MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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And there it went… The yield curve inversion we discussed last week (10 year U.S. Treasury yield dipping below the 2 year U.S. Treasury yield) reversed with the 10 year ending the week at 2.704% and the 2 year ending at 2.447%.

Does that invalidate the signal and mean all clear ahead?

It's possible, but not the most probable outcome.

Why?

First, although brief, an inversion of the curve at best signals more inversions are likely. It's not the most probable outcome that the yields invert and then all is well. Remember what we told you last week…

UP COMING SEMINARS

BRING A GUEST

- **APRIL 20TH @ 9:30 AM - SPOKANE**
- **APRIL 27TH @ 11:00 AM – RICHLAND**

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

When yields invert (i.e. shorter term bonds yield more than longer term bonds) it tells us there are stresses in the economy. Think of it as a fever signaling you're sick. The fever doesn't cause the sickness, but is a result of the sickness.

Those stresses have not magically disappeared.

And unlike the past, when the Fed was crouched on the sidelines, ready at a moment's notice to support the economy (i.e. prop up the stock market) with yet more money printing, the Fed now wants to push down on the economy (i.e. the stock market) to slow inflation.

If you don't believe it, just ask Fed Chairman Jay Powell.

"The world we have been in for the last 25 years is one where you could really go hard to support the economy when it weakened because you knew that inflation expectations were anchored. For the first time for a very long time, we have high inflation, and we know that we need to restore that. We really do."

In plain English that means the Fed plans to tighten policy to slow growth and push down employment, the real estate market and the stock market.

Why?

Because he needs us all to feel poorer so we quit buying as much stuff (i.e. lower demand). When demand falls, prices should follow; hence fighting inflation.

Now multiply what the Fed is doing across all Central Banks around the world. Covid unleashed massive money printing and handouts. Those are now going to be taken back.

Why haven't stocks fallen (much) yet and does that mean that there is little risk or big declines?

There’s a saying that bulls have used for some time as a reason to buy more stocks.

Don’t fight the Fed.

For years it meant “the Fed wants the stock market higher and they have the printing presses so ignore economic reality and buy, buy, buy”. But for the first time those same folks are telling us “fight the Fed” because now the Fed wants the stock market lower.

Add in a slowing economy, inflation eating away at corporate profit margins along with our budgets, mortgage rates making homes even less affordable, stock valuations at all time high on many measures…

What could possibly go wrong?

They say hindsight is 20/20. I suspect in the not too distant future, many investors will look at their broken brokerage statements and ask themselves…

What was I thinking?

“When the flow of credit slows down and policymakers double down by pushing monetary policy into restrictive territory, you don’t play offense with your portfolio.
You play defense.”

Alfonso Peccatiello – Global Macro Investor and Former Head of a $20B Investment Portfolio

What is your defensive plan?

Call or attend a seminar to hear about ours.

Participate but protect.

The government is again offering free at-home Covid-19 tests. We encourage everyone to get them just to be prepared. Go to...

www.covidtests.gov

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:

Markets: The major U.S. indexes finished the week lower with small caps and growth stocks lagging considerably. Sector performance varied widely within the S&P 500 Index, with the typically defensive consumer staples and health care sectors recording solid gains, while information technology, communication services, and consumer discretionary shares registered steep losses. The Dow Jones Industrial Average shed 97 points to finish the week at 34,721. The technology-heavy NASDAQ Composite declined -3.9% to 13,711, giving up its last two weeks of gains. By market cap, the large cap S&P 500 ended down -1.3%, while the mid cap S&P 400 declined -3.4% and the small-cap Russell 2000 dropped -4.6%.

International Markets: Almost all international markets finished the week in the red. Canada's TSX shed -0.4%, while the United Kingdom's FTSE 100 rose 1.7%. After that it was all red ink. France' CAC 40 and Germany's DAX declined -2.0% and -1.1%, respectively, while in Asia, China's Shanghai Composite ended down -0.9%. Japan's Nikkei fell a second week, giving up -2.5%. As grouped by Morgan Stanley Capital International, developed markets declined -1.9%, and emerging markets finished the week down -2.1%.

Commodities: Commodities were mixed, with Gold rising 1.1% to $1945.60 per ounce and Silver adding 0.7% to $24.82. Oil fell for a second week. West Texas Intermediate crude declined -1% to $98.26 per barrel while Brent ended down -1.9% to $102.78. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, ended the week up 0.8%.

U.S. Economic News: The number of Americans filing first-time unemployment benefits fell to a 54-year low—another sign of the red hot jobs market. The Labor Department reported U.S. initial jobless claims declined by 5,000 to 166,000. That's the second-lowest reading in history. The only other time jobless claims have been that low was in November of 1968.

