MOULTON WEALTH MANAGEMENT INC.

"MOLTEN HOT" MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of September 27, 2021

The stock market rebounded this past week as we suggested was the highest probability in Monday's newsletter. However, the bond market was not so fortunate with 10 year Treasury yields climbing to 1.46% after ending last week at 1.37% and closing Monday at 1.31%. This raises the probability that we are heading into an economic construct of growth and inflation rising (in rate of change) in the fourth quarter.

Interestingly, this break higher in yields did nothing for gold which ended the week a bit lower.

SEMINARS ARE ONCE AGAIN ON HOLD!

UNFORTUNATELY RENEWED RESTRICTIONS DON'T ALLOW IN PERSON SEMINARS. AS SUCH THE SEPTEMBER SEMINARS HAVE BEEN POSTPONED.

EVERYONE'S HEALTH IS OUR MOST IMPORTANT GOAL.

IF YOU'D LIKE A FREE FINANCIAL PHYSICAL TO REVIEW YOUR SPECIFIC CONCERNS, WE CAN DO SO REMOTELY.

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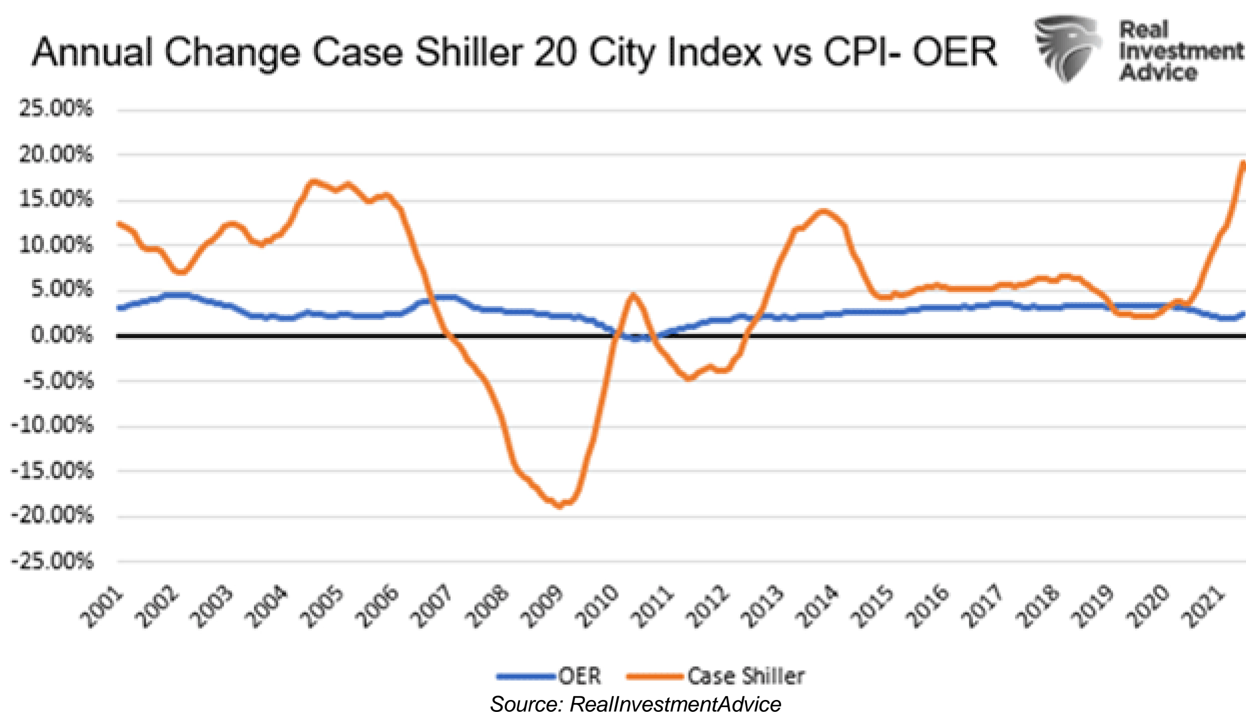
Advisory services through Moulton Wealth Management, Inc., an independent Registered Investment Advisor registered with the SEC

If you read last week's newsletter you know we look at many different things in concert to determine what we believe to be the most and least probable outcomes. However, the most important right now may be inflation.

The Fed has had free reign to juice the stock market since at least the Great Financial Crisis in large part because inflation, or we should say a lack of inflation, gave them cover. For the first time in a long time that may no longer be the case.

