MOULTON WEALTH MANAGEMENT INC.

"MOLTEN HOT" MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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If you believe inflation will continue to run hot and lean more towards persistent than transitory, you'd better have a plan to protect your investment accounts.

First, to be clear, this is not our position. We think a lot of the current inflation push resulted from a supply/demand mismatch. At a time that businesses were shuttered and employees stayed home, dramatically reducing supply, consumers flush with government checks decided they might as well spend the free money, boosting demand. When demand rises faster than supply, prices rise.

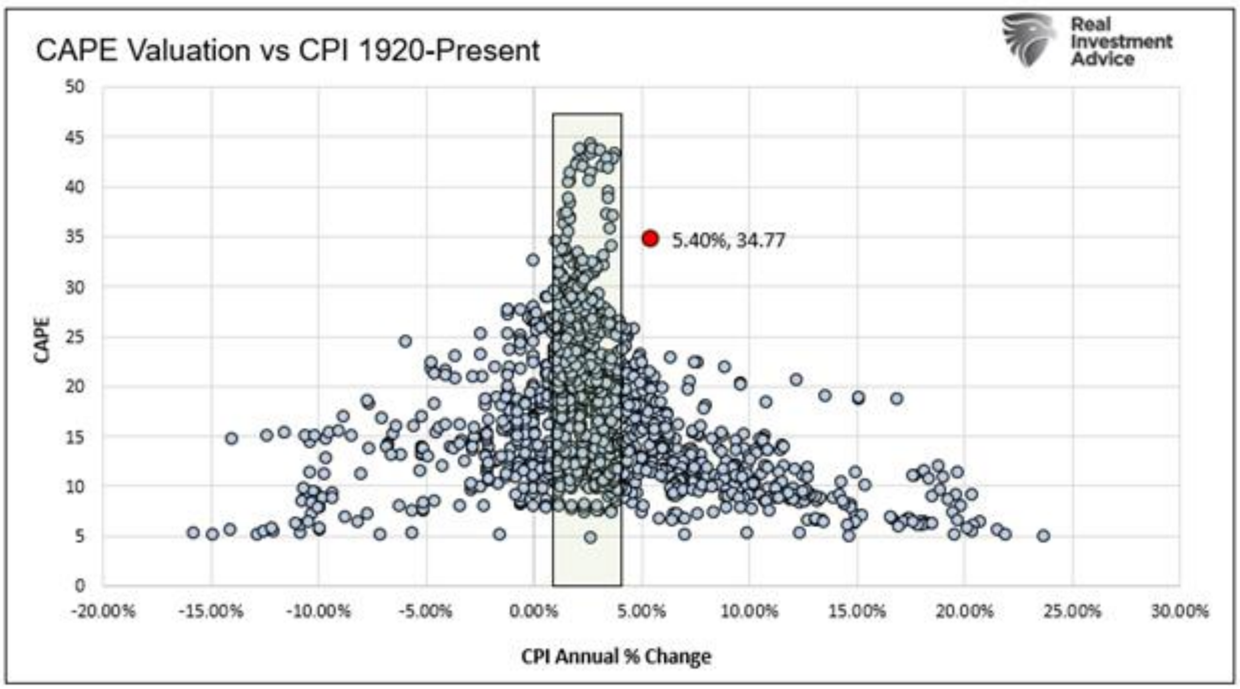
Having said that, it's less clear how long this mismatch might continue. And the longer it continues, the higher the risk to stock prices.

It's just the most recent reason we are happy to have a mathematically based defensive sell system integrated in our investment process.

Do you?

The stock market likes stability. The more stable and "predictable" factors are, the higher prices investors are willing to pay for stocks. High inflation adds instability. As such, when we consider 10 year CAPE stock valuations back to 1920, we find that valuations have historically been highest during periods of 1%-4% CPI inflation. If inflation gets above 4% or below 1% valuations drop.

The following chart from Michael Lebowitz of RIA Advice shows past CAPE valuations vs inflation with the **red dot** being today.



Before today's red instance, the highest CAPE ratio occurring when inflation ran between 5% and 6% was 22.42. At the current 34.77 CAPE ratio, the S&P-500 would have to fall 36% to reach 22.42.

Further, corporate profit margins are historically highest when inflation is low but see margins decline (i.e. less profits) when inflation rises. Profit margins are now at their highest level since at least 1947. If inflation stays persistent or continues even higher, profit margins should decline.

