MOULTON WEALTH MANAGEMENT INC.

"MOLTEN HOT" MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

DONALD J. MOULTON
CFP®, RFC

www.moultonwealth.com

RIAL R. MOULTON
CFP®, CPA/PFS, RFC

Week of August 2, 2021

Congratulations. You are now in the top 4% of all time!

What are we talking about?

Valuations.

Yale economist and Nobel Laureate Robert Shiller constructed a stock market valuation metric based on price to 10 year normalized earnings for the S&P-500. Using 10 years of normalized earnings is an attempt to smooth the trend by not relying as much on what might be extraordinarily good or bad years (like 2020 shutdowns).

Based on his metric, the S&P-500 is now valued at a level that has only occurred in (the top) 4% of all past recorded history. It's also the most expensive in almost 25 years.

The measure, called the CAPE (cyclically adjusted price/earnings) ratio, recently reached 38.39.

A lot of talking heads dismiss valuations as irrelevant. And to a degree they've been correct as Fed money printing has overrun any rational investment strategy.

But let's consider it a different way. If you pay $38.39 for $1 of earnings, and the market distributes that $1 earnings back to you each year, it would take 38.39 years to get your money back.

Suddenly investing at these levels doesn't seem such a great deal.

Of course, if the market held flat and earnings rose, the math tells us that stocks get cheaper. But that's not what happens. Historically the market rises even faster than earnings, and it's only when markets drop that valuations move to more "normal" levels.

With the Fed now saying they will attempt to begin removing stimulus sooner than expected, what is the likely market response?

If we consider the fourth quarter of 2018, when Chair Powell said the economy was very strong and a return to normal was on auto pilot, the market is likely to drop; it did then to the tune of 20% before Powell reversed course.

Will inflation allow him to reverse course again?

Will the markets eventually decide not to trust the Fed?

If not do you have a plan – a rules based system – to protect your retirement?

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.

What's Your Risk Number?

In the markets:

U.S. Markets: The major U.S. indexes finished the week mixed. The large-cap benchmarks and technology-focused Nasdaq Composite managed record highs before pulling back late in the week, while the mid cap S&P 400 index and small-cap Russell 2000 broke a string of underperformances and recorded gains. The Dow Jones Industrial Average finished the week down -126 points to 34,935, a decline of -0.4%. The NASDAQ retraced some of last week's gain giving up -1.1% to 14,673. By market cap, the large cap S&P 500 retreated -0.4%, while mid-caps and small caps rose 1.2% and 0.8%, respectively.

International Markets: Canada's TSX rose 0.5% while the UK's FTSE 100 ticked up 0.1%. European markets were mixed with France's CAC rising 0.7%, while Germany's DAX retreated -0.8%. In Asia, China's Shanghai index plunged -4.3%, while Japan's Nikkei declined -1.0%. As grouped by Morgan Stanley Capital International, developed markets rose 0.3%, while emerging markets retreated -1.7%.

Commodities: Precious metals finished the week to the upside. Gold rose 0.9% to $1817.20 per ounce, while Silver added 1.2% to $25.55. Oil rose for a second week. West Texas Intermediate crude oil rose 2.6% to $73.95 per barrel. The industrial metal copper, viewed by analysts as a barometer of global economic health due to its wide variety of uses, finished the week up 1.9%.

July Summary: The Dow recorded a 1.3% gain, while the NASDAQ added 1.2%. Large caps rallied 2.3%, while mid-caps added just 0.3%, and small caps lost ground, giving up -3.6% for the month. In ex-US markets, Canada rose 0.6% while the UK ticked down -0.1%. France and Germany gained 1.6% and 0.1%, respectively. Asian markets had a tough month; China plunged -5.4% and Japan's Nikkei declined -5.2%. As grouped by Morgan Stanley Capital International, emerging markets retreated a large -6.4% while developed markets finished the month up 0.8%. Gold and Silver were mixed with Gold rising 2.6% and Silver declining -2.5%. Oil finished the month up 0.7%, and copper finished the month up 4.5%.