In fact there's a good argument that CPI will actually increase even more once housing costs begin to get updated. CPI uses something called "owner's equivalent rent" (OER) to reflect inflation in housing. It does a very poor job, likely be design. Regardless, it does eventually move in the correct direction, even if late and even if in smaller terms than reality. The following chart from Real Investment Advice shows the distortion between OER and home prices as reflected in CPI.



Source: RealInvestmentAdvice

That orange OER line makes up almost ¼ of CPI. Enough said.

So what does that mean for the markets?

Less Federal Reserve hand holding.

Investors have become as reckless as a spoiled child who gets bailed out of any and every misdeed. There may come a day when the Fed simply cannot come to the rescue and market declines become real.

Keep in mind, this doesn't require 1970's style inflation. Trending 3-4% inflation in a world of negative / zero interest rates would likely do the trick.

Several weeks ago we wrote about sand piles and avalanches. Instability is growing and eventually one grain of inflationary sand could trigger an avalanche. It doesn't matter which one or why. We don't have to predict the exact disaster to understand the probability of "a disaster" is rising. And not only rising in the U.S., but worldwide.

This is not meant as a doomsday warning but it should be a call to get your ducks in a row. For at least the last 13 years reckless investing behavior has been rewarded by Fed hand holding. If the next decline is not met by more massive money printing, it may unwind decades of excess. And your buy and hold portfolio may not work like it has in the past.

Protect your health and your wealth.

What is your defensive plan?

Call to 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™?

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)

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 major U.S. indexes overcame an early week sell-off, ending the week essentially flat to modestly higher. On Monday, the benchmark S&P 500 index recorded its biggest daily drop since early May. The Dow Jones Industrial Average rose 213 points last week finishing at 34,798—a gain of 0.6%. The technology-heavy NASDAQ Composite remained essentially flat, adding just 4 points to close at 15,048. By market cap, the large cap S&P 500 rose 0.5%, while the mid cap S&P 400 added 0.8% and the small cap Russell 2000 finished the week up 0.5%.

International Markets: Canada's TSX retreated -0.4%, its third consecutive decline, while in Europe the United Kingdom's FTSE 100 rebounded 1.3%. France's CAC 40 rose 1%, while Germany's DAX added 0.3%. In Asia, China's Shanghai Composite ended the week flat, Japan's Nikkei declined -0.8%. As grouped by Morgan Stanley Capital International, developed markets declined -0.2%, while emerging markets fell -1.1%.

Commodities: Major commodities finished the week in the green. Gold rose slightly, 0.02%, to $1751.70 per ounce, while Silver rose 0.4% to $22.43. Oil rose for a fifth consecutive week. West Texas Intermediate crude oil gained 3% to $73.98 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 0.9%.

U.S. Economic News: The number of Americans filing first-time unemployment benefits spiked to a one-month high, but the increase appeared to stem largely from California catching up on a backlog of claims, rather than any deterioration in the U.S. economy. The Labor Department reported initial jobless claims rose by 16,000 to 351,000 in the week ended September 18th. Economists had estimated new claims would total 320,000. Earlier this month, claims had tumbled to a pandemic-era low of 312,000. Before the pandemic claims were consistently in the low 200,000's. Continuing claims, which counts the number of people already receiving benefits, rose by 131,000 to 2.85 million. This number had fallen to a pandemic low the prior week.

Confidence among the nation's homebuilders improved this month as demand for housing remained strong. The National Association of Home Builders (NAHB) reported its monthly confidence index increased one point to 76 in September. The uptick comes following three months of declines in optimism among home builders. In the details, the index measuring

traffic of prospective buyers notched the largest gain rising two points to 61. The gauge of current sales conditions rose a point to 82. Expectations of future sales over the next six months remained even at 81. Analysts noted the housing market, while off its highs, remains robust. Robert Dietz, chief economist for the NAHB stated in the release, "The single-family building market has moved off the unsustainably hot pace of construction of last fall and has reached a still hot but more stable level of activity."

The Census Bureau reported home builders started construction on homes at a seasonally-adjusted annual rate of 1.62 million in August—a 3.9% increase from the previous month. Compared with the same time last year, housing starts were up 17.4%. Economists had expected housing starts to occur at a 1.55 million rate. The gains in August were driven primarily by an uptick in the higher-margin multifamily (apartments and condominiums) sector. Multifamily starts rose by nearly 22%, whereas single-family starts decreased by roughly 3% on a monthly basis. Notably, the report showed there were nearly 20% more permits issued for multifamily projects in August as compared with July, but only 0.6% more single-family homes. Part of the reason builders are focused on more expensive projects is the high costs they continue to endure. Although lumber prices have dropped from their peak reached earlier this year, the cost of other building materials and labor remain especially high.

