MOULTON WEALTH MANAGEMENT INC.

"MOLTEN HOT" MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of November 1, 2021

November starts the best three months of the year in regards to historical stock market performance. This aligns nicely with our view that quarter 4 will see growth and inflation rising, an economic construct that is historically favorable for equity returns. However, the longer term data sees 2022 moving to growth and inflation falling, an economic construct historically least favorable for equity returns. This will align with a time that the Fed will be tightening. The combination of the two could very well lead to a recession. This would not be the first time the Fed has made this kind of error. At the same time, largely due to inflation, the Fed won't be nearly as capable to "print the market higher". Be careful.

The financial talking heads and media like to play the "if only you had…" game. In it they look for a stock or commodity or crypto coin that rose an astounding percentage and then say "if only you had put $10,000 into this 5 or 10 years ago it would now be worth $xxx".

One we see a lot currently focuses on Tesla. Tesla's stock *(and this is definitely not recommendation or suggestion to buy or sell anything)* has risen some 1600% since December of 2019. If only you had just put $10,000 in at that time it would be worth ~ $160,000 today.

But how would that have fit into your portfolio?

Obviously one can dream that they went "all in" on Tesla in December of 2019 and now sat on a few million dollars' worth of their stock.

But while that would have been a good gambling decision, it would have been a bad investing decision.

Why?

Because investing at its core is a process of weighing risks and reward, and more importantly, avoiding disaster.

Opportunities come along often but if you've lost a large part of your portfolio you may not be able to take advantage of them.

Back to Tesla. During the amazing run up in just the last ~2 years, the stock suffered declines of -30%, -31%, -39% and -62%! In 2 years that didn't include what we would consider a real bear market (being one that lasts more than a couple months).

How many "investors" would have held through this volatility? Not many we would guess. And those that did likely needed ulcer medication.

Tesla now has a price to earnings ratio of about 330. That means if you buy a share of Tesla at these prices and they paid you "your share" of today's earnings each year, it would take 330 years to recover your investment.

This is not the way to invest in retirement. But it does make us wonder what will happen in a real bear market when many of these very expensive companies run into an economy in recession.

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

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 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. indexes recorded gains and many hit new highs this week as several technology and internet-related giants reported earnings. The Dow Jones Industrial Average rose 143 points to finish at 35,820, a gain of 0.4%. The technology-heavy NASDAQ Composite led the pack with a surge of 2.7% to 15,498. By market cap, the large cap S&P 500 rose 1.3%, while the mid-cap S&P 400 ticked down -0.1%. The small cap Russell 2000 closed up for a third consecutive week, adding 0.3%.

International Markets: International markets finished the week mixed. Canada's TSX shed -0.8%, while the United Kingdom's FTSE 100 rose 0.5%. On Europe's mainland, France's CAC 40 and Germany's DAX gained 1.4% and 0.9%, respectively, while in Asia China's Shanghai Composite declined -1.0%. Japan's Nikkei finished the week up 0.3%. As grouped by Morgan Stanley Capital International, developed markets finished the week unchanged, while emerging markets ended the week down -2.2%.

Commodities: Major commodities finished the week to the downside. Gold declined -0.7% to $1783.90 per ounce, while silver shed -2.1% to $23.95. Oil had its first down week in ten. West Texas Intermediate crude oil declined -0.2% to $83.57 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 down -2.9%.

October Summary: October was very strong for U.S. equities. The Dow gained 5.8% and the NASDAQ surged 7.3%. Large caps rose 6.9%, mid-caps gained 5.8%, and small caps added 4.2%. International markets were mixed for October. Canada rose 4.8%, while the United Kingdom gained 2.1%. France and Germany finished up 4.8% and 2.8%, whereas China and Japan finished down -0.6% and -1.9% respectively. Overall, developed markets gained 3.2% in October while emerging markets added 1.1%. Most commodities continued to push higher. Oil surged 11.4%, copper finished the month up 6.8%, while gold and silver rose 1.5% and 8.6%.

U.S. Economic News: The number of Americans filing for first-time unemployment benefits fell to a new pandemic low as companies continue to work with the employees they have and seek to hire more. The Labor Department reported new jobless claims fell to 281,000 last week—the lowest since March of last year and better than economists' estimates. Economists had predicted new claims would total 289,000. Companies continue to report difficulty finding qualified workers for open positions. For a variety of reasons, more than 3 million workers have left the workforce during the coronavirus pandemic. Continuing claims, which counts the number of Americans already receiving benefits, also fell sharply. That number fell to 2.243 million from 2.480 million—also the lowest since March.

