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 December 13, 2021

If you're not careful, it's very easy to be overwhelmed by the number of extreme financial headlines being splashed all over the news.

"Inflation is the highest it's been in 39 years!"

"Unemployment claims are the lowest they've been in 52 years!"

What does all of this mean?

By themselves, not much. What we know is that many of the extreme data points are skewed by the pandemic, by the supply chain issues, by government reactions, not only here but worldwide, and by a myriad of other unique circumstances.

This is why it's so important to measure and map economic data over time, as opposed to anchoring on, and reacting to, any single announcement. As we progress into 2022 and *(hopefully)* a more normal time, some of the data we're seeing will be confirmed and some will be shown to have been – dare we risk - transitory.

As for inflation, measuring and mapping the data points to most of it receding. Wages will be the item most "sticky" as employers will be hard pressed to claw back wage increases once given. And although higher wages will cut into corporate profit margins, they will also provide additional fuel to consumer spending, ultimately 2/3 of GDP.

Last week we said we thought recent market weakness was not the beginning of a bear market. More precisely we said:

> *First, to be clear, we don't think this is the beginning of a bear market. The economic construct doesn't point to one right now, with growth and inflation still rising in rate of change.*

And in fact after writing this, the S&P-500 had its best week since February. But last week we went on to say:

> *We should all get nervous when growth and inflation begin to fall in rate of change; what we call quad 4 or deflation. Right now that looks likely in the latter half of quarter 1, 2022.*

We feel pretty comfortable with the rest of the year and into January. We may get some volatility along the way – possibly as early as this week with the FOMC meeting - but we expect the general trend to be higher.

So please enjoy the Holidays and especially family and friends. If something unexpected happens we'll be ready with our defensive system, but it's not the most probable outcome over the next few weeks.

Let us track where things are headed and do the worrying for you.

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: The benchmark S&P 500 Index hit new highs last week as fears of the virulence of the latest COVID-19 'Omicron' variant subsided. The Dow Jones Industrial Average rallied over 1,390 points to finish the week at 35,971--a gain of 4.0%. The technology-heavy NASDAQ Composite rallied 3.6% closing at 15,631. By market cap, the large cap S&P 500 finished the week up 3.8%, while the mid cap S&P 400 added 2.9%. The small cap Russell 2000 was the laggard finishing up 2.4%.

International Markets: Almost all major international markets finished the week in the green as markets recovered from varying degrees of sell-offs over the last 3 weeks. Canada's TSX finished the week up 1.2%, while the United Kingdom's FTSE 100 gained 2.4%. On Europe's mainland, France's CAC 40 rallied 3.3% and Germany's DAX added 3.0%. In Asia, China's Shanghai Composite finished the week up 1.6%, its fifth consecutive week of gains. Japan's Nikkei added 1.5%. As grouped by Morgan Stanley Capital International, developed markets rose 2.6% and emerging markets gained 2.4%.

Commodities: Precious metals finished the week mixed with Gold ticking up 0.05% to $1784.80 per ounce, while Silver pulled back -1.3% to $22.20. Crude oil rebounded from six weeks of solid selling. West Texas Intermediate crude oil rallied 8.2% to finish the week at $71.67 per barrel. The industrial metal copper gained 0.5%.

U.S. Economic News: The number of Americans filing for first-time unemployment benefits fell to a 52-year low of just 184,000 last week. However, the reading is predominantly due to the government's method of smoothing the data to take into account the big swings in seasonal hiring around the holidays. Still, the data is consistent with the fact that companies remain reluctant to lay off workers amid the biggest shortage of labor in decades. By region, new jobless claims fell the most in the states of Virginia and North Carolina. They rose the most in California, New York and Texas. Meanwhile, continuing claims, which counts the number of people already receiving benefits, rose by 38,000 to 1.95 million. That number also remains near pre-pandemic lows.

American workers continued to quit their jobs at a record pace, giving rise to what experts are calling "The Great Resignation". The Labor Department reported 4.2 million workers quit their jobs in October following a record-setting 4.4 million in September. The chief reason the majority of people are quitting is because they are finding better or higher paying jobs. Job openings rose to 11 million—the second highest on record. Companies continue to boost wages and benefits in an effort to attract or retain workers amid the biggest labor shortage in decades. Analysts note that normally a record number of job openings sounds like very good news, but not in this case. As Jennifer Lee, senior economist at BMO Capital Markets, writes, "No employer is in a celebratory mood. It is difficult to fill orders or meet customer demands if there are not enough people to do the actual work." Average hourly pay rose by 4.8% in the 12 months ended in November—one of the highest rates of increase ever.