Sales of existing homes declined last month as buyers held out for better prices and more options. The National Association of Realtors (NAR) reported home sales dropped 2% in August, as inventory and price remained major concerns for prospective buyers. Compared with the same time last year, sales were down 1.5%. Lawrence Yun, chief economist for the NAR noted in the report that buyers, "are out and about searching, but much more measured about their financial limits, and simply waiting for more inventory." The median sales price of an existing home was up nearly 15% year-over-year at $356,700. Expressed in terms of the months' supply, there was a 2.6-month supply of homes based on the current pace of sales, unchanged from July. A six-month supply of homes is generally considered a "balanced" market.

The U.S. economy is still powering ahead despite a reported spread of the "delta-variant" of the coronavirus according to analytics firm IHS Markit. Business leaders at U.S. manufacturing and services companies are still optimistic about the near future the surveys showed. However, both sectors reported the inability to find qualified workers or get badly needed supplies continued to pose major roadblocks. The preliminary "flash" reading of Markit's services index slid 1.1 points to a 14-month low of 54.4 this month, while the firm's manufacturing index also dipped to a five-month low of 60.5 from 61.1. Despite the declines, analysts were still optimistic. Readings above 50 signify growth and anything above 60 are especially robust.

The Federal Reserve signaled this week it is almost ready to begin tapering its bond-buying program and is considering moving up its timetable for raising interest rates. Chairman Jerome Powell said the Fed could "easily move" in November to announce its scaling back its

bond purchases if the economy continues to make further progress. He also noted that inflation now sharply exceeds the Fed's 2% target, though he stuck to his view that inflation is "transitory". He said Fed officials think it's appropriate for the tapering program to be gradual and end "around the middle of next year." The Fed has been buying $80 billion in Treasuries and $40 billion in mortgage-backed securities each month since last summer to keep long-term interest rates low and spur demand as the economy recovered from the coronavirus pandemic.

International Economic News: Economists warned Canada's Prime Minister Justin Trudeau risked further fueling Canada's already hot inflation if he presses ahead with the spending plans outlined during his election campaign. Trudeau's liberal party pledged C$78 billion ($61.6 billion USD) in new spending over the next 5 years—about 4% of Canada's gross domestic product. That would be on top of the C$101 billion in extra spending over three years passed earlier this year. Tony Stillo, director of Canada economics at Oxford Economics wrote, "When you start to see this sort of stimulus hitting the economy ... we think it could prompt the Bank of Canada to respond." In August, Canada's inflation rate accelerated to its highest level in 18 years at 4.1%--well above the BOC's 1-3% target.

Across the Atlantic, economic growth in the United Kingdom slowed to its weakest level since COVID rules were eased in March. Like much of the rest of the world, severe shortages of workers and supplies dragged down economic growth in Britain. The latest reading from IHS Markit and the Chartered Institute of Procurement and Supply showed growth in the private sector slowed in September as firms experienced severe shortages while costs rose at their fastest pace since the late 1990's. The Markit/CIPS flash PMI dropped 0.7 point to 54.1 this month. Economists had been expecting a reading of 54.5. Business expectations for the year ahead fell to their lowest since January, while new orders fell to a 7-month low.

