MOULTON WEALTH MANAGEMENT INC.

"MOLTEN HOT" MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of November 8, 2021

October's jobs number was announced last Friday with the US adding 531,000 jobs. Equally important were August and September's jobs numbers being revised up by 117,000 and 118,000 respectively. That means that over the last three months we've added jobs at a pace of about 433,333 per month. For some time we've suggested that the economy would track Covid cases on an inverse basis and it looks to be happening.

This is all happening at a time Wall Street is concerned about a slowing economy the opposite is more likely… at least for the next few months.

The market is currently overbought with the S&P-500 ending positive 16 of the last 18 trading days. As such a pullback should not only be expected, it should be welcomed as a buying opportunity.

Having said that, we can't be clearer that the near term is the near term and shouldn't be extrapolated to "forever". There's a good chance the economic construct will transition from one of growth and inflation rising in rate of change, to growth rising and inflation falling, to growth and inflation falling. The difference between each from a portfolio perspective is important to note.

Both growth and inflation rising in rate of change (the current construct) and growth rising and inflation falling (likely the next construct) are historically positive for stock prices, though nuanced to sectors.

However growth and inflation falling is decidedly negative for stock prices, and pretty much across the board.

When will these transitions happen? We suspect we'll be through the first two and into the third by early next year, but will continue tracking the data.

This is even more concerning given that the Fed will be less able to "print and prop" up the markets. Since at least 2008, the Fed has initiated various printing and propping (Quantitative Easing) programs every time the market appeared it might head lower. They were able to do

so with relative impunity because they were also actively trying to increase inflation. Printing to prop should have been inflationary, in theory, and as such in line with their overall goals. However, they are now going to be actively trying to contain inflation.

Remember – and this is key – Fed actions taken today don't circulate through and ultimately impact the economy for some nine months. The Fed could taper and tighten monetary policy during the next several months, thinking higher growth and inflation support their actions, only to find that by the time those actions actually impact the economy, growth and inflation had already begun to decline on their own. Fed actions designed to slow the economy, on top of an economy already slowing, is how many past Fed actions have pushed us into recessions.

And the strong jobs numbers may encourage them to act even faster.

If Fed actions push us into a recession…

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: U.S. stocks posted impressive gains for the week following healthy economic data, strong earnings reports, and a relatively dovish Federal Reserve policy meeting. The Dow Jones Industrial Average, benchmark S&P 500 index, and the technology-heavy NASDAQ Composite all reached record highs. The Dow cleared the 36,000 milestone with a 508 point gain to 36,328—an increase of 1.4%. The NASDAQ rose for a fifth consecutive week closing at 15,972, a gain of 3.1%. By market cap, the large cap S&P 500 finished up 2.0%, while the mid cap S&P 400 and small cap Russell 2000 finished the week strongly, up 4.0% and 6.1% respectively.

International Markets: Major international markets finished the week predominantly in the green. Canada's TSX rose 2.0% and the United Kingdom's FTSE 100 gained 0.9%. On Europe's mainland, France's CAC 40 and Germany's DAX finished up 3.1% and 2.3%, respectively. In Asia, China's Shanghai Composite declined -1.6% while Japan's Nikkei added 2.5%. As grouped by Morgan Stanley Capital International, developed markets rose 1.7%, while emerging markets finished the week unchanged.

Commodities: Precious metals finished the week solidly to the upside. Gold rose $32.90 to $1816.80 per ounce, a gain of 1.8%. Silver added 0.9% closing at $24.16 per ounce. Oil closed down for a second week, declining -2.8% to $81.27 per barrel of West Texas Intermediate crude. The industrial metal copper, viewed by some analysts as a barometer or world economic health due to its wide variety of uses, finished the week down -0.6%.

U.S. Economic News: The number of Americans filing first-time unemployment claims hit a new pandemic low as firms continued to retain the workers they already have (and continued to search for new ones). The Labor Department reported new jobless claims dropped by 14,000 to 269,000 last week. Economists had expected claims to total 275,000. Last month new unemployment filings dropped below the key 300,000 level for the first time since the start of the viral outbreak in March 2020. New jobless claims declined the most last week in Florida and Missouri. The only states to post sizable increases were Kentucky and California. Continuing claims, which counts the number of people already receiving benefits, fell by 134,000 to 2.1 million. That number is at a pandemic low.

The U.S. job market snapped back in October as the number of new jobs created smashed economists' expectations. The Labor Department reported nonfarm payrolls rose by 531,000 bringing the unemployment rate down to 4.6%. Economists had expected just 450,000 new jobs would be created. Private payrolls were even stronger, rising by 604,000. A loss of 73,000 government jobs pulled down the headline number (the "loss" was actually a seasonal adjustment and not a true loss of jobs). October's gains were a sharp pickup from September's 312,000 new jobs created. Given the solid report, analysts were optimistic about the future. Nick Bunker, economic research director at job placement site Indeed stated, "If this is the sort of job growth we will see in the next several months, we are on a solid path." The critical leisure and hospitality sector led the way with 164,000 new jobs, followed by professional and business service (100,000), and manufacturing (60,000). The labor force participation rate held steady at 61.6%. That number remains 1.7 points below its February 2020 level indicating roughly 3 million fewer Americans are currently in the workforce.