If earnings compress at the same time valuations fall, stocks prices could decline by 40%-50%, or more, to match previous, similar historic economic constructs.

We still maintain a deflationary bias longer term largely due to debt and demographics. But we don't know what the future holds, nor does anyone else.

What we do know is the Fed is running policy as if the economy were in a depression when in fact, it's booming. More inflation, or more persistent inflation, is at least possible, especially in the near term.

Few have invested in an economic environment we find today. Weigh the risks carefully and decide what your plan is, or what it should be.

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™?

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

What's Your Risk Number?

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: Most of the major U.S. benchmark indexes moved to record highs this week, propelled by a series of positive earnings surprises. The Dow Jones Industrial Average rose 382 points last week closing at 35,677—a gain of 1.1%. The technology-heavy NASDAQ Composite crossed the 15,000 level with a 193-point gain, up 1.3%. By market cap, the large cap S&P 500 gained 1.6%, while the mid cap S&P 400 and small cap Russell 2000 rose 1.8% and 1.1%, respectively.

International Markets: International markets were mixed for the week. Canada's TSX gained 1.4%, while the United Kingdom's FTSE 100 shed -0.4%. France's CAC 40 ticked up 0.1%, while Germany's DAX declined -0.3%. In Asia, China's Shanghai Composite managed a 0.3% gain. Japan's Nikkei gave up some of last week's strong up move by retracing -0.9%. As grouped by Morgan Stanley Capital International, developed markets rose 0.7% and emerging markets gained 0.2%.

Commodities: Precious metals finished the week solidly to the upside. Gold rose 1.6% to $1796.30 per ounce, while Silver surged 4.7% to $24.45. Energy continued its strong uptrend finishing up for a ninth consecutive week. West Texas Intermediate crude oil rose 2.5% to $83.76 per barrel. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, retraced much of last week's surge finishing the week down -4.9%.

U.S. Economic News: The number of Americans filing for first-time unemployment benefits fell again last week to a new pandemic low, as companies retained the workers they already have amid the biggest labor shortage in decades. The Labor Department reported new jobless claims dropped by 6,000 to just 290,000. Economists had expected new claims to total 300,000. New jobless claims fell the most last week in Virginia, Pennsylvania and Michigan. The only state to post a big increase was California. Meanwhile, the number of people already collecting benefits, known as "continuing claims", declined by 122,000 to 2.48 million. That number is also at a pandemic low.

Sales of existing homes rose in September as the threat of rising mortgage rates compelled some buyers to lock in deals before the window of opportunity closed. The National Association of Realtors (NAR) reported existing home sales increased 7% to a seasonally-adjusted annual rate of 6.29 million. Economists had expected only 6.1 million homes to change hands. Lawrence Yun, chief economist for the NAR stated rising inventory in previous months allowed for September's increase. Total housing inventory fell 0.8% between August and September, and was down 13% compared to a year ago. As of the end of the month, there was just a 2.4 months' supply of existing homes available. Analysts consider a 6-month supply a "balanced" housing market. The median price for an existing home was $352,800, up more than 13% from a year ago. On a regional basis, every part of the country saw an increase in sales, led by an 8.6% jump in the South.

Sentiment among home builders improved for the second consecutive month, rebounding further from the low point reached at the end of summer. The National Association of Home Builders' (NAHB) reported its monthly confidence index increased four points to a reading of 80 in October. The figure represents the highest confidence since July. Shortages of both skilled labor and key building supplies continued to weigh on the industry. The NAHB chairman Chuck Fowke, a custom home builder from Tampa, FL., wrote in the report, "Although demand and home sales remain strong, builders continue to grapple with ongoing supply chain disruptions and labor shortages that are delaying completion times and putting upward pressure on building material and home prices." All regions saw a monthly increase in builder confidence. However, over the past three months, builder sentiment was flat across the Northeast, the South and the West, only rising slightly in the Midwest.

Despite the improved sentiment from builders noted above the U.S. Census Bureau reported its measure of home construction fell in September. Builders started construction on an annualized rate of 1.56 million homes last month, a 1.6% decline from August. Economists had expected housing starts to occur at a pace of 1.61 million. In addition, permits, which give analysts an indication of future building activity, also dropped in September. Permitting for new homes occurred at a seasonally-adjusted annual rate of 1.59 million, down 7.7% from August. This was in line with the rate of permitting from a year ago but missed expectations of 1.67 million.