Economists had expected initial jobless claims to total 200,000. The U.S. jobs market is hopping—literally. Millions of Americans are quitting their jobs to pursue higher paying, better benefits or working conditions (like working from home). It's great news for workers—wages are rising at their fastest pace in decades. However, not so much for businesses. Costs are going up and businesses still can't find enough labor to produce enough goods and services to meet high demand. Lead U.S. economist Nancy Vanden Houten of Oxford Economics doesn't expect the labor market to slow anytime soon. She wrote in a research note, "We expect initial claims to remain well below 200,000 as employers, who continue to struggle to attract and retain workers, will keep layoffs to a minimum." Meanwhile, the number of people already collecting benefits rose by 17,000 to 1.52 million. That number is reported with a one-week delay.

For the first time in almost a year, factory orders dropped. The Commerce Department reported orders for manufactured goods fell 0.5% in February. It was the first decline in factory orders in ten months. The factory sector has been a bright spot during the pandemic even with the supply chain issues. Economists believe the decline could be a sign that demand may be weakening. Economists had expected a 0.6% decline. In the report, orders for so-called "durable-goods", goods expected to last at least 3 years, fell 2.1% in February. Orders for non-durable goods were up 1.2%. The closely-watched orders for nondefense capital goods, excluding aircraft, fell a revised 0.2% in February. The reading was up slightly from the prior reading of a 0.3% fall.

The huge 'services' side of the U.S. economy grew in March, according to the Institute for Supply Management (ISM). The ISM reported its barometer of business conditions at service-oriented companies such as restaurants and hotels rose 1.8 points to 58.3 in March signaling a faster-expansion in the U.S. economy following the Omicron-induced slowdown earlier in the year. The increase broke a string of three consecutive declines. Numbers over 50 are viewed as positive for the economy and readings above 55 are considered exceptional. A similar ISM survey of manufacturers showed that growth slowed a bit in March, but not enough for alarm. The war in Ukraine added to greater uncertainty for manufacturers, many of which are major exporters. Most service companies are not big exporters. Jennifer Lee of BMO Capital Markets stated, "The ISM survey doesn't suggest that the U.S. economy is sliding into a recession, but soaring inflation and a Fed that is bent on tightening a lot this year, might have an influence on how activity fares over the next year and half."

Minutes from the Federal Reserve's meeting in March showed officials settled on shrinking its balance sheet by $95 billion per month following a three-month "phase-in" period. Officials stressed they made no final decision on winding down the $9 trillion portfolio but said the plan could start in May. The minutes also revealed that many Fed officials signaled they would support 50 basis point rate hikes at upcoming meetings if inflation remains high or gets even worse. "Many" Fed officials wanted a 50-basis point hike in March, but agreed to a smaller 25-basis point increase due to the conflict in Ukraine.

International Economic News: Canada's unemployment rate fell to a record low of 5.3%--all but guaranteeing Canada's central bank will hike rates at its next meeting. Nathan Janzen, assistant chief economist at Royal Bank of Canada, wrote in a note to clients, "With the unemployment rate so low, virtually all industries are bumping up against labour shortages, including those hospitality sectors that have yet to fully recover. With (extremely) tight labour markets and above-target inflation, there is no reason for the Bank of Canada to leave interest rates at emergency low levels." Employment rose by some 73,000 positions in March, Statistics Canada said. The unemployment rate fell from 5.5% in February, which was more than enough to convince most economists that Canada had achieved "full employment," a theoretical condition where everyone who wants a job can find one.