The cost of living climbed again last month, lifting the rate of inflation to a nearly 40-year high. The Bureau of Labor Statistics reported its consumer price index increased 0.8% last month, outpacing economists' forecasts of a 0.7% gain. Over the past year, the pace of inflation jumped 0.6% to 6.8%. That's more than triple the Federal Reserve's stated target rate of 2%. Likewise, core inflation, which strips out the volatile food and energy categories, climbed to 4.9% from 4.6%. The last time the core rate near 5% was in mid-1991. Analysts state the recent higher-than-expected inflation readings is likely to push the Federal Reserve to speed up its plans to phase out stimulus by the early spring—several months earlier than it had planned. Senior economist Sal Guatieri of BMO Capital Markets wrote in a note, "The Fed has little choice but to accelerate tapering and prepare for the possibility of much earlier rate hikes than it was planning just a few months ago."

Sentiment among the nation's consumers rebounded in December but rising inflation may make the bounce rather short-lived. The University of Michigan reported its measure of consumer sentiment rose 3 points to 70.4 in December, but that remains far below where it was this time last year when the index was 80.7. Economists had expected a reading of 68.0.

The gauge of how consumers feel about current conditions rose a point to 74.6, while the indicator that measure expectations for the next 6 months added 4.3 points to 67.8. Inflation continues to be consumers' primary concern about the economy.

U.S. consumer credit increased by $16.9 billion in October, down from a $27.8 billion gain in September, the Federal Reserve reported. Economists had expected a $25 billion gain. The annual growth rate declined 3% to 4.7% in October. Revolving credit such as credit cards rose 7.8%, following an 11.7% gain in September. Non-revolving credit, like auto and student loans, rose 3.7% after a 6.5% gain the prior month.

International Economic News: Analysts at the Royal Bank of Canada's (RBC) economic research department released a report noting that while the COVID-19 pandemic caused one of the worst recessions in history, the recovery represents an opportunity for a "great Canadian restart". Canada's economy averaged annual growth of 2.1% between 2010 and 2019, according to data from Statistics Canada. RBC's report offers a path that policy-makers could take if they want to boost the country's potential growth rate. The report suggested policy-makers adopt new approaches to innovation, protect the country's intellectual property, attract new sources of talent, and enable lifelong learning for its workforce.

Across the Atlantic, the British Chamber of Commerce is now expecting the UK economy will grow at a slower pace than expected next year, with trade set to lag "significantly". The BCC said economic growth was projected to slow down to 4.2% in 2022, compared to its previous forecast of 5.2%. The downgrade largely reflects a softer outlook for consumer spending amid an anticipated "running down" of household savings built up during lockdowns. If the current global supply chain disruption eases in the second half of 2022, inflation is expected to drift back towards the Bank of England's 2% target by the middle of 2023, the report said.

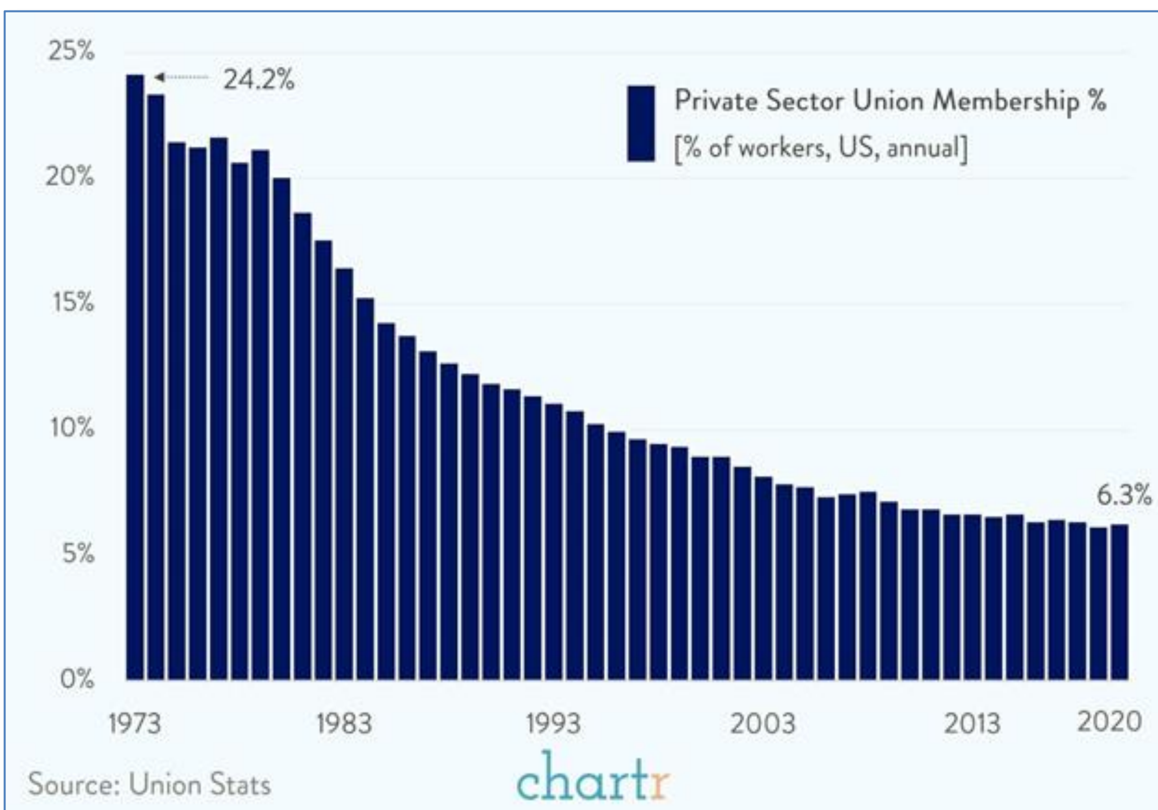
On Europe's mainland, French President Emmanuel Macron stated the European Union needs to rethink its budget framework and alter deficit rules to encourage post-pandemic investment and foster growth as it emerges from the coronavirus pandemic. "The new rules must be more simple and transparent", Macron said. Furthermore, Macron stated the bloc's leaders should discuss whether a major stimulus package agreed to last year is enough and what national investment could be allowed beyond budget cap rules. Macron said he wants European leaders "to make Europe a great continent of production, innovation and job creation."

