MOULTON WEALTH MANAGEMENT INC.

"MOLTEN HOT" MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of June 14, 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.

Raoul Pal of GMI calls the U.S. long term bond chart (of yields) the "Chart of Truth". He says this because the bond market is generally accepted as "smarter money" than the stock

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:

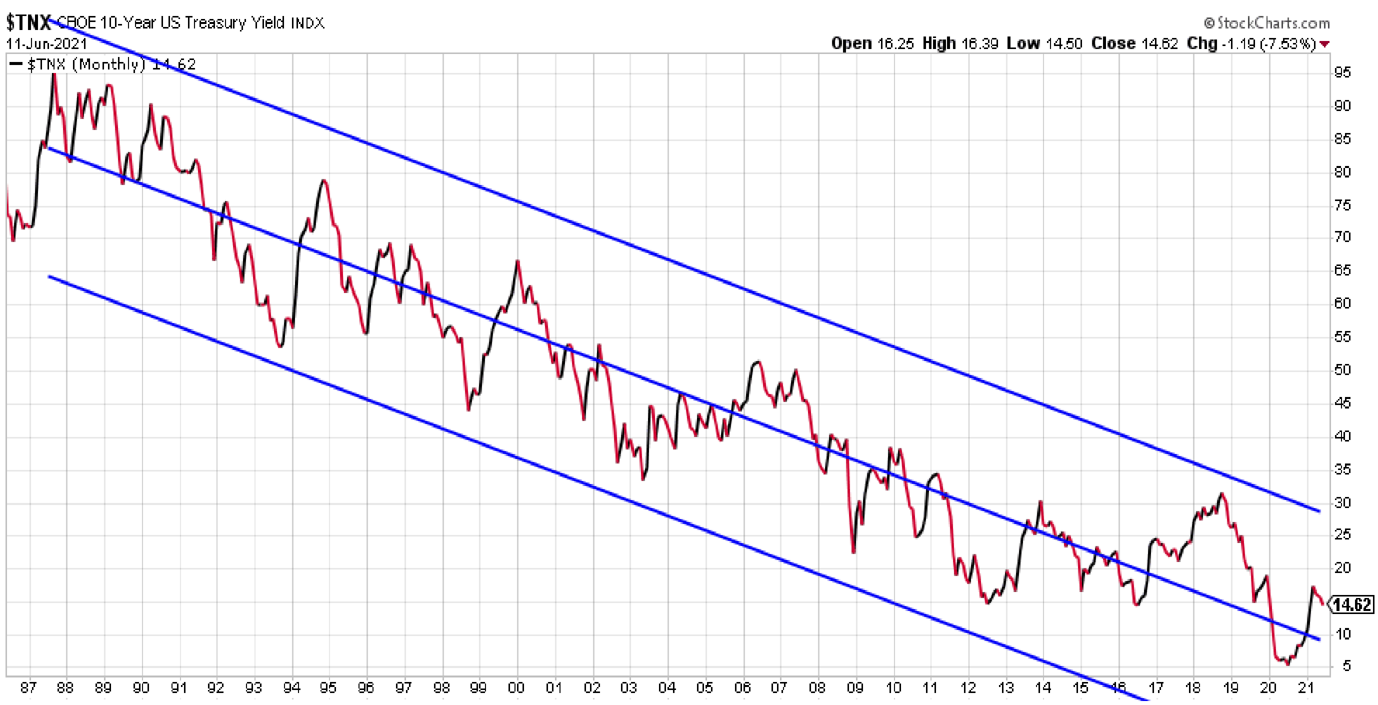
1. PROTECTION
2. ESTATE PLANNING
3. TAXES
4. RETIREMENT
5. INVESTMENTS

market.

Last week we discussed inflation and that we still think the recent high readings will moderate later this year. And last week the bond market may have sent a signal that it agrees.

Generally, if the bond market fears inflation, it demands higher yields, not lower, as the money returned at maturity won't buy as much. But after the highest inflation reading in 13 years, long term treasury yields fell – *the opposite response from what would be expected if inflation were feared by bond investors.*

Looking long term we also don't see anything from the bond market implying an imminent spike in inflation. The generational decline in bond yields, starting some four decades ago,



