MOULTON WEALTH MANAGEMENT INC.

"MOLTEN HOT" MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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When is being wrong 6 out of 7 times better than being correct 6 out of 7 times?

Maybe when employing a defense in your portfolio.

Ben Carlson, CFA, is a ‘buy and hold’ advocate. In 2018, after a market decline, he penned an article explaining why getting out of the market to defend one’s portfolio is a fool’s errand. To make his point he used the 200 day moving average (dma) on the S&P-500. *(There is a simplistic risk management process that says you should only be invested if the S&P-500 is above its 200 dma. If you use this risk management method it means you must sell when the S&P-500 drops below the 200 dma and buy back in when it subsequently rises back above. This is not what we use but is shown as an example of how a sell discipline strategy may work.)*

By Mr. Carlson’s reckoning, the S&P-500 crossed below its 200 dma 75 times in the 20 years between 1997 and 2017. ***Of those 75 times, 64 resulted in buying back in at a higher price than was sold.*** We sometimes refer to these as ‘head fakes’.

IN OTHER WORDS, ROUGHLY 6 OUT OF 7 TIMES IT WAS A ‘WRONG’ DECISION! OBVIOUSLY PLAYING DEFENSE WITH THIS INDICATOR IS A BIG FAILURE, RIGHT?

Lance Roberts is an economist and portfolio manager for RealInvestmentAdvice. He believes in playing defense and he reviewed Mr. Carlson’s article. He agreed that if you were following the 200 dma strategy for those 20 years you would have sold and then bought back in at a higher price 64 of the 75 times (assuming you didn’t give up). But he didn’t agree with it being a failed strategy.

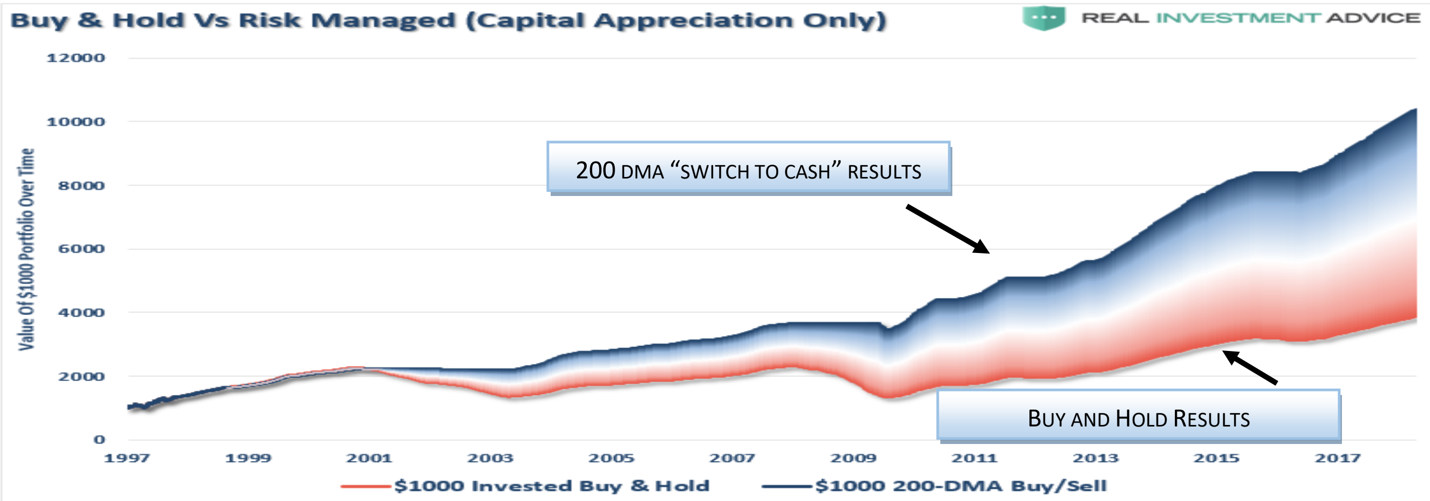
The goal of having a sell discipline in a portfolio is not to be ‘right’ all of the time, or even most of the time. The goal of having a sell discipline is to protect capital over the long term.

The chart on the following page shows $1000 “invested” in the S&P 500 in 1997 on a capital appreciation basis only. The two lines show the results for “*buy and hold*” and “*switch to cash”* when the 200-dma is broken. *Of course this should not be taken as a recommendation to buy or sell anything and past performance is not necessarily indicative of future results.*

Mr. Roberts’ calculations and chart are telling. Even with higher trading costs, the benefit of the defensive strategy is readily apparent.

But how can the strategy that was ‘wrong’ 6 out of 7 times produce better results than simply buying and holding?

Because it wasn't wrong – it was simply part of the process. In other words, not all "round trips" are equal. The savings in downside avoidance when most would consider the system "right" far outweighed the cost when most would consider it "wrong".



