MOULTON WEALTH MANAGEMENT INC.

"MOLTEN HOT" MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

DONALD J. MOULTON
CFP®, RFC

www.moultonwealth.com

RIAL R. MOULTON
CFP®, CPA/PFS, RFC

Week of November 15, 2021

Inflation came in hot this past week with CPI hitting +6.2% year over year and +0.9% month over month. John Mauldin speculates, and we agree, that +8% is not out of the question into next year. However as we get into April and May 2022 those numbers should come down if for no other reason than harder comparisons. Inflation in April and May of 2021 was already up +4%. In comparison October year over year 2019 to 2020 was only +1.2%

These inflation numbers are the highest since July 2008 and before that October 1990. Interestingly, both of those dates were during recessions. Neither of those past dates prompted the Fed to raise rates and after both times, inflation and Treasury bond yields plunged.

UP COMING SEMINARS

BRING A GUEST

- DECEMBER 2ND @ 9:30 AM – SPOKANE
  (BREAKFAST)
- DECEMBER 8TH @ 11:00 AM – RICHLAND

DUE TO COVID RESTRICTIONS RESERVATIONS REQUIRED!

CALL **509-922-3110** TO RESERVE A SEAT!

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

In fact according to David Bahnsen, the likely cause of this inflation was not Fed QE but instead the massive fiscal stimulus provided by Congress. Now that it is mostly spent, he argues, growth (and inflation) will likely fall. His chart follows.

Economic growth and inflation are still driven by demand, and demand depends on income. Next year could see slowing GDP even as inflation stays somewhat high.

Where does that leave us?

We warned in last week's newsletter our fear that the Fed would begin tightening into an economy that was already slowing. Higher inflation puts extra pressure on the Fed to act more aggressively.

Unfortunately the Fed only has bad options. Doing nothing is bad. Reducing QE or worse, raising rates, will likely be bad for the stock market. And if they do so into a slowing economy

LISTEN TO RIAL AND DON'S RADIO SHOW, "YOUR MONEY MATTERS", EVERY SATURDAY MORNING AT 8:00 AM ON KXLY RADIO CHANNEL 920 AM IN SPOKANE AND AT 9:30 AM ON NEWSTALK RADIO CHANNEL 870 AM IN THE TRI-CITIES AREA OR LISTEN LIVE AT WWW.NEWSTALK870.AM AGAIN AT 9:30 EACH SATURDAY MORNING…

(BOTH SHOWS ARE ALSO AVAILABLE LIVE VIA THE INTERNET)

it could very well usher in a recession and “real” bear market. Except this bear market could include falling bond prices coupled with falling stock prices, something very few have actually experienced.

John concludes by suggesting we all expect a very volatile 2022 and that we all should consider how we’re going to protect against large market declines.

For us, it’s our sell discipline.

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.

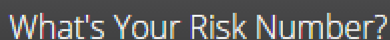
If you didn't like what happened to your portfolio in the dot.com bubble or the financial crisis bubble, but you've made no moves to change the way you invest, now may be the time to seriously consider your process – NOT after the market, and your portfolio, have crashed.

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 retreated from record highs, as the highest inflation readings in three decades weighed on sentiment. The Dow Jones Industrial Average declined 228 points to finish the week at 36,100—a decline of -0.6%. The technology-heavy NASDAQ Composite retreated -0.7% to 15,861. By market cap, the large cap S&P 500 pulled back -0.3%, while the mid cap S&P 400 ticked down -0.1% and the small cap Russell 2000 closed down -1.0%.

International Markets: Major international markets finished the week predominantly in the green. Canada's TSX rose 1.5%, while the United Kingdom's FTSE 100 gained 0.6%. On Europe's mainland, France's CAC 40 and Germany's DAX rose 0.7% and 0.2%, respectively. In Asia, China's Shanghai Composite gained 1.4%. Japan's Nikkei finished the week flat. As grouped by Morgan Stanley Capital International, developed markets retreated -0.5% and Emerging markets finished the week up 2.1%.