Analytics firm IHS Markit reported the dominant services side of the U.S. economy sped up in October after a slowdown the month earlier, and manufacturers also expanded activity in its latest report. A survey of senior executives in service-oriented companies rebounded to a three-month high of 58.2 from 54.9 Markit said, while its survey of manufacturers dipped slightly to 59.2, but remained at high levels. Readings over 50 signal growth, while those over 55 are considered exceptional. Businesses across the board report plenty of demand, but as in other reports, can't find enough workers or supplies to satisfy it. The result was a record rise in the backlog of unfilled orders and prices paid for parts and materials. The shortages have sparked the biggest increase in consumer prices in 30 years, a situation that also won't reverse very quickly. "While the economy looks set for stronger growth in the fourth quarter, the upward rise in inflationary pressures also shows no signs of abating," said Chris Williamson, chief business economist at IHS Markit.

The U.S. economy is still growing at a solid pace, according to the latest "Beige Book" report from the Federal Reserve. The report, a collection of anecdotal submissions from each of its member banks, noted the near-universal reports of a lack of workers and the inability of companies to obtain needed parts and supplies. The latest Beige Book cited labor shortages

26 times compared to just six mentions in January; supply-chain problems 37 times vs. just nine mentions in January and none before the pandemic started in March 2020. The latest Beige Book covers the period from September through early October.

International Economic News: The Canadian government argued in a letter to U.S. congressional leadership that electric vehicle tax credits would cause 'serious harm' to their auto industry. Canadian Trade Minister Mary Ng told lawmakers and officials in the Biden administration that the two nations' auto supply chains are deeply integrated, and the proposed credits "would cause serious and irreparable harm" to both the Canadian and U.S. auto industry. "If passed into law, these credits would have a major adverse impact on the future of EV and automotive production in Canada, resulting in the risk of severe economic harm and tens of thousands of job losses in one of Canada's largest manufacturing sectors," Ng wrote. The EV tax credit proposal is part of Democrats' social safety net and climate legislation currently being debated in Washington.

Across the Atlantic, the Bank of England's top economist stated inflation could surge above 5% early next year in the United Kingdom as product and labor shortages continue to hamper the country's recovery. "I would not be shocked — let's put it that way — if we see an inflation print close to or above 5% (*in the months ahead*)," Huw Pill said. "And that's a very uncomfortable place for a central bank with an inflation target of 2% to be." Inflation has been running near 3% in the United Kingdom as the country's economy bounces back from a steep contraction in 2020 caused by the coronavirus pandemic.

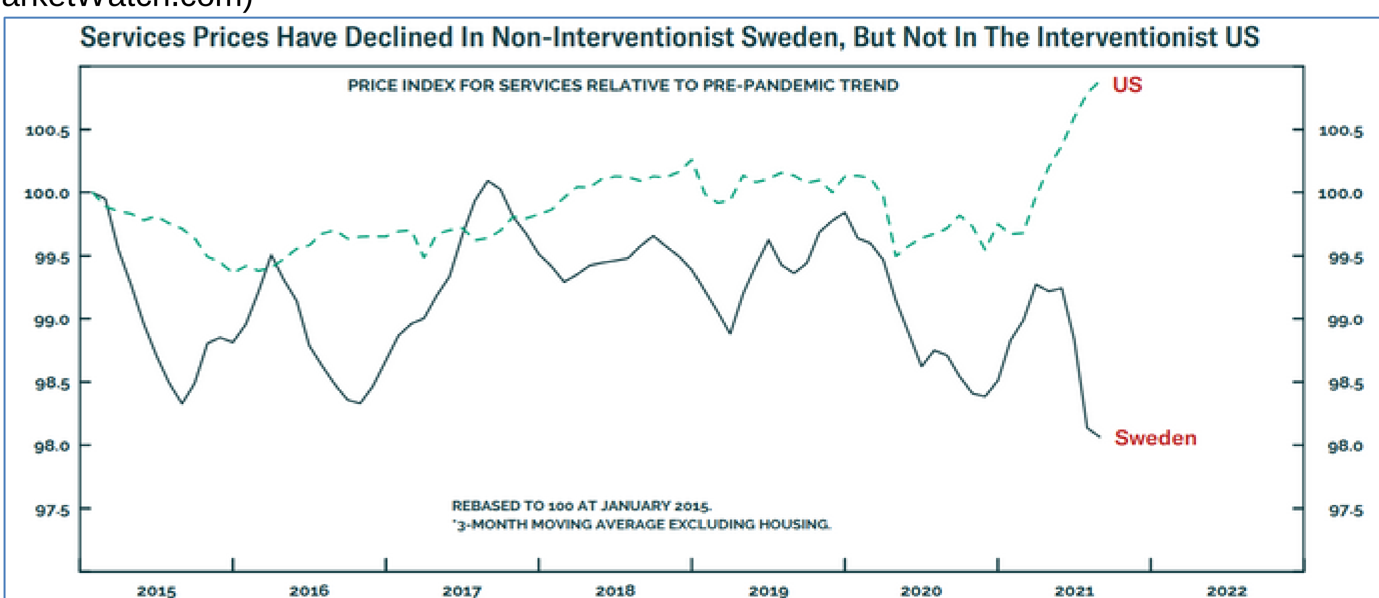
On Europe's mainland, France has announced a €100 handout for people on low to middle incomes and promised to freeze fuel prices in an attempt to quell growing anger over record fuel prices and increased living costs. Government spokesperson Gabriel Attal stated, "We obviously want to protect French people, above all those who work hard and are taking the full force of these price rises." The prime minister, Jean Castex, said the one-off "inflation payout" would be given to all those earning less than €2,000 net a month, including private and public sector workers, the self-employed, job seekers and retired people. Castex said it would affect about 38 million people, and petrol prices would also be "frozen for the whole of 2022."