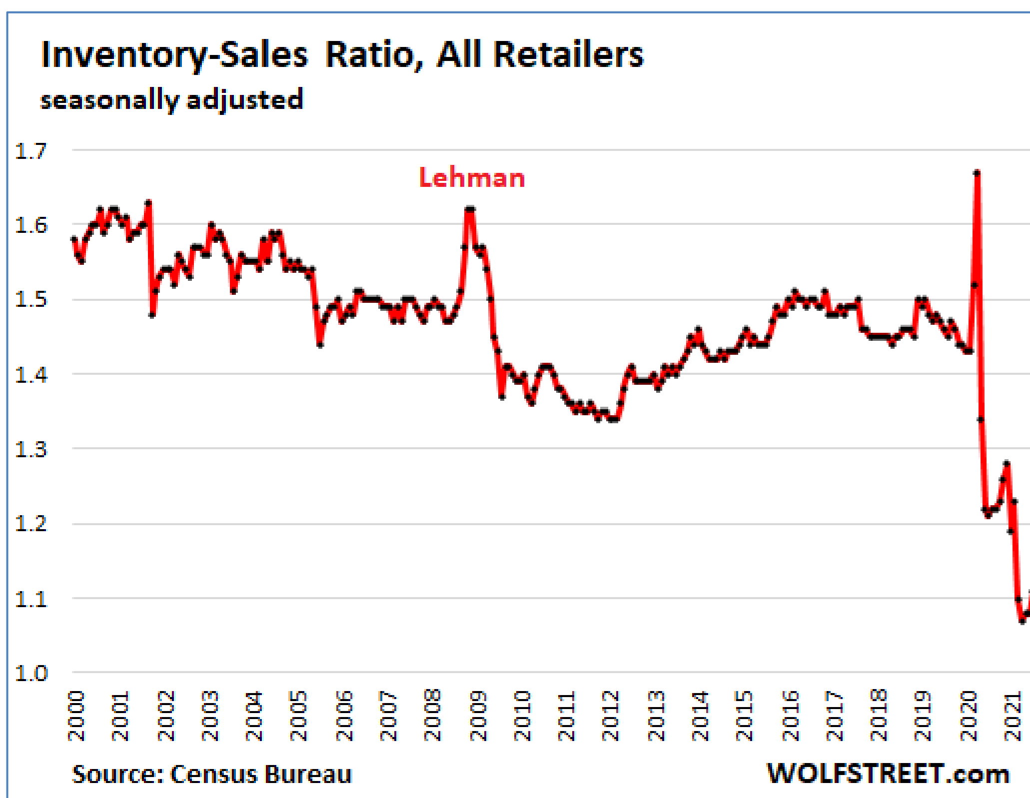
On Europe's mainland, Germany's Ifo Economic Institute cut its growth forecast for Europe's largest economy for this year over disruptions in the supply chain and the scarcity of semiconductor chips and other intermediate goods. The institute now sees Germany's GDP growing 2.5% this year, down 0.8% from its previous forecast. The weaker-than-expected growth forecast also shows Germany's next government will inherit a still-fragile recovery from Chancellor Angela Merkel who is stepping down this month after 16 years in power. Ifo chief economist Timo Wollmershaeuser said in the report, "The strong recovery from the coronavirus crisis, originally expected for the summer, is further postponed."

In Asia, the massive Chinese property developer, Evergrande Group, continued on the brink of default this week, sending fears through financial markets that a collapse could trigger a chain reaction. The developer said this week it had reached a deal that would give it some short-term liquidity to pay its short-term debt obligations. However, some analysts believe Evergrande's problems could be just a symptom of a broader threat to China's economy. They note China's growth is demonstrably slowing, with retail sales much weaker than

expected last month, industrial production down and property developers sharply reducing new housing projects.

The Bank of Japan maintained a status quo on its key short-term interest rates and issued a bleak commentary on factory output and exports. The BOJ kept its short-term interest rate target at -0.1% while the yield for the 10-year government bond was kept at around 0%. The central bank warned that the employment and income situation remained weak due to COVID, while private consumption remained stagnant due to sustained downward pressure on services consumption. The weaker readings weighed on sentiment; however they reinforced the belief that Japan may not follow its global peers in pursuing a rollback of pandemic-era stimulus measures.

Finally: Most people haven't even begun to think about doing their Christmas shopping; after all it isn't even Halloween. But maybe you should. Retailers attempting to stock up for the holiday selling season are facing all kinds of shortages, transportation chaos, and surging prices. As analysts at WolfStreet.com point out, the inventory-to-sales ratio (inventories divided by sales, a standard metric of supply, which cancels out the impact of inflation) started collapsing last year. In May, the ratio hit an all-time low in the data going back to 1992, and has only regained a small amount since. Memories of 80's era fistfights over Cabbage Patch Kids dolls come to mind… (Chart by WolfStreet.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.

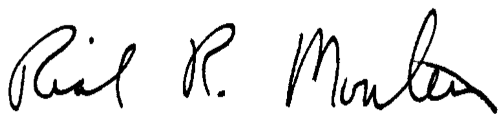
We discuss many of these issues on the weekly radio show and invite you to listen.

WEEKLY FOCUS – THINK ABOUT IT

"I continue to believe that the American people have a love-hate relationship with inflation. They hate inflation but love everything that causes it."

William E. Simon – American Public Servant

Yours truly,



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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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https://www.mauldineconomics.com/frontlinethoughts/inflation-more-transitory-than-expected =!
https://www.brainyquote.com/quotes/william_e_simon_177936?src=t_inflation

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.)