Commodities: Precious and base metals moved higher as investors reacted to news on the inflation front. Gold gained $51.70 to $1,868.50 per ounce, a gain of 2.9%. Silver finished the week up $1.19 to $25.35 per ounce, an increase of 4.9%. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, finished up 2.5%. Energy, however, pulled back for a third consecutive week. West Texas Intermediate crude oil declined -0.6% to $80.79 per barrel.

U.S. Economic News: The number of Americans filing first-time unemployment benefits slid to a new low for the pandemic era, as businesses continued to retain the workers they have and focus on finding more. The Labor Department reported new filings for jobless benefits dropped by 4,000 to 267,000 last week. Economists had expected new claims would total 265,000. Claims fell the most in California, Washington, and Louisiana. States with large numbers of autoworkers, such as Kentucky, Ohio, and Tennessee, had the most number of new filings as automakers shut down some assembly lines due to parts shortages. Meanwhile, continuing claims, which counts the number of people already collecting benefits, rose by 59,000 to 2.16 million. Despite the rise that number remains near its pandemic low.

A record number of Americans quit their jobs in September in the midst of the worst labor shortage in decades. The Labor Department reported 4.4 million people quit their jobs in September—a third consecutive record high. The latest reading brings the so-called 'quit rate' to 3% of the labor force—the highest level since the government began tracking it in 2000. Before the pandemic, the quit rate was fairly steady at about 2.3%. The leisure and hospitality sectors, which put workers directly in contact with customers, were the hardest hit. Nick Bunker, director of economic research at Indeed Hiring wrote, "Quits are up the most in sectors where most work is in-person or relatively low paying." Including layoffs, retirements and deaths, some 6.2 million left their jobs in September in what has been dubbed "The Great Resignation."

Optimism among the nation's small business owners hit a seven-month low as they continued to struggle to find both people willing to work and supplies. The National Federation of Independent Business (NFIB) reported its small-business confidence index fell 0.9 points to 98.2 last month. It was the lowest reading since March. Businesses are facing one of the worst labor shortages since World War II. More than 4 million people left the workforce during the pandemic and haven't returned. Furthermore, businesses are forced to pay sharply higher prices for key supplies—if they can find them at all. Business owners don't expect their problems to be as "transitory" as the Federal Reserve believes. The measure of

how small-business owners think the economy will perform over the next six months sank to its lowest level in almost nine years.

The cost of living surged again last month as Americans paid more for food, gas, and just about everything else. The government reported the consumer price index (CPI) jumped 0.9% last month—0.3% higher than economists had expected. Over the past year, inflation rose to 6.2% from 5.4% the prior month. That reading of the CPI is more than *triple* the Federal Reserve's intended 2% target, and the highest reading since November of 1990. Another closely watched measure of inflation that omits the food and energy categories rose 0.6% last month. The so-called core rate climbed to 4.6% from 4% and also sits at a 30-year peak. Philadelphia Federal Reserve President Patrick Harker stated this week he was "acutely aware this period of rising prices is painful for many Americans."

Prices at the producer and wholesale level surged again last month offering little hope that the biggest increase in inflation will wane anytime soon. The Bureau of Labor Statistics reported its Producer Price Index (PPI) rose 0.6% last month—in line with expectations. The wholesale cost of gasoline and some food categories both rose sharply to account for a large part of the increase. Americans are paying a lot more for fuel now than they were a year ago. The average cost of a gallon of gas nationwide is $3.38, up 54% from the same time last year. Since January, wholesale prices have climbed at least 0.5% every single month—before the pandemic they rose an average of 0.1% per month. The pace of wholesale inflation over the past 12 months remained steady at the elevated level of 8.6%. That's the highest since the index was reconfigured in 2009, and likely one of the highest since the early 1980's. The core rate, which strips out the food and energy categories, rose 0.4% last month. The increase in the core rate over the past 12 months moved up 0.3% to 6.2%.