The real reason why these systems don't work isn't because *they don't work*, it's because investors don't stick to them. After being "wrong" a few times most investors decide it's not worth the extra trades, and that it's easier to stay invested.

And it **IS** easier; until the next bear market.

Mr. Roberts goes on to say:

Adhering to a discipline, any discipline, is hard.

Even "buy and hold," fails when the "pain" exceeds an individual's tolerance for principal loss.

LISTEN TO RIAL AND DON'S RADIO SHOW, "YOUR MONEY MATTERS", EVERY SATURDAY MORNING AT 8:00 AM ON KXLY RADIO CHANNEL 920 AM IN SPOKANE AND AT 9:30 AM ON NEWSTALK RADIO CHANNEL 870 AM IN THE TRI-CITIES AREA OR LISTEN LIVE AT WWW.NEWSTALK870.AM AGAIN AT 9:30 EACH SATURDAY MORNING…

(BOTH SHOWS ARE ALSO AVAILABLE LIVE VIA THE INTERNET)

And we would add:

"Sticking to a discipline gets harder, the longer the bull market runs."

In fact we would argue that most investors make investment decisions based on the wrong criteria or input. They are using the wrong tools to measure success and they're being convinced every day to keep using those ineffective tools.

Employing a sell discipline, is about protecting 'principal' and 'time', not about being 'right' or 'keeping up with the market'.

Chasing an arbitrary index that is 100% invested in stocks all the time requires you to take on much more risk than you realize – until the next bear market hits and the risk becomes painfully apparent.

Your portfolio should be built around your goals, your needs, your time horizon, and your ability to withstand risk. And it should, in our opinion, have a defensive plan.

What is your defensive plan?

Come to a seminar and hear about ours.

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.

In the markets:

U.S. Markets: U.S. stocks ended the week higher, rebounding from a sharp sell-off on Monday. The advance was somewhat narrow, with much of the gains concentrated in technology and internet-related giants. The Dow Jones Industrial Average finished the week up 374 points to 35,062—a gain of 1.1%. The technology-heavy NASDAQ Composite powered ahead 2.8% to 14,837. By market cap, the large cap S&P 500 rose 2.0%, while the mid cap S&P 400 and small cap Russell 2000 each rose 2.1%.

International Markets: Canada's TSX added 1%, while the UK's FTSE 100 rose for the first time in four weeks adding 0.3%. On Europe's mainland, France's CAC 40 and Germany's DAX gained 1.7% and 0.8%, respectively. Major markets were mixed in Asia; China's Shanghai Composite added 0.3% while Japan's Nikkei declined -1.6%. As grouped by Morgan Stanley Capital International, developed markets rose 1.1%, while emerging markets declined -2.0%.

Commodities: Commodities finished the week mixed. Gold retreated after three consecutive weeks of gains declining 0.7% to $1801.80 per ounce, while Silver gave up -2.2% to $25.23 per ounce. Oil rebounded following an early week sell-off. West Texas Intermediate crude oil rose 0.7% to $72.07 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 up 1.8%.

U.S. Economic News: The number of Americans filing first-time unemployment claims jumped to a nine-week high as automakers shut down manufacturing plants to retool for the latest models or, in many cases, due to chip shortages. The Labor Department reported initial jobless claims surged by 51,000 to 419,000 last week. Economists had expected just 348,000 new claims. Analysts noted the increase was concentrated in the few states heavily engaged in auto making and probably doesn't reflect a broader slowdown in the U.S. economy. The biggest increase took place in Michigan, where autoworkers are eligible for benefits when manufacturing plants are briefly shut down each summer to retool for the latest models. Kentucky and Texas - both big auto-manufacturing states - also reported large increases in new claims. The number of people already collecting state jobless benefits, meanwhile, fell by 29,000 to a seasonally adjusted 3.24 million. These so-called "continuing claims" are consistently falling to new pandemic lows.

Confidence among the nation's homebuilders continues to wane as shortages of both raw materials and skilled workers continue to hamper construction projects. The National Association of Home Builders (NAHB) reported its monthly confidence index declined 1 point to 80 in July. Economists had been expecting a reading of 81. Robert Dietz, NAHB's chief economist, said in the report “Builders are contending with shortages of building materials, buildable lots and skilled labor as well as a challenging regulatory environment.” “This is putting upward pressure on home prices and sidelining many prospective home buyers even as demand remains strong in a low-inventory environment,” he added. In the details of the report, the index that gauges the traffic of prospective buyers saw a pronounced decline, dropping six points to 65. Another index, which measures current sales conditions, fell one point to 86, while the index of sales expectations over the next six months actually increased two points to 81.