The rate of increase in home prices growth slowed in August. S&P CoreLogic reported its Case-Shiller Home Price index showed home prices increased 19.8% from a year ago in August, roughly in line with the previous month's reading. The separate 20-city index, which measures home prices among a group of major metropolitan areas, notched a similar 19.7% annual gain, down slightly from the previous month. Craig J. Lazzara, managing director and global head of index investment strategy at S&P DJI, wrote in the report, "Every one of our city and composite indices stands at its all-time high, and year-over-year price growth continues to be very strong, although moderating somewhat from last month's levels." Phoenix and San Diego remained the top two cities with the largest annual gains, up 33.3% and 26.2% respectively.

Sales of new homes soared last month as did the prices paid for them according to the latest data from the Census Bureau. New home sales increased 14% to an annual rate of 800,000 in September, exceeding the median forecast of 760,000. Most notably, the median sales price of a new home was $408,800—a record high for new home sales. By region, the Northeast saw the largest percentage gain in new-home sales, while the Midwest was the only region to record a decrease. The housing market is entering a more "balanced" period as there is currently a 5.7-month supply of new homes on the market. Six months of supply is generally considered a "balanced" housing market.

The confidence of American consumers improved this month, following three straight months of declines. The Conference Board stated its index of consumer confidence rose to 113.8 in October, up 4 points from the prior month. Economists had expected a decline to 108. Consumer confidence has waned since the index hit 128.9 in June, presumably due to the rising prices faced by shoppers. In the details, the part of the survey that tracks how consumers feel about current economic conditions rose to 147.4 this month from 144.3 in September. The index tracking what Americans expect over the next six months rose to 91.3 from 86.7. A short-term gauge of inflation concerns rose to a 13-year high.

Orders for goods expected to last at least three years, so-called 'durable goods', declined last month pulled down by few orders for new vehicles and airplanes. The Commerce Department reported U.S. durable-goods orders fell 0.4% in September, after a 1.3% rise in the prior month. Economists had expected a 1% decline. This was the first decline in five months. Excluding transportation, orders increased 0.4%, matching expectations. Transportation equipment drove the decline last month—down 2.3%, a reflection of the supply problems in the auto market. However, analysts remained optimistic that this wasn't a bad report. Michael Pearce, senior U.S. economist at Capital Economics wrote in a note to clients, "The strong increase in underlying orders and shipments suggests that demand remains rock solid."

Consumers dipped into their savings to keep the good times rolling in September according to the Commerce Department. Consumer spending rose 0.6% in September (in-line with forecasts) while personal income slumped -1% following a 0.2% gain the prior month. The result was that the personal savings rate fell to 7.5% from 9.2%--slightly below its pre-pandemic level. The 12-month increase in the Personal Consumption Expenditures Index (the Federal Reserve's preferred inflation gauge) rose to 4.4% in September, up 0.2% from the prior month. That's well above the Fed's 2% annual target rate. The core PCE, which strips out food and energy, held steady at 3.6% on an annual basis.

International Economic News: Bank of Canada Governor Tiff Macklem told reporters that interest rates could be hiked as soon as April 2022 and said inflation would stay above target through much of next year. As expected, the central bank held its key overnight interest rate at 0.25% and announced it was ending its bond-buying program citing the nation's robust economic growth. "We now expect slack to be absorbed sooner, and that signals that we will be considering raising interest rates sooner than we previously thought," Macklem said. The Bank had previously forecast a full recovery would happen sometime in the second half of 2022 and that it would keep rates at current levels until that happened. "It's a bit of a hawkish surprise," said Andrew Kelvin, chief Canada strategist at TD Securities.

Across the Atlantic, economists in Britain are worried about a new trend in the UK economy—sluggish exports. Britain's export performance is slipping behind other developed countries as the world recovers from the coronavirus pandemic. In the three months to August, exports of UK goods were down 13% compared with the same period in 2019, while services were down 14%. Jonathan Portes, professor of economics at King's College London, said UK export performance "has really been quite poor" compared with peer countries and relative to the wider UK economy, which has nearly recovered to pre-pandemic levels. "This is possibly the single most worrying thing about post-Brexit, post-pandemic developments in the UK economy…because it's UK specific," he added.

