MOULTON WEALTH MANAGEMENT INC.

"MOLTEN HOT" MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of August 30, 2021

John Mauldin is a money manager and economist who writes a very thought provoking newsletter, "Thoughts from the Frontline". A recent issue was titled "Ubiquity, Complexity and Sandpiles".

In it he discusses sand piles, and how they can grow and grow until one too many grains are added and the whole thing collapses.

In 1987 three physicists decided to study the phenomenon with the hope they could better predict all kinds of natural disasters, but particularly "nonequilibrium systems" such as avalanches.

What they discovered, after a huge number of tests, was they weren't predictable. Each system acted and reacted differently. Some took a lot of stress before they buckled and some took very little. In fact they said they were completely chaotic and unpredictable both as to timing and severity.

They discovered that once an avalanche area hit "critical state" anything could set it off.

But what about other areas, outside of avalanches? In fact they found the same phenomenon in many areas throughout nature as well as manmade systems. It indeed seemed to be ubiquitous.

Think about this in terms of our financial system. We've seen time and again when something that seems inconsequential or contained set off a series of events creating a catastrophe. In 1997 financial trouble in Thailand spread to other countries including Russia and eventually Long Term Capital Management's failure, a huge hedge fund, nearly brought down the world's financial system. In 2008 it was Lehman Brother's collapse that led to a series of bailouts to save the financial system. In neither case was the supposedly initial problem the reason for the event, it was just one too many grains of sand than an unstable system, already in critical state, could handle.

What about today?

- A massively leveraged (debt riddled) economy, not just in the U.S., but worldwide.
- Estimates of 1.8 million U.S. homes that are currently in forbearance, but will soon have to ante up or face foreclosure.
- Inflation that is likely to be sticky even if it doesn't explode to 1970 levels.
- Covid variants and possibly an underappreciation of the impact of Long Haulers (those whose symptoms persist past 30 days). It's estimated there are over 15 million long haulers in the U.S. Of course, health is always concern number one. But what will this cost in health care and lost productivity be from this group?
- Consumer spending restrained from all of the above as well as huge unemployment.
- Equities at record high valuations by many measures.
- The Fed trying not to make a mistake balancing inflation and jobs, but also the stock and bond markets.
- Political animosity on a level we've not seen in decades.
- All the many things we've missed in this list or that none of us yet even know about.

Is this enough to put the entire system into a "critical state" with a "high level of instability"? Or will even more Fed money printing (which you can bet will happen during the next market decline) push the markets even higher yet, delaying any day of reckoning?

We won't know until the avalanche starts. And even then we won't know if it will be a big avalanche or a small one.

But as Mr. Mauldin warns…

"You need your portfolios to both participate and protect. Don't blindly buy index funds and assume they will recover as they did in the past. This next avalanche is going to change the nature of recoveries as other market forces and new technologies change what makes an investment succeed.

I cannot stress that enough. Don't get caught in a buy-and-hold, traditional 60/40 portfolio. Don't walk away from it. Run away.

Cautious optimism is always the long-term winner. Always. But a buy-and-hold portfolio in today's world is neither cautious nor optimistic. Hope is not a strategy. That's precisely what a buy-and-hold portfolio is."

It's why we believe a ***defensive system***, based on rules and math, will offer the best opportunity to continue participating should the market continue rising possibly much higher than maybe anyone thinks possible, while limiting the downside so you don't end up giving back all your gains and possibly dusting off your resume.

We continue to track the data and the Fed.

Protect your personal health and your portfolio's health.

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: The benchmark U.S. equity indexes finished the week to the upside with the technology-heavy NASDAQ Composite outperforming the broader market S&P 500 and narrowly-focused Dow Jones Industrial Average. The Dow Jones Industrial Average rose 336 points finishing the week at 35,456, a gain of 1%. The NASDAQ rallied 2.8% finishing at 15,130. By market cap, the large cap S&P 500 added 1.5%, while the mid cap S&P 400 gained 3.4%; the small cap Russell 2000 lead the pack by surging 5.1%.

International Markets: Major international markets were also positive for the week. Canada's TSX gained 1.5%, while the United Kingdom's FTSE 100 rose 0.8%. France's CAC 40 and Germany's DAX added 0.8% and 0.3%, respectively, while in Asia China's Shanghai Composite finished up 2.8%. Japan's Nikkei ended the week up 2.3%. As grouped by Morgan Stanley Capital International, developed markets finished the week up 1.6% and emerging markets rallied 4.2%.

Commodities: Precious metals rose as inflationary economic reports were released this week. Gold rose 2.0% to $1819.50 per ounce, while Silver added 4.1% finishing the week at $24.06. Crude oil retraced all of last week's decline by surging 10.6% to $68.74 per barrel of West Texas Intermediate crude. 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 4.7%.