U.S. Economic News: The number of Americans applying for first-time unemployment benefits fell last week after hitting a two month high the previous week. The Labor Department reported initial jobless claims declined by 24,000 to 400,000 in the week ended July 24. Economists had forecast 380,000 new claims. Requests for benefits had surged in mid-July, but that now appears to be largely due to planned shut downs by major automakers. Meanwhile, continuing claims, which counts the number of people already receiving benefits, rose by 7,000 to 3.27 million. Continuing claims remain near a pandemic low.

Sales of new homes in the U.S. fell in June to the lowest level since early 2020, as high prices and a limited selection frustrated scores of would-be buyers. New-home sales dropped 6.6% to an annual rate of 676,000, the government reported. The decline in sales was much larger than analysts had expected. Economists had forecast an annual sales rate of 795,000. New-home sales had surged at the beginning of the year to its highest level in almost 15 years reaching an almost 1 million annual rate as buyers took advantage of record-low mortgages rates. Sales have now pulled back due to a shortage of properties and higher costs.

Home prices set another record in May according to the latest data from S&P CoreLogic Case-Shiller. At a national level, Case-Shiller's home price index recorded an increase of 16.6% over the past year—up from the prior record of 14.8% set just last month. The separate 20-city index, which gauges home prices across a selection of major cities across the country, increased by 17% in May—an increase of 2% from the prior month. In keeping with recent trends, Phoenix, San Diego and Seattle reported the highest year-over-year gains among the 20 cities in May. All 20 cities showed a gain in prices. Record price gains were seen in Charlotte, Cleveland, Dallas, Denver and Seattle.

Orders for goods expected to last three years or more, so-called ‘durable goods’, rose again despite shortages of key supplies. The government reported durable goods orders climbed 0.8% last month, missing economists’ forecasts of a 2% increase. The increase fell short of Wall Street expectations mostly because new orders in the prior month were revised upwards. The rebound in the U.S. economy has ignited a surge in demand for cars, electronics, and other goods. That, in turn, has led to big shortages in both supplies and labor. The shortages have driven up the cost of supplies and pushed companies to try to pass these costs onto customers by charging higher prices. All of this has added to the biggest burst of inflation in the U.S. since at least 2008.

Confidence among the nation’s consumers climbed to a 16-month high, despite concerns of a spread of a new “delta” variant of the coronavirus. The Conference Board reported its index of consumer confidence ticked up to 129.1 in July from a revised 128.9 in June. That’s the highest level since just before the onset of the coronavirus pandemic early last year. Economists had expected a reading of just 125. The economy has been surging since the spring thanks to rising vaccinations, massive government financial stimulus and the almost full reopening of the economy. The part of the survey that tracks how consumers feel about the economy right now inched up to 160.3 from 159.6 in the prior month. Another measure that assesses how Americans view the next six month, the “future expectations index”, remained unchanged at 108.4—another strong reading.

A key measure of inflation (and rumored to be the Federal Reserve’s “preferred” inflation gauge), the Personal Consumption Expenditures (PCE) index jumped 0.5% in June. It was the fourth big upturn in a row and pushed the increase over the past 12 months to 4%. That’s the highest level since 2008 and double the Federal Reserve’s 2% target. A separate measure of inflation, the consumer price index, is running even hotter. The Federal Reserve has said for months inflation would subside as the bottlenecks eased and the central bank is sticking to that view. Chairman Jerome Powell finally acknowledged this week that what he’s been calling “transitory” inflation could stay high longer than the Fed had anticipated, perhaps well into next year.

International Economic News: Early data from Statistics Canada show the Canadian economy grew in the second quarter, despite two months of setbacks. The agency reported its preliminary estimate is that the economy grew at an annualized rate of 2.5% between April and June. Following declines of 0.5% and 0.3% in real GDP in April and May, StatCan says its preliminary estimate is that real GDP grew 0.7% in June as pandemic restrictions eased across the country. The agency said that with growth in June, total economic activity is now just 1% below pre-pandemic levels.