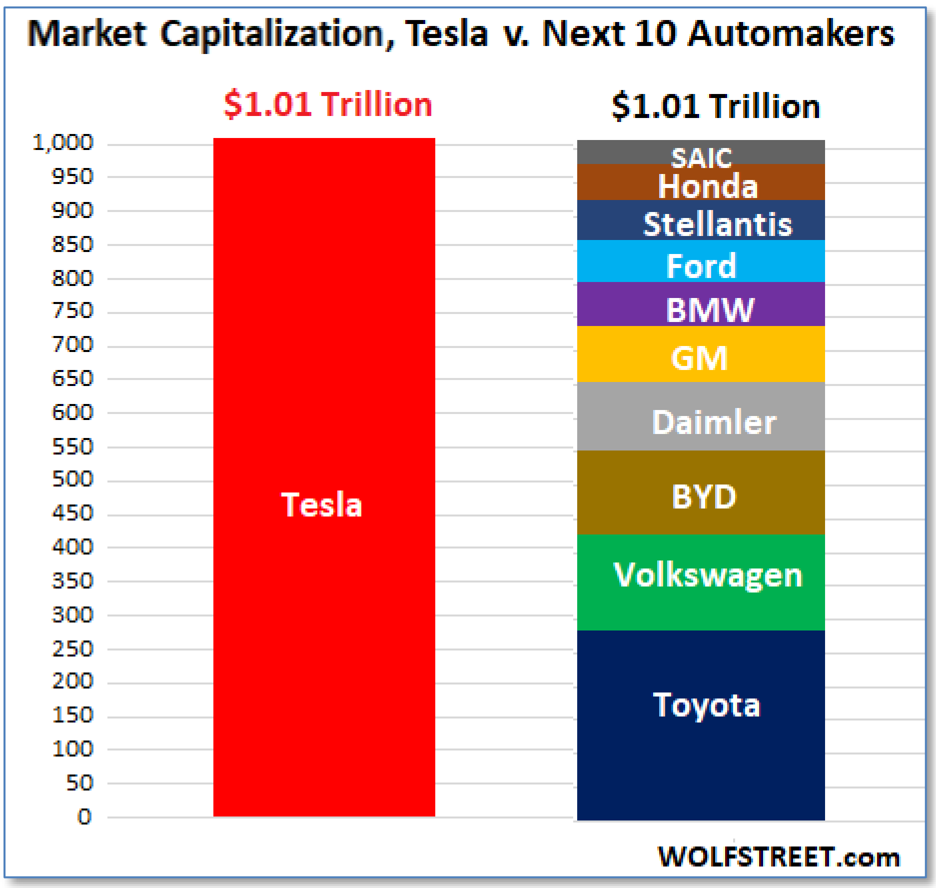
On Europe's mainland, France announced that it will bar British fishing boats from some French ports starting next week if no deal is reached with the United Kingdom in a dispute over fishing licenses. French authorities fined two British fishing vessels and kept one in port overnight after the U.K. and the Channel Island of Jersey refused dozens of French fishing boats a license to operate in their territorial waters. Jersey, which is only 14 miles off the French coast, is a British Crown dependency. Since the U.K. left the economic orbit of the European Union at the start of the year, relations between London and Paris have become increasingly frayed.

The German government has cut its economic growth forecast for this year to 2.6%, but lifted its estimate for next year to 4.1% as supply problems are delaying the recovery in Europe's largest economy. The revised government forecast for gross domestic product growth compares with an April prediction for the economy to grow by 3.5% in 2021 and by 3.6% in 2022. For 2023, the government now expects economic growth to normalize with an expansion rate of 1.6%. Analysts state the scarcity of semiconductors and other intermediate goods, as well as raw materials, is holding back German manufacturing output.

In Asia, senior analyst for China at Autonomous Research Charlene Chu stated the risk of 'stagflation' (rising inflation in a stagnant economy) is "very real" in China over the next couple of quarters. China's producer price index jumped 10.7% last month compared with the same time a year earlier—the fastest pace since 1996 when the data started. At the same time, power cuts across the country have prompted several analysts to slash their GDP forecasts. Chu stated this combination of factors has made it difficult for Chinese authorities to stimulate the economy in a big way. In addition to the power crunch that has hurt factory production, a slowdown in the real estate sector has also dampened growth forecasts.

The Japanese yen's recent slide to a three-year low against the U.S. dollar has Japan's citizens worried it could hurt businesses and consumer sentiment by making things even more expensive. But Bank of Japan Governor Kuroda dismissed those concerns saying a weak yen does more good than harm. Kuroda noted the positives of a weaker yen, which boosts the value of overseas corporate earnings when converted into the Japanese currency. "The positive impact substantially outweighs the negative," he said. "The current yen weakness is positive for the economy, without a doubt." Kuroda, a former currency diplomat at the Ministry of Finance, described the current yen-dollar rate as undervalued, but only slightly.

Finally: Shares of Tesla surged over 22% this week, pushing the company's market capitalization to over $1.01 trillion. Tesla now has a price-to-earnings (P/E) ratio of over 330 in an industry where P/E ratios of 10 to 30 are typical. With its current market cap, Tesla is now worth as much as the next 10 most valuable global automakers *combined*, as this chart from wolfstreet.com illustrates. Ridiculous, or prescient? Time will tell.



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

"Investors value consistency. Gamblers value speed."

Unknown

Yours truly,

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

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.)