After months of supply disruptions, German exporters have painstakingly recovered their pandemic losses--however analysts noted the new 'Omicron' coronavirus variant will undoubtedly weigh on growth. In the latest report, exports were up 3.8% from early 2020, just before COVID-related restrictions were introduced in Germany. However, new orders for manufactured goods declined amid weak demand. The latest figures suggest Europe's largest economy finds itself on weak footing heading into the final months of the year and an outbreak of the new variant of the coronavirus is sure to weigh even heavier.

In Asia, the Chinese Academy of Social Sciences (CASS), a top government think-tank stated the world's second-largest economy is expected to have expanded by about 8% this year. However, ongoing stress in China's property sector is likely to slow down the country's economic growth next year. In its latest annual "blue book" on the economy, CASS stated the property downturn was likely to weigh on the expenditures of local governments next year. China's economy is expected to grow about 5.3% in 2022 bringing the average annual growth rate forecast for 2020-2022 to 5.2%, CASS said. CASS urged China's central government to proactively engineer a soft landing for the property sector.

A surge of coronavirus cases this summer and the associated drop in consumer spending caused Japan's economy to shrink faster than estimated during the third quarter, Japan's government reported. Japan's Cabinet Office reported gross domestic product contracted an annualized 3.6% during the July to September period. That was worse than the 3.0% projected by the government's preliminary reading. The faster rate of contraction corresponds to a period in which Tokyo hosted the Olympic Games without fans and shortly afterwards, when daily Covid-19 infections soared in big cities. Takashi Miwa, chief economist at Nomura Securities, said that private consumption and public investment had hit third-quarter GDP as the country's fifth coronavirus wave coincided with difficulties across global supply chains.

Finally: A Starbucks location in Buffalo, NY, voted for unionization during the past week. It was the first time a union won the right to represent Starbucks workers in that company's history. Starbucks has an army of 235,000 workers in the U.S. and Starbucks management has spent significant resources over the years successfully dissuading its stores from unionizing. Is this a sign of a turn in the fortunes of union membership? Over the past 50 years, private sector unionization has collapsed. Private sector unionization has dropped by almost three fourths, from about 24% in the early 70's to about 6% currently. If the Starbucks vote is a sign of things to come, there's a long road back to previous glory! (Chart from chartr.co)



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

"Risk comes from not knowing what you're doing."

Warren Buffett – Businessman

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.

Investment services offered through Moulton Wealth Management, Inc., an independent Registered Investment Advisor. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National

Association of Securities Dealers Automated Quotation System. Yahoo! Finance is the source for any reference to the performance of an index between two specific periods. Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Consult your financial professional before making any investment decision. You cannot invest directly in an index. Past performance does not guarantee future results. Investments in securities do not offer a fixed rate of return. Principal, yield and / or share price will fluctuate with changes in market conditions and, when sold or redeemed, you may receive more or less than originally invested. No system or financial planning strategy can guarantee future results.

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.

https://markets.businessinsider.com/news/stocks/warren-buffett-21-best-quotes-2019-2

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.)