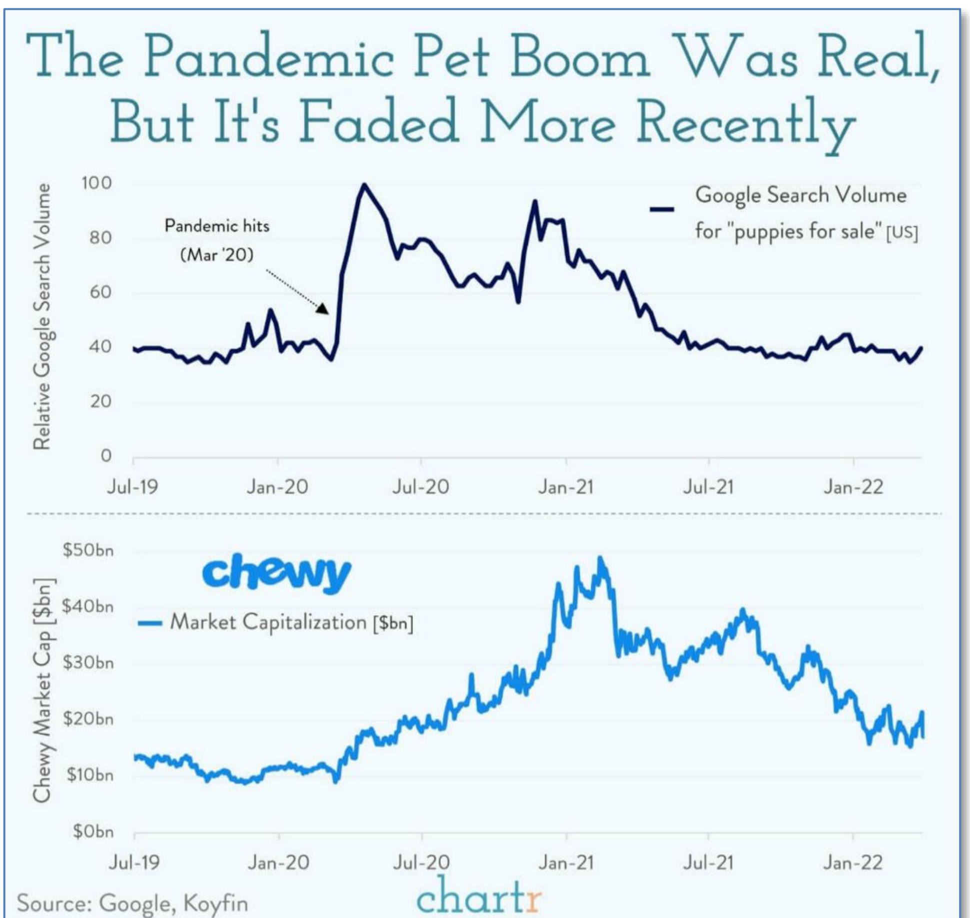
A month ago it appeared certain that French President Emmanuel Macron would be the first French president to win a second term in 20 years. However, pollsters note that Macron's lead has all but evaporated with right-wing candidate Marine Le Pen rising sharply in the polls. In the most recent polls, Macron's lead has shrunk to just a two- to five-point advantage. Le Pen's National Rally party has a platform focused around putting the well-being of France ahead of the European Union, and an immigration stance that would prioritize the native French for most services such as welfare benefits, housing, jobs, healthcare, and more.

Europe's economic powerhouse, Germany, could end its reliance on Russian oil this year a leading think-tank reported. The Berlin-based German Institute for Economic Research (DIW) said Germany could kick its dependency on Russian energy imports by winter of this year. That's considerably sooner than government estimates of mid-2024 or later. DIW outlined a three-pronged approach to achieve the goal—supply diversification, increased storage and pipeline efficiency, and decreased industrial and household consumption. "If potential energy savings are maximized at the same time deliveries from natural-gas-supplying countries is expanded as far as technically possible, German natural gas needs for this year and the coming 2022/2023 winter could be guaranteed without Russian imports," according to the DIW.

China's top European business group warned regional and national governments that its "zero-COVID" strategy was harming the attractiveness of Shanghai as a financial hub. China has for the past month been tackling multiple outbreaks with an elimination strategy that seeks to test, trace and centrally quarantine all positive COVID-19 cases. Nomura estimated that a total of 23 Chinese cities have implemented either full or partial lockdowns, which collectively are home to an estimated 193 million people and contribute to 22% of China's GDP. A growing number of economists have lowered growth forecasts for the first half of 2022, as the COVID surge makes it harder for China to hit its full-year target of around 5.5%. Shanghai-based Bank of Communications cut its forecast for China's first-quarter GDP growth from 5% to 4%, with the drop coming solely from slowing activity in March, said senior economist Tang Jianwei.

Japan's Lower House passed a bill promoting economic security this week as the country faces growing geopolitical risks associated with Russia and China. The bill calls for strengthening supply chains to stably procure semiconductors and other vital products and stipulates steps for preventing the leakage of information in the fields of nuclear power and defense. With the new law, Japan seeks to be in step with the United States and European countries, which are more advanced in promoting economic security, as China's rise has intensified global technology competition – and espionage.

Finally: The COVID pandemic and its subsequent mandatory lockdowns led to greater isolation, greater stress, and less time outside. What better way is there to brighten such a dark time – and occupy bored kids - than to get a puppy! Apparently, millions of Americans thought so too. As households added an additional (furry) mouth to feed, one company in particular stood to benefit. The online pet food and pet supply company Chewy saw its market cap quadruple from the beginning of the pandemic to its peak. Its stock chart shows an almost perfect correlation with Google searches for "puppies for sale". But now that the number of COVID cases is collapsing—so has Chewy's stock price. After peaking near $120 a share in February of 2021, Chewy closed this week at $43.19—just a smidge above its IPO price of $35 in 2019. (Chart by 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

"When the flow of credit slows down and policymakers double down by pushing monetary policy into restrictive territory, you don't play offense with your portfolio.

You play defense."

Alfonso Peccatiello – Global Macro Investor and Formerly Head of a $20B Investment Portfolio

Yours truly,

Rial R. Moulton

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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 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,0020Statistics Canada, Yahoo! Finance, stocksandnews.com, marketwatch.com, wantchinatimes.com, BBC, 361capital.com, pensionpartners.com, cnbc.com, FactSet.)