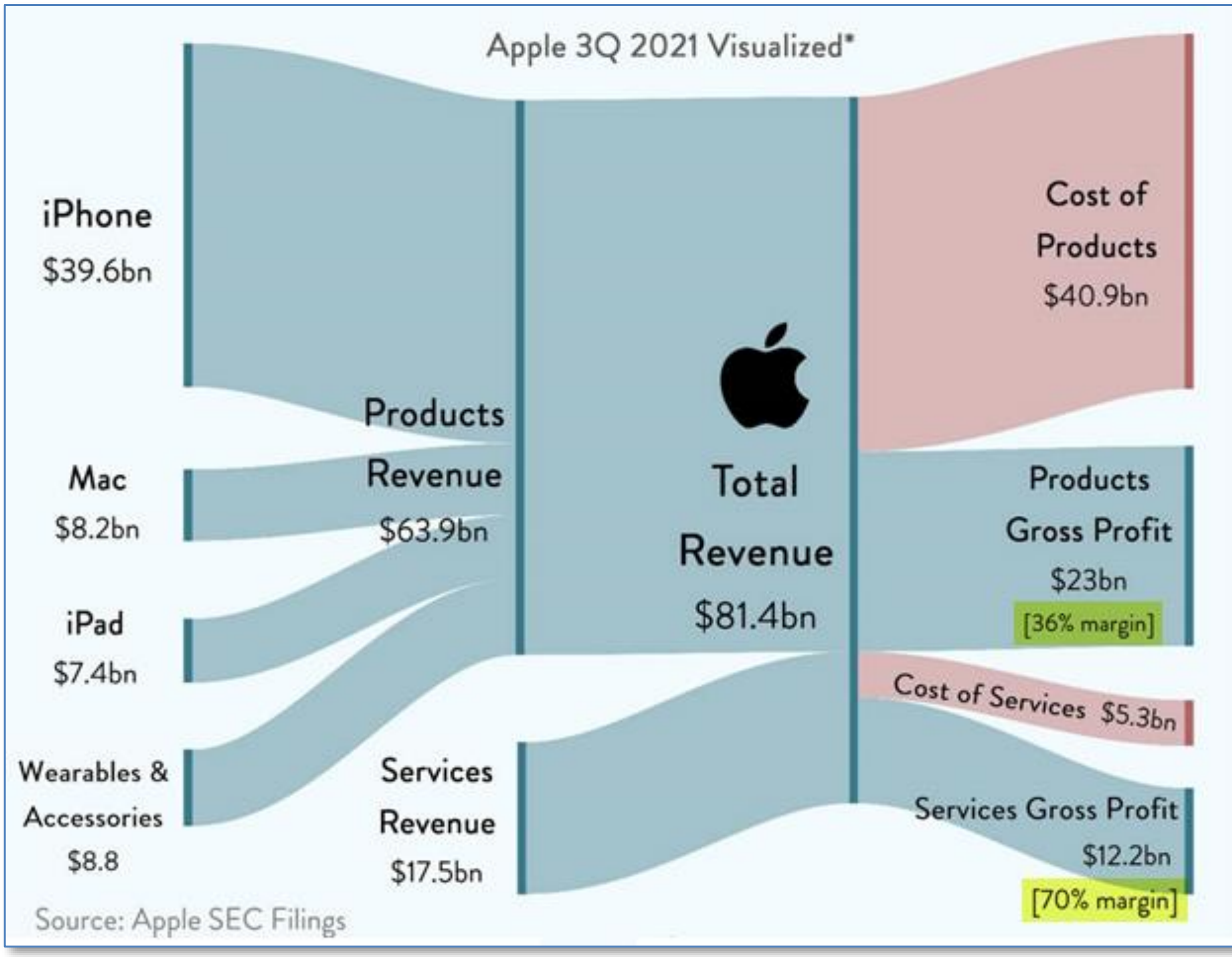
Across the Atlantic, the International Monetary Fund revised up its forecast for Britain’s economy this year from its previous assessment in April, formed when the country was just beginning to relax its COVID-19 restrictions. British economic output slumped by almost 10% in 2020, its biggest drop in more than 300 years, as it suffered one of the world's highest official death tolls for COVID-19 and endured months of curbs on business and social activity. However this week, the IMF forecast Britain's economy would grow by 7.0% this year, the same as the United States and the fastest growth rate among major advanced economies. This was 1.7 percentage points higher than the IMF forecast in April, the biggest upgrade for a major economy.