U.S. Economic News: The number of Americans who applied for first-time unemployment benefits rose last week for the first time in over a month, but jobless claims remain near their pandemic lows. The Labor Department reported initial jobless claims increased by 4,000 to 353,000. Economists had expected claims to total 350,000. For perspective, before the pandemic initial jobless claims averaged in the low 200,000's, spiking as high as 6.9 million during the pandemic. Claims have been falling ever since. Meanwhile, continuing claims, which count the number of people already receiving benefits, dipped by 3,000 to 2.86 million. That number is also at a pandemic low.

The median price of a new home reached a record high last month as buyers appear to be unfazed by the price tags on newly-built homes. The Census Bureau reported new-home sales increased 1% to an annual rate of 708,000 in July. The report exceeded expectations, as economists had forecast an annual sales rate of 700,000. Sales rates varied by region, with the Northeast and Midwest seeing declines of more than 20% compared to last month, while the West posted a 14% gain and the South a 1.3% uptick. The number of new homes for sale at the end of July increased 5.5% from the month prior, and were up 26% from the same time last year. The inventory in July equated to a 6.2-month supply, representing the highest level of supply in over a year.

Sales of existing homes rose as the inventory of homes for sale grew, giving relief to buyers who had been bidding up prices to excessive levels. The National Association of Realtors (NAR) reported existing-home sales rose 2% to a seasonally-adjusted 5.99 million in July. Economists had expected home sales to come in at 5.83 million. The median sales price of an existing home was $359,900, up 17.8% from the same time last year. Sales rose in three of the four regions nationally, with the Northeast the only region not to see an increase. The Midwest saw the largest gain from June, with a 3.8% uptick, followed by the West (up 3.3%) and the South (up 1.2%).

Orders for longer-lasting 'durable' goods dipped in July but analysts were quick to note the overall report was positive. The government reported orders for durable goods ticked down -0.1% last month, predominantly due to a sharp drop in orders for commercial airplanes. Removing the big-ticket transportation categories, new orders were actually up 0.7% last month. Citibank economists Andrew Hollenhorst and Veronica Clark said in a note to clients, "The underlying trend of demand for durable goods remains at very elevated levels and should support sustained production into 2022 as supply issues are eventually resolved."

Spending among the nation's consumers slowed in July but remained positive as inflation and the delta-variant of the coronavirus weighed on spending. The government reported consumer spending rose 0.3% last month, matching economists' estimates. Analysts note the biggest potential obstacle for the economy is inflation tied to widespread shortages of labor and materials and Fed liquidity. Consumer spending actually fell 0.1% in July if inflation is taken into account. The biggest increase in spending in July was on services such as dining out, renting hotel rooms or going on vacation. Spending fell on goods such as new cars and trucks, clothing and footwear. The Personal Consumption Expenditures Index—rumored to be the Federal Reserve's preferred inflation measure, climbed to 4.2% in July—its highest level in 30 years.

Federal Reserve Chairman Jerome Powell, in his closely-watched speech in Jackson Hole, Wyoming, stated he believed the central bank can begin to "taper" or slow its bond purchases. Powell said, "at the FOMC's recent July meeting, I was of the view, as were most participants, that if the economy evolved broadly as anticipated, it could be appropriate to start reducing the pace of asset purchases this year." This is the first time Powell has given his personal opinion publicly. "My view is that the 'substantial further progress' test has been met for inflation. There has also been clear progress toward maximum employment," Powell said. The Fed is buying $80 billion of Treasuries and $40 billion of mortgage-backed securities each month to put downward pressure on long-term interest rates and boost demand in the economy. However, Powell was careful not to say when the tapering would begin. Most market participants rated Powell's remarks as "dovish" and the market responded positively.

International Economic News: Following a summer containing heatwaves and forest fires, climate change has been a hot topic among Canadians (pun intended). However, a new poll from Ipsos suggests they are divided on whether fixing climate change should come at the cost of the country's economy. Data from the poll, found that 77% of those surveyed said the country needs to do more to reverse its effects, but a bare majority, 51%, said the federal government needs to "balance economic considerations with environmental efforts." A sizeable minority of respondents, 35%, said they believed Canada should do "everything in its power" to fight climate change.

Across the Atlantic, Britain's post-lockdown economic rebound slowed sharply in August as companies continue to struggle with unprecedented shortages of workers and materials. The IHS Markit/CIPS flash composite Purchasing Managers Index (PMI) dropped for the third month in a row, sinking to 55.3 from 59.2 in July. Economists had forecast a reading of 58.4. The pace of growth was still slightly above the pre-pandemic average but IHS Markit said there were clear signs of the recovery losing momentum after a buoyant second quarter.

