MOULTON WEALTH MANAGEMENT INC.

MOLTEN HOT NEWS!

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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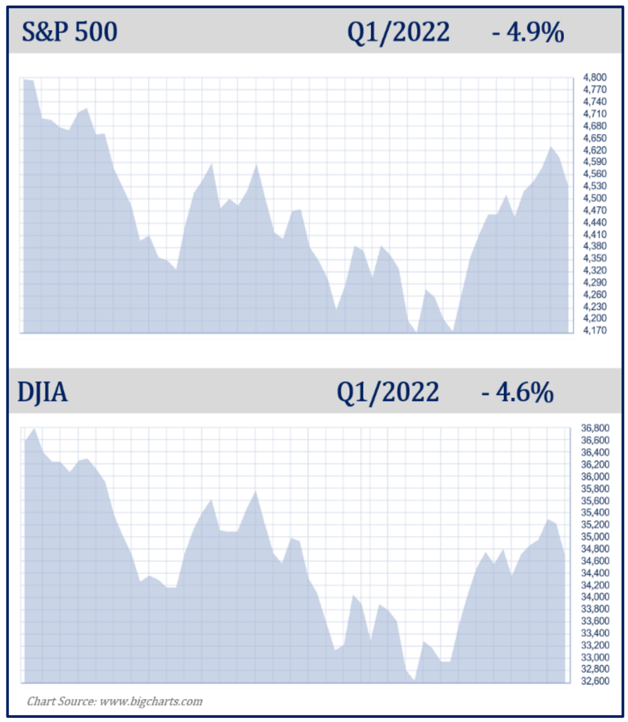
FIRST QUARTER 2022

The past few years have proved the Greek philosopher Heraclitus right when he proclaimed that, "the only thing constant is change." We work with several research partners. One, Hedgeye, models changes in the economic construct and recommends investment positioning based on the results. Long before Russia invaded Ukraine, we told you that growth and inflation would slow in rate of change in 2022, and that such a construct was the least favorable for equity prices. The Russian invasion certainly put off the "inflation slowing in rate of change" part of the equation, but we're confident it will still come.

The first quarter of 2022 was volatile and that volatility likely won't end soon. After experiencing its worst January since 2009, the S&P 500 hit correction territory in February. After several more drops, toward the end of the quarter, equity markets began to rally. In March, the S&P 500 rose more than 3% while the Dow Jones Industrial Average (DJIA) rose 2.2%. Even after that increase, both



MONEY RATES

(as posted in Barron's 4/3/2022)

	LATEST WEEK	YR AGO
Fed Funds Rate (Avg. weekly auction)[c]	0.33%	0.07%
Bank Money Market[z]	0.07%	0.08%
12-month CD[z]	0.20%	0.19%

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com) bellwether indexes did not reach the same values they were at the beginning of the quarter. This kind of strong rally over a short period is more common in bear markets than bull markets.

Be Prepared.

For the quarter, U.S. stock markets closed their first losing quarter since March of 2020. The S&P 500 closed at 4,530.41, down 4.9% and the Dow Jones Industrial Average closed at 34,678.35, down 4.6%.

During the past three months, the cost of living saw a sizeable uptick as the consumer price index rose to its highest level since January of 1982. Helped by the Russia/Ukraine war, consumers experienced an average 24% jump at the gas pump from February to March, which meant as much as a 53% increase over the past year. *(Source: cnbc.com 3/10/222)*

All eyes were on the Federal Reserve and interest rates as the Federal Open Market Committee (FOMC) met in March and raised their federal funds interest rates range for the first time since 2018. This move set the tone for anticipating several more rate hikes in 2022 and 2023, and possibly bigger hikes than expected.

In April, inflation rose 8.5% from 12 months earlier. This means that inflation is now at a 40-year high. Although there is no established formal inflation target, the Federal Reserve generally believes that an approximately 2% rate of inflation is acceptable.

KEY TAKEAWAYS

- **Equity markets experienced worst quarter since Q1 2020.**
- **The Fed raised the interest rate range to 0.25 – 0.5%.**
- **The expectation of accelerated interest rates faster than anticipated in December depends on the path of inflation.**
- **Inflation highest in 40 years.**
- **Many variables, including global conflicts, Covid variants, and quantitative tightening are key factors in economic recovery.**
- **Volatility is here.**
- **Call us for a comprehensive review of your personal financial situation.**

It's virtually impossible to avoid being affected by the current environment of inflationary pressure somewhere in daily life. Whether it is at the gas pump or the grocery store, consumers are feeling squeezed and are looking for ways to cut costs and spending.

At the FOMC's March meeting, Chairman Jerome Powell expressed the need to support a strong labor market. "We understand that high inflation imposes significant hardship, especially on those least able to meet the higher costs of essentials like food, housing, and transportation. We know that the best thing we can do to support a strong labor market is to promote a long expansion,

and that is only possible in an environment of price stability. As we emphasize in our policy statement, with appropriate firming in the stance of monetary policy, we expect inflation to return to 2 percent while the labor market remains strong." He also added that, "We will need to be nimble in responding to incoming data and the evolving outlook." *(Source: federalreserve.com 3/16/2022)*

There are always multiple factors in the economic environment that need to be watched because they can directly affect equity markets. With an excessive number of media sources nowadays, investors are being barraged with data and news making it difficult to keep up with the facts and information that may affect their personal situation. A good advisor may be able to help.