On Europe's mainland, the Eurozone economy bounced back from its pandemic-driven downturn, logging faster than expected growth of 2% in the second quarter. The quarter-on-quarter rise in Eurozone gross domestic product was higher than the 1.5% expected by economists and is the first time the bloc has outpaced growth in the US and China since the pandemic started last year. It also marked a strong rebound from the bloc's 0.3% contraction in the first quarter. Germany, France, Italy and Spain all logged quarter-on-quarter expansions in output in the three months thru June, and all but Germany outperformed economists' expectations.

The value of Chinese shares on Wall Street has soared from just a few billion dollars to over *two trillion* over the past two decades as investors became complacent over the precarious legal structures underpinning many of the country's biggest listings in the U.S. However, a crackdown this week by the Chinese government sent Chinese stocks plummeting, including those listed on U.S. exchanges. The move has wiped tens of billions of dollars off the market value of New York-listed Chinese companies on fears that the crackdown could even extend to Chinese companies that have become darlings of US investors, like Alibaba, Pinduoduo, and JD.com.

Japan's factory output jumped last month, a sign robust overseas demand was offsetting the domestic drag on consumption from the coronavirus pandemic. Industrial output rose 6.2% in June after a sharp 6.5% drop in May, marking the highest growth since July last year and recovering to pre-pandemic levels. The increase, which exceeded a median market forecast for a 5.0% gain, was driven mainly by a 22.6% surge in auto production as manufacturers sought to make up for the slump in May. However, a spike in new COVID infections to new records and the lingering global chip shortage are weighing on analysts' estimates of growth in the third quarter. Yoshiki Shinke, chief economist at Dai-ichi Life Research Institute wrote in a note, "With the resurgence in infections, initial hopes of a clear economic rebound in July-September have faded."

Finally: Tech behemoth Apple reported quarterly earnings this week and demolished Wall Street expectations. The world's most valuable company just reported more than $81bn of revenue for the three months ending in June - a 36% increase over the same quarter last year. That works out to roughly $900m a day or $10,000 every single second of the quarter. But while the iPhone remains Apple's biggest product, its services businesses are getting many investors even more excited. Things like Apple Music, the App Store, Apple Pay, Apple TV, and potentially an Apple Car (under secret development since 2014) have or will have very lucrative profit margins (already at 70%, almost twice the margin of the 36% generated by the “Products” business). (Chart from chartr.co)



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

"Market forces will one day crush the Federal Reserve. One day, the market forces will reverse."

Marc Faber – Businessman, Investor

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.

Investment services offered through Moulton Wealth Management, Inc., an independent Registered Investment Advisor. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. Yahoo! Finance is the source for any reference to the performance of an index between two specific periods. Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Consult your financial professional before making any investment decision. You cannot invest directly in an index. Past performance does not guarantee future results. Investments in securities do not offer a fixed rate of return. Principal, yield and / or share price will fluctuate with changes in market conditions and, when sold or redeemed, you may receive more or less than originally invested. No system or financial planning strategy can guarantee future results.

To unsubscribe from the "Molten Hot" Minutes please reply to this e-mail with "Unsubscribe" in the subject line, or write us at 1220 N. Mullan Road, Spokane, WA 99206.

Bubble Warning: S&P 500 Only This Richly Valued 4% Of The Time | The WealthAdvisor
Marc Faber - Market forces will one day crush the Federal... (brainyquote.com)

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.)