German businesses have warned that a "veritable economic crisis" looms due to rising fuel prices. The SME Association, which represents small and medium-sized companies, stated its members have gone into meltdown due to the rising costs of both diesel and gasoline. This week, diesel reached a record high price while premium gasoline is approaching its all-time high. As a result of the increase, the SME Association is now calling for petroleum taxes to be reduced and the commuter allowance to be increased. The SME has issued a warning to trade unions that due to the record-high costs, there could be drastic consequences for both the economy and consumers.

In Asia, Leland Miller, chief executive of the China-focused research firm China Beige Book, stated China's property sector slowdown is hurting economic growth, and it remains unclear whether there are new growth drivers to pick up the slack. “The major risk going forward is that as the party intentionally ... deflates the property sector, what is the growth driver that will at least set a floor on growth? Nobody knows yet,” Miller wrote. This week China reported a disappointing 4.9% year-on-year growth in the third quarter. China’s ruling party has stepped up efforts to rein in heavily-indebted property developers like Evergrande, but it has yet to make enough progress in its transition to its goal of a consumption-led economy.

Japan's economic security strategy will focus on the two pillars of "strategic autonomy and indispensability," a top ruling party official said this week. Akira Amari, secretary general of the Liberal Democratic Party (LDP), has in recent years driven a policy push for Japan's economy to be less reliant on other countries, while investing in areas that are indispensable to other countries. "Autonomy means understanding our chokepoints and rectifying them," Amari said. Amari's economic security agenda encompasses a broad portfolio of issues, from protecting sensitive technologies to communications, energy, transportation, maritime logistics, finance and healthcare.

Finally: With inflation in the United States now more than *double* the Federal Reserve’s stated target of 2% inflation, economists have been at odds on whether this is ‘transitory’ or just the beginning of a new monetary trend. With the vast majority of the developed world instituting economic lockdowns and massive government stimulus to combat the COVID-19 pandemic, it makes sense that this would fuel inflation in modernized countries with just-in-time supply chains, negligible spare capacity…and then sudden injections of massive stimulation from governments. However, there is one country that stood alone bucking the global trend—Sweden. That country did not mandate shutdowns or lockdowns and consequently saw no need to over-stimulate the Swedish economy since everyone was still working. Now Sweden’s services inflation level is about 3 percentage points less than the U.S., and within its “normal” range. The $64,000 question: will the US follow suit and see its inflation decline, or will the massive current and proposed stimulation continue to generate unmet demand and consequent inflation? (Chart from BCO Research, published on 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

"Inflation destroys savings, impedes planning, and discourages investment. That means less productivity and a lower standard of living."

Kevin Brady – American Politician

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://realinvestmentadvice.com/persistent-inflation-poses-a-real-threat-to-stock-prices
https://www.brainyquote.com/quotes/kevin_brady_859293

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.)