The U.S. Census Bureau reported its measure of home construction activity continued to improve last month, but homebuilders are facing a challenging market. U.S. home builders started construction on homes at a seasonally-adjusted annual rate of 1.64 million in June, representing a 6.3% increase from the previous month’s downwardly-revised figure, the U.S. Census Bureau reported. Compared with June 2020, housing starts were up 29%, though the year-over-year comparison is skewed by the effects of the COVID-19 pandemic and subsequent lockdowns. However, of concern going forward, the pace of permitting for new homes dipped again in June. Permitting for new homes occurred at a seasonally-adjusted annual rate of nearly 1.6 million, down 5% from May. By region, the Northeast and Midwest both saw declines in housing starts, while the West and South saw gains. The West in particular saw housing starts surge to the highest level since February, with a 13% monthly increase.

After surging higher in the second quarter the U.S. economy cooled a bit, according to data from analytics firm IHS Markit. Markit reported its preliminary composite output index for the U.S. fell to a four-month low of 59.7 in July. That’s down four points from June’s reading. Chris Williamson, chief business economist at IHS Markit stated, “The provisional PMI data for July point to the pace of economic growth slowing for a second successive month, though importantly this cooling has followed an unprecedented growth spurt in May.” IHS Markit said its flash survey of U.S. manufacturers rose slightly to 63.1 in July from 62.1 in the prior month. A similar survey of service-oriented companies — banks, restaurants, retailers and the like — dipped to a five-month low of 59.8 from 64.6 in June. The report noted inflation and short-term capacity issues remain major sources of uncertainty among businesses. Of concern, business optimism about the year ahead fell to the lowest level seen so far this year.

International Economic News: Retail sales in Canada fell in May as economic restrictions to contain a third wave of COVID-19 infections continued in many parts of the country. Statistics Canada reported retail sales declined 2.1% in May to a seasonally-adjusted 53.78 billion CAD. The result exceeded the consensus forecast of a 3.2% decline. TD Bank economist Rishi Sondhi said in a note, “May's decline in retail spending is no surprise as the country was still in the grips of the third wave. The good news is that provincial re-openings mostly began in June." Mr. Sondhi said consumer spending is expected to power Canada's economic growth during the second half of the year, as households spend some of the savings they accumulated when economic restrictions were in place.

Across the Atlantic, Britain's rapid economic recovery from the coronavirus pandemic slowed sharply in July as a new wave of cases forced thousands of workers to self-isolate under new government rules. IHS Markit reported its composite Purchasing Managers' Index (PMI) dropped 4.5 points this month to 57.7. While readings above 50 indicate growth in the economy, the reading was the lowest since March and a sharper fall than most economists had forecast. Chris Williamson, chief business economist at IHS Markit, said, "July saw the UK economy's recent growth spurt stifled by the rising wave of virus infections, which subdued customer demand, disrupted supply chains and caused widespread staff shortages, and also cast a darkening shadow over the outlook." The economy was still on course to expand in the third quarter, but at a slower pace than before, he added.

On Europe's mainland, right-leaning activists and members of France's "yellow vest" movement protested against a bill requiring everyone to have a special virus pass to enter restaurants and other venues and mandating COVID-19 vaccinations for all health care workers. Legislators in France's Senate were debating the bill after the lower house of parliament approved it, as virus infections are spiking and hospitalizations are rising. The French government is trying to speed up vaccinations to protect vulnerable populations and avoid new lockdowns.

Flooding caused by heavy rains and overflowing rivers has devastated towns across western Germany and taken the lives of over 150 people. German Chancellor Angela Merkel visited Rhineland-Palatinate at the weekend and described the situation as "surreal" and "terrifying." German Finance Minister Olaf Scholz, who described the extent of the destruction as "immense," told the Bild am Sonntag newspaper that at least 300 million euros (£353.1 million) of emergency aid would be provided to help in the near term. He pledged billions more for "a reconstruction program so that the destroyed houses, roads and bridges can be quickly repaired."

The disparities in provincial growth across China widened further during the past six months, with the economies in coastal regions surging ahead on the back of increased exports while northern and inland provinces continued to lag behind. The five major coastal provinces contributed 36.5% of the national output in the first half of the year. China has 31 provincial-level jurisdictions. The results contrast starkly with Beijing's attempts to balance regional development while cultivating self-sufficient development strategies among individual provinces. They also come as concerns mount over a possible economic slowdown in China later this year, in part because analysts expect export growth to slow.

The costs for hosting the Olympics have only gotten higher for Japan in what should have been an economic windfall for the country. After being awarded the games in 2013, Tokyo pegged the cost of the 2020 Olympics at $7.5 billion. Since then, that number has more than doubled with projections of a $15.4 billion cost forecast in December. Over the past several years, the country worked hard to invest money in building and improving stadiums and readying its infrastructure for the hundreds of thousands of visitors that were expected to flock to Japan to watch their countries compete. However, much of the expected economic benefit from the Tokyo Games vanished in March, when it was decided to ban foreign spectators from traveling to Japan. Now with all spectators banned from the Olympics, what should have been an economic boom for the nation will now assuredly be a bust.

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

"Rule No 1: Never lose money. Rule No 2: Never forget rule no. 1."

Warren Buffett – Businessman, Investor

Yours truly,

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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, FactSet.)