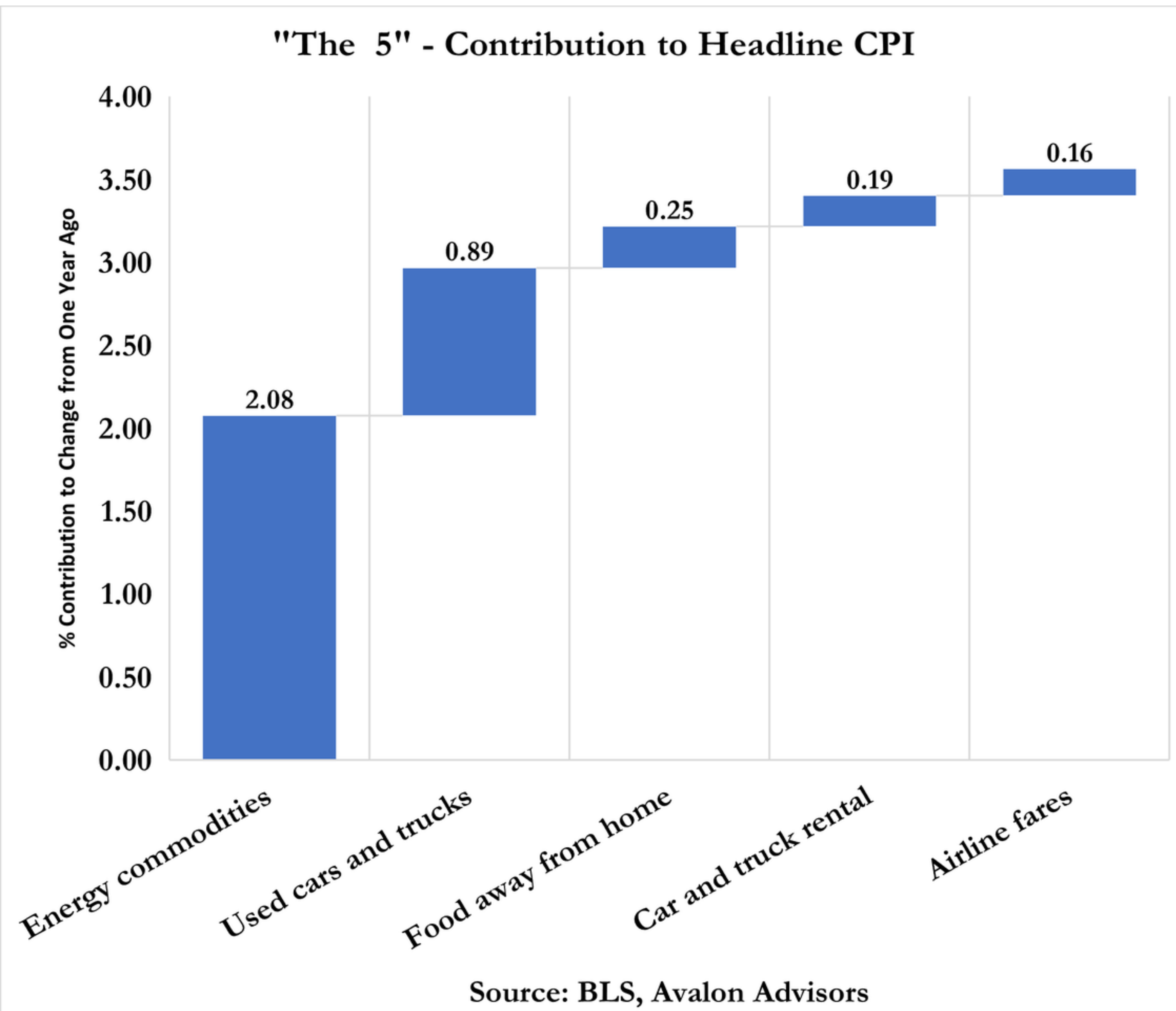
continues.

Samuel Rines, Chief Economist at Avalon Investors, tells us that there are five components to the official CPI readings that we should all pay attention to. These five items account for 70% of the total CPI inflation calculation.

The five components are:

1. Energy commodities
2. Used cars and trucks
3. Food away from home
4. Car and truck rental
5. Airline fares

What's most interesting about these five items is that all would have been expected to be highly impacted by the worldwide Covid shutdowns.



We've discussed "base effects" in the past. This just means that when measuring an increase or decrease of anything, it is by definition against a previous level. So just as growth, earnings, etc. are said to be up or down xx% year over year, so is inflation. As such, we are now comparing prices to a year ago when much of the world was in shutdown. In fact, June of 2020 was the low water mark for inflation meaning that even a "reasonable" increase should look big when compared to that low water mark.

Certainly all price increases won't magically go away and we likely will see a new price regime in many items, but the rate of increase should moderate as the year proceeds.

This week the Fed will have their June meeting after which Fed Chair Powell will be interviewed by journalists. It's unlikely that his tune will change.