Manufacturing activity in the United States remained robust in October despite numerous hurdles, a closely-watched survey found. The Institute for Supply Management (ISM) reported its index for manufacturers ticked lower last month to 60.8 from 61.1 in the prior month. However, analysts still viewed this as a positive report. Readings over 50 signify growth and any readings over 60 are considered exceptional. Furthermore, the reading exceeded economists' expectations of 60.3. The index has been above its growth threshold for 17 consecutive months. In the details, there was a notable drop in the new orders index to 59.8 and production ticked down 0.1 point to 59.3. Manufacturers continue to struggle with a trifecta of shortages of supplies, labor, and now shipping difficulties. Despite these constraints, the sector continues to grow and sentiment in the industry remains strong.

In the vastly larger services side of the economy, the Institute for Supply Management (ISM) reported its sentiment index for that sector soared in October. ISM reported its services index jumped to a record 66.7 last month—up 4.8 points from September. The increase was much bigger than Wall Street expected. Economists had forecast ISM's services index to come in at 62. Analysts believe a fall in the number of coronavirus cases gave Americans the confidence to go outside again and spend more freely at restaurants, hotels, and other service-related businesses. The biggest worry among executives remains the shortages of both workers and supplies. New orders and production both rose to record highs in all 18 industries tracked by ISM. "Demand is red-hot," said senior U.S. economist Andrew Hunter of Capital Economics, but "supply is still struggling to keep up."

In a key announcement this week, the Federal Reserve announced it will begin to wind-down its bond-buying program designed to prop-up the economy during the darkest days of the pandemic. The Fed started buying trillions of dollars of bonds when the pandemic struck in early 2020, eventually slowing the pace to $120 billion per month. The central bank's balance sheet has topped $8 trillion. Last December, the Fed had stated it would continue to buy bonds until the economy made "substantial" progress towards its goal of 2% inflation and a healthy labor market. This week, the Fed said it would reduce the pace of purchases to just $15 billion per month for November and December and added that "similar reductions in the pace of net asset purchases will likely be appropriate each month." Still, the Fed stressed it was keeping all options on the table writing the FOMC "is prepared to adjust the pace of purchases if warranted by changes in the economic outlook." If the Fed proceeds at the pace set out, it will complete the bond-buying program in the middle of 2022. In its policy statement, the Fed switched the language to say that inflation was elevated due to factors "that are expected" to be transitory.

International Economic News: Canada's banks have gotten the green light to resume share buybacks and increase their dividends after regulators removed restrictions put in place to protect the financial system during panic. Canada's Office of the Superintendent of Financial Institutions (OSFI) said in addition to the above, banks may also increase executive compensation. Peter Routledge, head of the OSFI said he did not believe that lifting the restrictions "will detract from financial institutions' ability to support the economic recovery or from public confidence in the Canadian financial system." The decision was made after banks began to release provisions for loan losses in recent quarters and Canadians returned to making mortgage payments after their six-month deferrals ended without a wave of defaults, Routledge said.

Across the Atlantic, business activity in the United Kingdom hit a three-month high in October exceeding expectations and indicating the economy remains on an upward trajectory. Research firm IHS/Markit reported its composite Purchasing Managers' Index (PMI) was 57.8 in October, up from 54.9 in September and above the earlier "flash" reading of 56.8. The reading indicates the UK's post-lockdown recovery remains robust. October's increase was driven by services, where reported activity rose to 59.1—the highest reading since July. Duncan Brock, group director at the Chartered Institute of Procurement and Supply, said the rise was driven by domestic markets but also export orders increased to the highest level since 2018 as travel opportunities reopened.