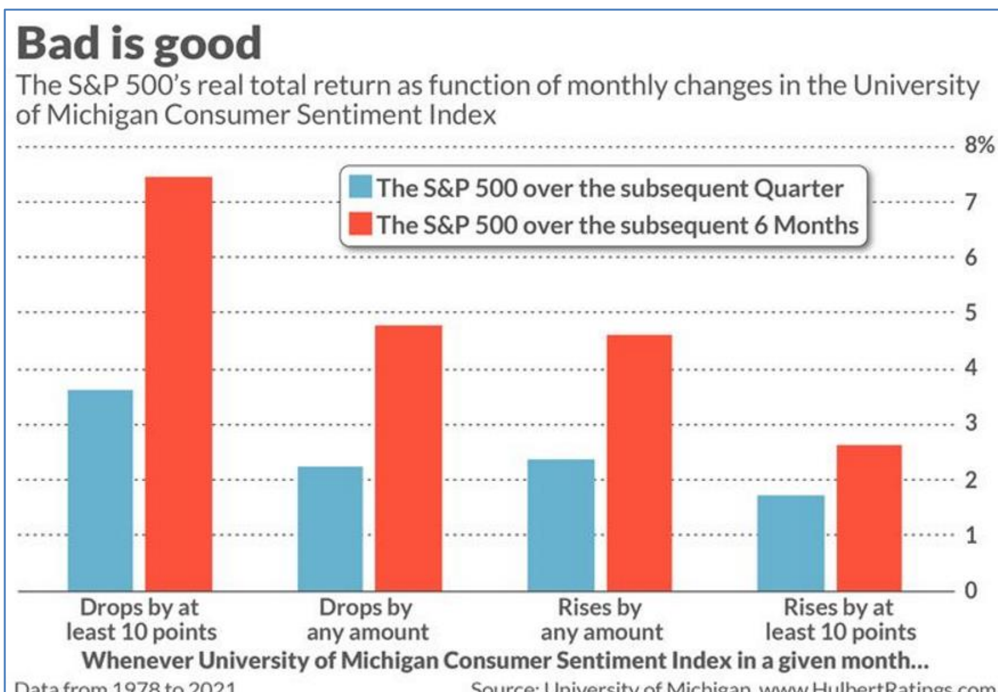
On Europe's mainland, French Finance Minister Bruno Le Maire said France's economy is "doing well" thanks to a rise in consumer spending. Le Maire told France 2 television the aim now was for France to return to pre-COVID economic growth levels by end 2021. France has a 6% growth target for the whole of 2021, which Le Maire reiterated.

German business morale fell for a second month in August, as supply bottlenecks and rising COVID-19 cases drove companies to take a dimmer view of the coming months, a survey showed. The Ifo institute said its business climate index came in at 99.4, missing an analyst consensus of 100.4 and down from a downwardly revised reading of 100.7 in July. "The mood in the German economy has clouded over again," Ifo President Clemens Fuest said in a statement. "Supply bottlenecks for intermediate products in manufacturing and worries about rising infection numbers are putting a strain on the economy." Concerns were growing in the hospitality and tourism sectors in particular, he added.

In Asia, seven months into the Biden administration his office still has not established a trade policy with China. U.S. Trade Representative Katherine Tai said the "Biden-Harris Administration and USTR are conducting a comprehensive review of U.S.-China trade policy." She acknowledged the significance of the U.S.-China trade relationship, and said the U.S. remains committed to "addressing China's unfair trade policies and non-market practices that undermine American businesses and workers."

Japan's government maintained its economic assessment for a fourth straight month in August but offered a slightly bleaker view on the outlook than in July. "The economy continues to pick up but showing some weaknesses as conditions remain severe due to the coronavirus pandemic," the government said in its monthly economic report. In its outlook, the August report warned of the need to pay attention to "heightening downside risk caused by the pandemic." The government kept its assessment unchanged for most parts of the economy including consumer spending, which it described as weak mainly due to the services sector.

Finally: The University of Michigan reported a recent plunge in its Consumer Sentiment Index. Contrary to what you might logically expect, this is actually a positive for the stock market. Analyst Mark Hulbert notes that the American consumer is a fairly reliable contrarian stock market indicator, and calculated the data in the chart below. More often than not, large declines in consumer confidence have been followed by above-average stock market returns. As Warren Buffett says - it is wise for investors to be "fearful when others are greedy, and greedy when others are fearful." (Chart from Mark Hulbert, marketwatch.com)



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

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

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

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

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

WEEKLY FOCUS – THINK ABOUT IT

"Even the largest avalanche is triggered by small things."

Vernor Vinge – Author

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.

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.*

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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.)