But we shall see.

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.

Advisory services through Moulton Wealth Management, Inc., an independent Registered Investment Advisor registered with the SEC

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: A sharp decrease in longer-term bond yields appeared to help push the S&P 500 Index to a record high in a week of relatively light summer trading. The technology-heavy NASDAQ Composite Index outperformed, rising 1.8% to 14,069, marking its fourth consecutive weekly gain, while the narrowly focused Dow Jones Industrial Average recorded a modest loss of -0.8% closing at 34,480. By market cap, the large cap S&P 500 rose 0.4%,

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while the mid-cap S&P 400 and small-cap Russell 2000 finished the week up 0.9% and up 2.2%, respectively.

International Markets: Canada's TSX rose 0.5%, while the United Kingdom's FTSE added 0.9%. On Europe's mainland, Frances CAC 40 rallied 1.3%, while Germany's DAX finished the week unchanged. In Asia, China's Shanghai Composite ticked down -0.1% and Japan's Nikkei rose just 7 points to 28,949—a negligible percentage gain. As grouped by Morgan Stanley Capital International (MSCI), emerging markets retreated -0.8%, while developed markets added 0.5%.

Commodities: Precious metals finished the week mixed. Gold retreated -0.7% to $1879.60 per ounce, while Silver rose 0.9% to $28.15 per ounce. Crude oil continued to break out to the upside rising for a third consecutive week. West Texas Intermediate crude oil finished the week up 1.9% to $70.91 per barrel. The industrial metal copper, viewed by some analysts as a barometer for global economic health due to its wide variety of uses, retraced some of last week's decline finishing the week up 0.2%.

U.S. Economic News: The number of job openings rose to a record high, but employers say they can't find enough workers to fill them. The Labor Department reported job openings soared to 9.3 million in April, from a revised 8.3 million in the prior month. Many companies, both big and small, have reported difficulty finding qualified workers. The surprising difficulty in getting people to return to work is tied to a number of problems, economists say. They blame a wave of early retirements, a lack of child-care options, a lingering fear of the coronavirus and generous unemployment benefits. To add fuel to the fire, a record number of people are quitting their jobs. Nearly 4 million people quit in April—double the number from the same time last year. The so-called "quits rate" rose a tick to a record 2.8% among private-sector employees. The quits rate is rumored to be the Federal Reserve's preferred gauge of the health of the labor market as it is assumed that an employee would only quit a job in favor of a more lucrative one. At the height of the coronavirus crisis, the quits rate had fallen to a seven-year low of 1.8%.

Small business owners reported the labor shortage across the nation is holding back growth. The National Federation of Independent Business (NFIB) stated its small-business index fell for the first time this year over growing labor and inflation worries. The index slipped 0.2 points to 99.6. Business owners say they are losing sales because they can't find enough people to fill open positions. And now, rising inflation is adding to their worries. In the details of the report, NFIB - the nation's largest small-business lobbying group - said a record 48% of small businesses surveyed could not fill open jobs, even with many of them offering higher pay. "The labor shortage is holding back growth for small businesses across the country," said NFIB chief economist Bill Dunkelberg. The businesses that have raised wages in an effort to lure more workers say they plan to pass higher labor costs on to customers, potentially adding upward pressure to U.S. consumer prices. The percentage of businesses raising prices *rose to the highest level since 1981*.

The cost of living surged again last month, as the pace of inflation soared to a 13-year high of 5%, reflecting the broad increase in prices across the U.S. economy. The consumer price index jumped 0.6% last month to mark the fourth large gain in a row, the government reported. Economists had expected a gain of 0.5%. The rate of inflation over the past year escalated to 5% from 4.2% in the prior month. That put it at the highest level since 2008, a time when the cost of oil hit a record $150 a barrel. Prior to that, the last time inflation was this high was in 1991. Another closely watched measure of inflation that omits volatile food and energy also shot up 0.7% in May. The so-called "core" 12-month rate of inflation climbed to 3.8% from 3%, *a 29-year high*. The Federal Reserve insists price pressures will subside once the U.S. and global economies regain a more normal footing. The upsurge in inflation is mostly tied to temporary shortages that will fade away as supply catches up to demand, senior Fed officials say.