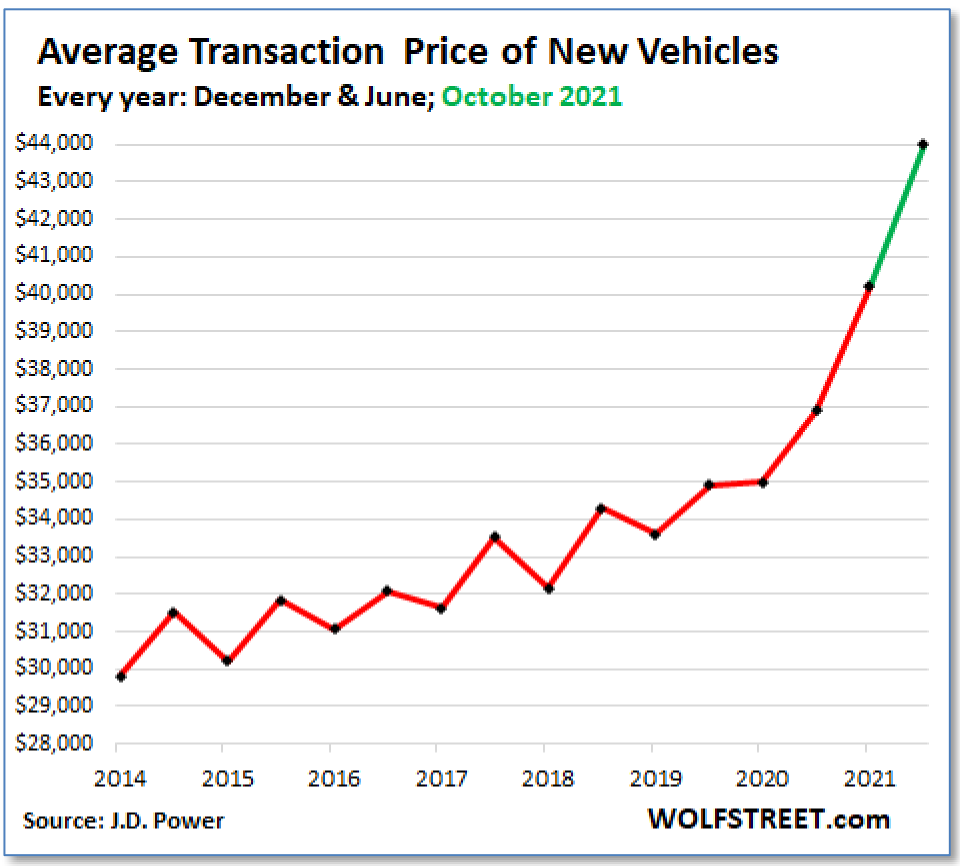
On Europe's mainland, French President Emmanuel Macron said he was postponing planned trade sanctions on Britain so that negotiators from both sides could work on new proposals to settle their dispute over post-Brexit fishing rights. Earlier, France had said it would restrict cross-Channel trade threatening to turn a disagreement over fishing into a wider trade dispute between two of Europe's biggest economies. The measures threatened by France include increased border and sanitary checks on goods from Britain and banning British vessels from some French ports, steps that have the potential to bring cross-Channel trade to a crawl. "We welcome France's acknowledgement that in-depth discussions are needed to resolve the range of difficulties in the UK/EU relationship," a UK government spokesperson said in a statement.

Industrial production in Germany unexpectedly fell in September as supply bottlenecks continued to take a toll on Europe's largest economy. Germany's Federal Statistics Office reported industrial output fell 1.1% on the month. Economists had expected a 1% decline. Compared with the previous quarter, production in the manufacturing sector fell by 2.4% in the third quarter and remains 9.5% lower than in February of 2020—right before the pandemic emerged. The fall was driven by a drop in the production of mechanical engineering, electrical equipment, and data processing equipment sectors, the economy ministry said. Thomas Gitzel, an economist at VP Bank, said Germany's industrial production outlook remains bleak as companies expect material shortages to persist until the end of next year.

In Asia, President Xi Jinping said China is open to negotiations on subsidies to its industrial firms as well as state-owned companies, key points of trade tensions with the U.S. Xi said China will take an "active and open" attitude to talks on issues such as the digital economy, trade, the environment, industrial subsidies, and state-owned enterprises. The U.S. has long-standing concerns about the state-controlled structure of China's economy and subsidies, and has repeatedly protested China's "unfair, non-market practices." Xi outlined a number of steps he would take to expand imports including building new zones for import facilitation, shortening China's "negative list" for foreign investment, and expanding the number of industries where foreign investment is encouraged.

Japan's household spending fell almost -2.0% in September from the same time last year as consumption was weighed down by sluggish car sales and a prolonged state of emergency over the coronavirus pandemic, government data showed. In the report, transportation and telecommunication outlays declined 6.5%, contributing the most to the overall decrease. Spending on vehicles has slowed and parts supplies have been disrupted by surges in coronavirus infections in Southeast Asia. A 3.5% fall in expenditures on food, including dining out, also weighed. Officials don't expect consumer spending to improve anytime soon. "The situation over the virus is getting better, but household spending is unlikely to recover rapidly since the government has been relaxing (anti-virus measures) in stages," a ministry official said.

Finally: The average price of a new vehicle has spiked about 25% since the start of the pandemic, from about $35,000 to a whopping $44,000, according to auto data firm J.D. Power. Shortages of key materials, such as semiconductors, have not only limited the number of vehicles being produced, but also incentivized automakers to build only the most expensive, highest-trim versions of their vehicles. The result: automakers and dealers are making enormous amounts of gross profits per vehicle sold in their showrooms in a "take or leave it" scenario. In October, dealers made on average $5,129 per unit in gross profit, including contributions from finance and insurance (F&I) sales, smashing the prior record and up an amazing 75% from the same time last year. (Data: J.D. Power, chart: 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

"You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets."

Peter Lynch – Portfolio Manager

Yours truly,

Rial R. Moulton, CFP®, CPA / PFS, RFC
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Donald J. Moulton, CFP®, RFC
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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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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.)