International Economic News: At a policy announcement last month, the Bank of Canada became the first central bank from a G-7 country to exit its quantitative easing and signaled it could begin hiking interest rates as early as April of next year—three months earlier than previously anticipated. The BoC had planned to let activity in the current cycle run hotter than usual in an effort to boost employment, but its focus has now pivoted to moving inflation closer to its 2% target, analysts say. Inflation in Canada was at 4.4% in September—its highest level in nearly two decades. Money markets are signaling an expectation of a hike as soon as March and five in total next year.

Across the Atlantic, the United Kingdom's economic recovery slowed sharply over the summer as Britain was hit by rising coronavirus infection rates, a third Covid-19 lockdown, and supply shortages. Figures from the Office for National Statistics show that national output expanded by 1.3% in the three months to September. Economists had expected an expansion of 1.5%. The reading remained 2.1% lower than it was at the end of 2019 right before the onset of the coronavirus pandemic. The third-quarter performance followed expansion of 5.5% in the three months to June--a period when restrictions on activity were being lifted. Of the three main parts of the economy, services recorded the fastest growth, up

1.6%. A 0.3% decline in manufacturing output restricted growth in the broader production sector to 0.8%, while construction recorded a 1.5% fall.

On Europe's mainland, the German government's panel of independent economic advisers cut its 2021 growth prediction for Europe's biggest economy, the latest in a series of downgrades by forecasters. The German Council of Economic Experts cut its growth forecast for this year to 2.7%--down 0.4% from its earlier prediction in March. Higher energy prices and bottlenecks in supplies of raw materials and parts were responsible for the downgrade. However, on a positive note, it expected gross domestic product would expand by 4.6% in 2022, with the economy likely to return to its pre-pandemic size in next year's first quarter.

In Asia, a leading emerging markets analyst warned China's "zero-Covid" strategy will cause its economy to slow down further. Hao Zhou, senior emerging markets economist at Commerzbank stated, "If China continues to stick to its zero-Covid strategy, I think domestic demand will be under pressure." The zero-Covid strategy typically involves strict lockdowns (even after the detection of just one or a handful of cases), extensive testing, heavily controlled or closed borders, as well as robust contact tracing systems and quarantine mandates. Many countries in Asia initially took an aggressive approach and tried to eliminate Covid within their borders, but most have gradually abandoned that strategy as lockdowns became less effective in controlling the virus. China's economic growth has slowed in the wake of an energy crisis and concerns over real estate giant Evergrande and its debt burden.

Japan's government cut its view on economic conditions for the first time in more than two years after a key indicator – current economic conditions - extended its decline in September to its lowest level in more than a year. Japan's Cabinet Office reported its index showing current economic conditions, compiled from data including factory output, employment and retail sales, slipped a preliminary 3.8 points from the previous month to 87.5—its biggest decline since May 2020. The government lowered its assessment of the index to "weakening" from "improving" in its first downgrade since August 2019. A government official stated a slowdown in the shipment of vehicles and their components and factory output contributed to the significant decline.

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.

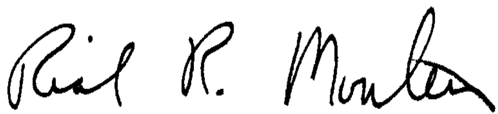
We discuss many of these issues on the weekly radio show and invite you to listen.

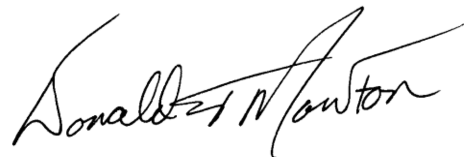
WEEKLY FOCUS – THINK ABOUT IT

"Every day I see evidence of inflation not being transitory, and I have concern that the Fed is falling behind and that it may have to play catch-up, and history makes you very uncomfortable if you end up in a world in which the Fed has to play catch-up. Normally, we end up with a recession because you (the Federal Reserve) have to slam on the brakes as opposed to slowly taking your foot off the accelerator, which is what I believe is going to happen."

Mohamed El-Erian – Chief Economic Advisor Allianz

Yours truly,





Rial R. Moulton, CFP®, CPA / PFS, RFC
Certified Financial Planner™

Donald J. Moulton, CFP®, RFC
Certified Financial Planner™

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.)