Sentiment among the nation's consumers rebounded this month after falling precipitously in May. The University of Michigan reported its (preliminary) index of consumer sentiment rose 3.5 points to 86.4 this month. Economists had forecast a reading of 84.4. In the report, the sub-index that measures how consumers feel about the economy right now rebounded to 90.6 in June from 89.4 last month, due to rapid job gains in recent months. Consumer optimism about the next six months rose to 90.6 in May to 89.4 in the prior month. In a note to clients, Robert Frick, corporate economist with Navy Federal Credit Union wrote, "June's Consumer Sentiment Survey was mixed, just like how the recovery is playing out. While consumers are rightly frustrated with the current high price of houses, cars and durable goods, they recognize that job growth has finally started moving decisively in the right direction."

International Economic News: With Canada's COVID-19 vaccine rollout steadily underway, Canadians can start to look forward to their world returning to normal. The Conference Board of Canada is forecasting a 6.1% increase in real gross domestic product (GDP) in 2021, and a further increase of 3.5% real GDP in 2022, according to its latest report. Pedro Antunes, chief economist at the Conference Board of Canada stated, "Strong activity in the resource sector, manufacturing, and construction has allowed for an upward revision to our growth forecast for 2021 from what we released in our spring Canadian outlook." By province, Alberta is expected to have among the strongest recoveries as resource production and manufacturing begin to resume normal operations--and global gas prices stabilize after a major downturn in 2020 and early 2021. Prince Edward Island is also expected to have a quicker recovery, as it had relatively fewer COVID-19 cases during the pandemic.

Across the Atlantic, the United Kingdom's Office for National Statistics (ONS) reported the UK economy grew by 2.3% in April as the easing of COVID-19 lockdown measures fueled a rebound in consumer spending. The ONS reported UK GDP rose for a third consecutive month with the economy growing at its fastest pace since July of last year. Overall GDP grew by 1.5% in the three months to April compared with the previous three months. Rishi Sunak, the chancellor, said the latest figures were "a promising sign that our economy is beginning to recover". The ONS said the economic output in April 2021 was 27.6% greater than in April 2020, demonstrating the difference from the worst month of the pandemic a year earlier.

On Europe's mainland, French Finance Minister Bruno LeMaire stated France's economy will return to pre-pandemic levels by the first quarter of 2022 as a return of spending and investments lay the groundwork for a recovery. LeMaire, who reaffirmed his target of 5% economic growth for France this year, said the recent surge in credit card payments, rising holiday season bookings and soaring clothing purchases showed that France was quickly returning to growth. The minister said the country's debt, which ballooned during the pandemic to fund support measures, should begin to stabilize in 2025 and then decrease. He said he expected the public deficit to be below 3% of gross domestic product in 2027.

