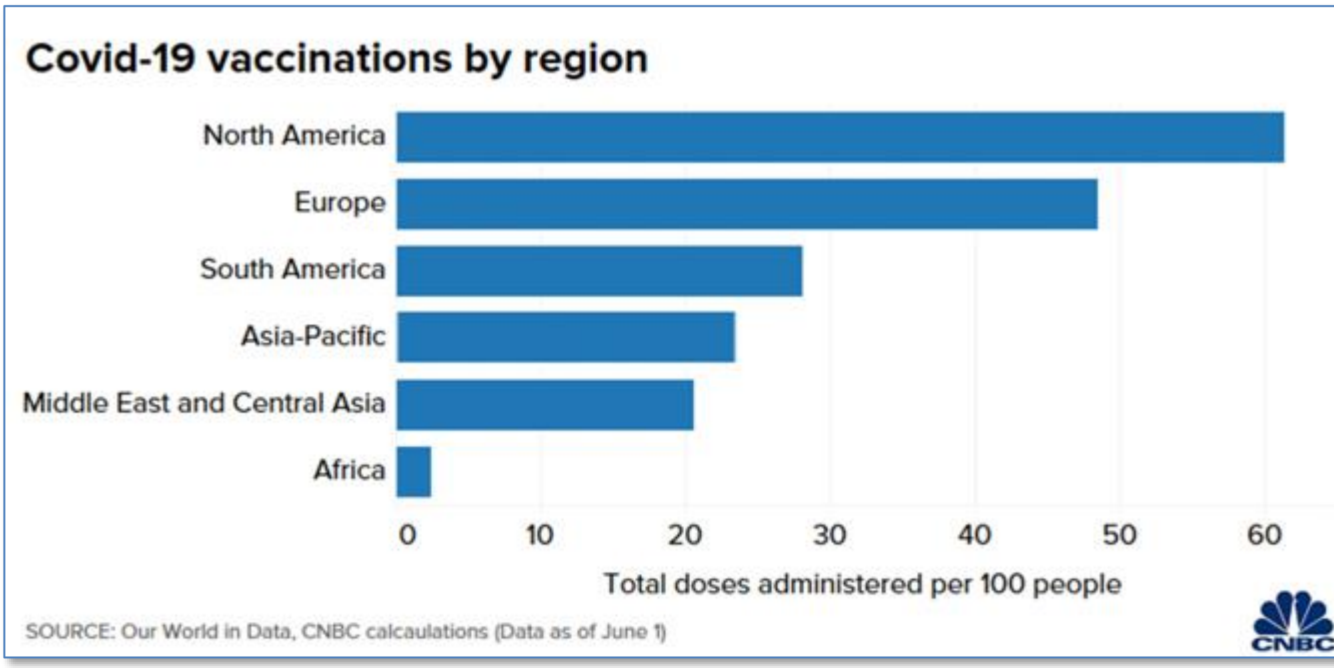
Across the Atlantic, Britain has clinched post-Brexit trade agreements with Norway, Iceland and Liechtenstein as it seeks to forge new global trading relationships after leaving the European Union. Under the deal with Norway, import tariffs on Norwegian fish and seafood, its second-largest industry after oil and gas production, would be reduced, with no tariffs due on white fish, such as cod--a benefit for the fish processing industry in the north of England. The main focus of Britain's post-Brexit trade policy has been to pivot its economic center away from Europe and towards fast growing economies in the Asia-Pacific region. It is expected to seal a deal with Australia later this month and is seeking to join a trans-Pacific trade pact.

On Europe's mainland, the EU's four biggest economies have raised the pressure for a landmark agreement to be reached at G7 meetings in London intended to curb tax abuse by multinational companies. Sending a united message, the finance ministers of France, Germany, Italy and Spain said a critical moment had been reached to strike a blow against tax avoidance as governments around the world attempt to rebuild from the Covid-19 pandemic. Two days of talks between G7 finance ministers are underway to reach a breakthrough agreement to raise more tax from companies such as Google, Facebook, Amazon and other global giants.

In Asia, China's Vice Premier Liu He and U.S. Treasury Secretary Janet Yellen spoke this week for the first time since President Joe Biden took office. Both the U.S. and China said the two leaders talked about the economy and cooperation, and "frankly" discussed issues of concern. Yellen discussed the Biden administration's plans to "support a continued strong economic recovery and the importance of cooperating on areas that are in U.S. interests." Liu and Yellen agreed the two countries' economic relationship is "very important," Chinese state media said, according to a CNBC translation. Despite the hoopla, neither side shared further details on the conversation. The world's two largest economies have remained close trading partners despite geopolitical tensions.

Japan's economy likely shrank slightly less than initially estimated in the first quarter, a recent poll showed, though state of emergency curbs to combat the coronavirus pandemic are seen keeping any rebound in the current quarter modest. Revised gross domestic product (GDP) data will likely show the world's third-largest economy shrank an annualized 4.8% in January-March, less than a preliminary reading of a 5.1% drop, according to economists. Despite the upward revision, many analysts remain cautious about Japan's economic outlook as extended state of emergency curbs weigh on consumption. Saisuke Sakai, an economist at Mizuho Research & Technologies stated, "We expect Japan's economy to suffer two straight quarters of contraction in April-June as chip supply shortages hurt car output and state of emergency curbs weigh on consumption."

Finally: As COVID-19 vaccination efforts continue here in North America, how exactly are we doing relative to the rest of the world? It turns out, actually pretty well. North America has now reached approximately 60% of its population vaccinated, followed closely by Europe at 48.5% of its population. Surprisingly, the Asia-Pacific region has one of the lowest vaccination rates in the world. Analysts report that skepticism over the newly developed vaccines seems to be the common reason for hesitance everywhere, but even more so in Asia where fairly effective containment in the very early stages of the Covid-19 crisis seems to have led to a lower current sense of urgency. Africa, at less than 5%, is reportedly stymied by a triple-whammy of suspicious populations, under-developed distribution networks and widespread shortages of vaccines. (Chart from CNBC)



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

"Some idea of inflation comes from seeing a youngster get his first job at a salary you dreamed of as the culmination of your career."

Bill Vaughn – 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://www.google.com/search?source=univ&tbm=isch&q=inflation+quote&sa=X&ved=2ahUKEwi9to-I5oPxAhViFjQIHQz3CgQQ7Al6BAgGEF8&biw=1920&bih=981#imgrc=6W6R4viF5eFk6M
https://sentimentrader.com/blog/a-worrisome-and-little-known-inflationary-warning-sign/
http://thinkexist.com/quotation/some_idea_of_inflation_comes_from_seeing_a/161585.html

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.)