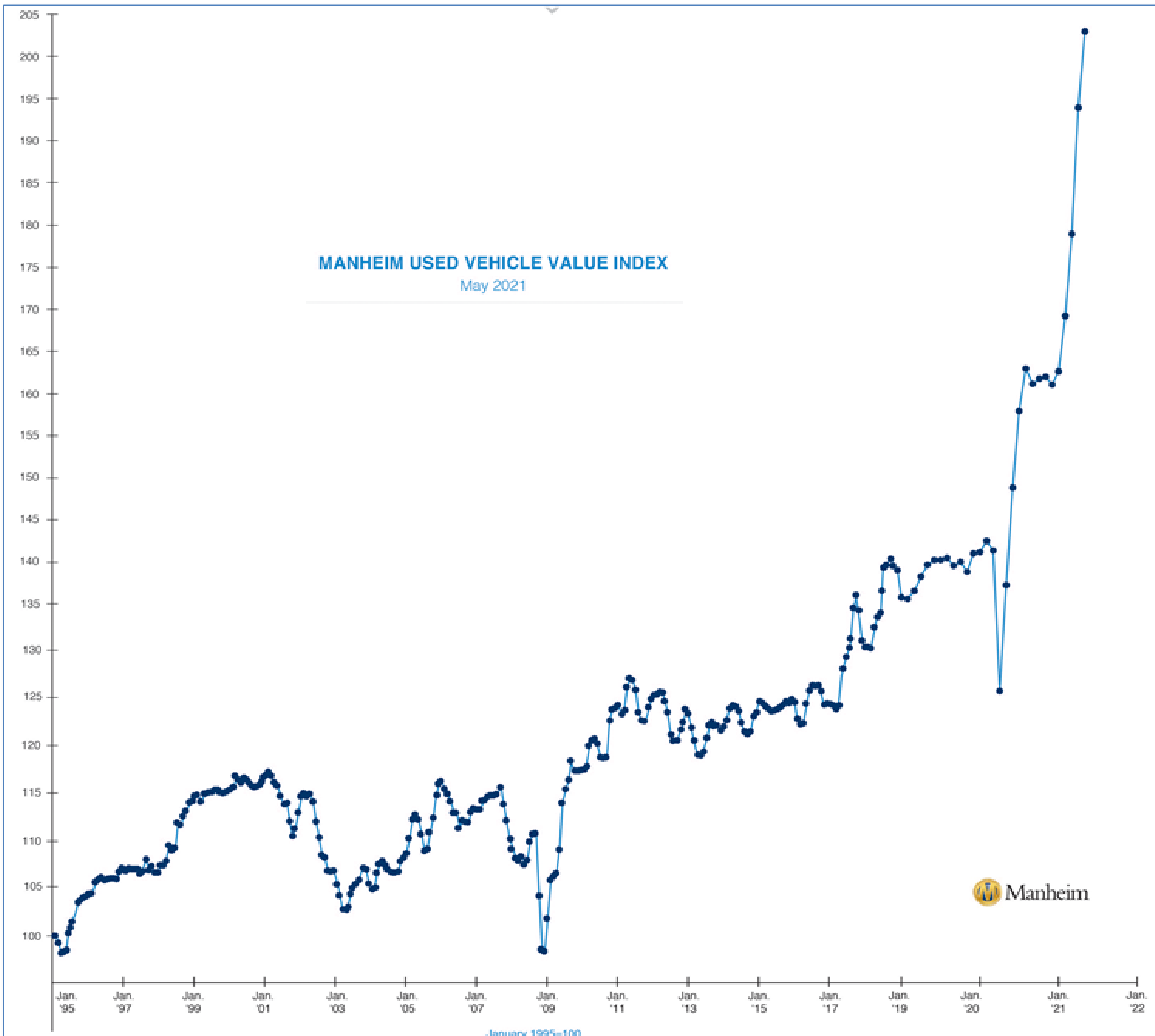
Germany's central bank reported it was raising its growth and inflation forecasts for this year and the next, assuming that cases of coronavirus continued to wane. The Bundesbank stated it now expects the German economy to reach pre-pandemic levels as soon as next quarter, growing by 3.7% this year, 5.2% next year and 1.7% in 2023. "The German economy is overcoming the pandemic-related crisis," said Bundesbank President Jens Weidmann. The German central bank also raised its forecasts for inflation for this year and the next, warning there were still "upside risks". It now saw inflation at 2.6% this year, which would be the highest since 2008 and well above the European Central Bank's target of price growth "below but close to 2%".

In Asia, China's top economic planners have paused their attempts to reduce carbon emissions as spurring economic growth once again becomes their primary focus. Officials at China's main economic planning agency, the National Development and Reform Commission, have limited the initial scope of a national carbon-trading system, which was set to go into full operation later this month. As the world's largest carbon emitter, China's actions are being closely watched by the rest of the world. China's President Xi Jinping has said China will reach a peak in its carbon dioxide emissions before 2030, but he hasn't elaborated on how the country will achieve that goal.

Japan's economy contracted in the first quarter, but the final reading was better than economists had anticipated. The economy shrank by an annualized 3.9% in January-March--not as bad as the preliminary reading of a 5.1% contraction, but still posting the first fall in three quarters, Cabinet Office data showed. The reading, which beat economists' forecast for a 4.8% decline, equals a real quarter-on-quarter contraction of 1.0% from the prior quarter—less than the preliminary 1.3% drop. The revised gross domestic product (GDP) decline was mainly due to a smaller fall in public and capital spending, which both eased less than initially thought, offsetting a slightly larger fall in private consumption. "Overall, capital spending and private consumption remained weak, which showed weakness in domestic demand," said Takeshi Minami, chief economist at Norinchukin Research Institute. However, Economy Minister Yasutoshi Nishimura said spending could recover as consumers return to the streets.

"If infections subside, there'll be pent-up demand from not having been able to go eating out or travelling," Nishimura said.

Finally: Record prices for used cars and trucks were the biggest contributor to inflation last month, according to the government's Consumer Price Index report. Prices for used vehicles surged 7.3% just last month, following an even bigger 10% gain in April. Why are the prices of used vehicles skyrocketing? In short, there are more people buying cars than there are cars in the market. New car trade-ins are usually the biggest source of used cars, but supply chain disruptions, especially a widespread of specialty semiconductors used by auto manufacturers, have limited availability of new vehicles—causing prices of scarce used vehicles to catapult higher. The Manheim Vehicle Value Index, a widely-followed industry yardstick shown in the chart, was described by industry observers as "shocking". (Chart from Manheim)



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

“A study of economics usually reveals that the best time to buy anything is last year.”

Marty Allen – Comedian

Yours truly,

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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, FactSet.)