Inflation, Interest Rates and the Federal Reserve

The much-anticipated rise in interest rates came in March, as the Federal Reserve raised the federal funds rate for the first time since 2018. The benchmark federal funds rate was increased by a quarter percentage point to between 0.25-0.5%.

Also in March, the Fed released new projections for interest rate increases. This past December, projections suggested three quarter percent increases in 2022. Now, officials are signaling there might be eleven more rate hikes, expecting to see the fed funds rate at nearly 2.75% by 2023 bringing it to its highest rates since 2008. *(Source. Wsj.com 3/17/22)*

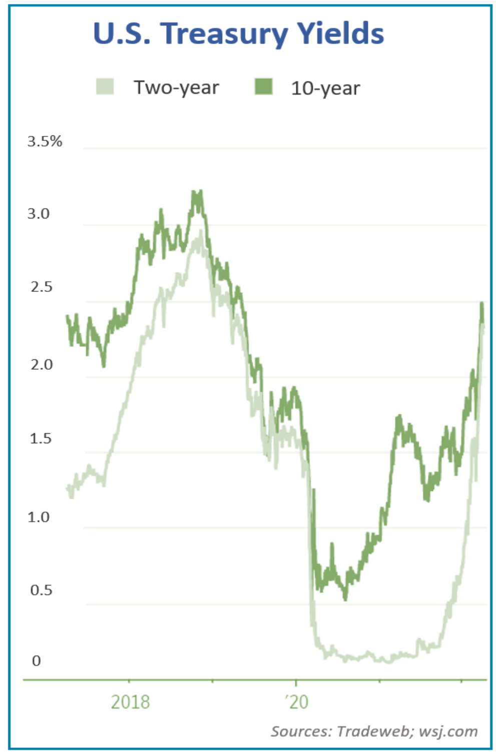
Federal Chairman Jerome Powell stated, "The labor market is very strong, and inflation is much too high. There is an obvious need to move expeditiously to return the stance of monetary policy to a more neutral level, and then to move to more restrictive levels if that is what is required to restore price stability." He added that, "if we conclude that it is appropriate to move more aggressively by raising the federal funds rate by more than 25 basis points at a meeting or meetings, we will do so." *(www. Reuters.com, 3/21/2022)*

Let's think through how the Fed fights inflation.

Prices are set by supply and demand. We know supply has been, and still is, disrupted by Covid. The Fed can't impact supply. What the Fed can do is to reduce demand.

How?

By making us all feel poorer so we don't buy as much "stuff". That means reducing the value of your portfolio, reducing the value of your real-estate and reducing the number of jobs. That in essence is what is meant by "slowing the economy".



The Fed is reducing liquidity in the system. They stopped buying bonds with printed money. They will force the banks to hold more in reserves. And they will increase rates so that anything purchased with debt becomes more expensive and therefore less in demand. Home mortgages are one most of us can recognize easily enough. The Mortgage Bankers Assoc. tells us that the average mortgage for a home is $453,800. Mortgage rate increases alone have increased the monthly payment of principle and interest from about $1,840 sixteen months ago to $2,492 today. As such Banks tell us mortgage applications have fallen appreciably.

The Bond Market and Treasury Yields

Bonds and interest rates move in the opposite direction. When interest rates rise, existing bond prices tend to fall, and conversely, when interest rates decline, existing bond prices tend to rise.

Recent times have not been very beneficial for bond holders. Bonds are usually considered to be more stable than equities. This quarter, volatility in the bond market was high and U.S. bonds had their worst quarter in over 40 years. As an example, the Bloomberg U.S. Aggregate bond index, which includes mostly U.S. Treasuries, corporate bonds, and mortgage-backed securities, had a -6% return in the first quarter – its biggest quarter loss since 1980. Short- and mid-term bond yields also experienced rate increases this quarter. The 10-year Treasury yield finished the quarter at 2.35% (as of this writing 2.86%). This is a significant jump from the 1.5% yield that 10-year bond holders had at the end of 2021. *(Source: wsj.com 3/31/22)*

So should you get out of bonds in your portfolio? Probably not. But you should review the quality of those bonds.

Bonds are historically your portfolio's shock absorber. During the recent decline they've not performed well at that task, as stocks and bonds have both fallen. However, high quality bonds (U.S. Treasury bonds being the highest) tend to act as a safe haven in stock market

A STOCK BEAR MARKET IS COMING!

ARE YOU PREPARED?

Because what you don't know, CAN HURT YOU!

We are almost certainly in the early stages of a bear market with no Fed to bail us out.

What signs are there?

How bad could it get?

What could it mean for your portfolio and what options do you have?

Along with Estate Planning, Tax Planning, Long Term Care Planning...

And so much more!

Seating is limited!

COMPLIMENTARY SEMINAR

For those 50 years old and older

SPOKANE

Quality Inn—North
BREAKFAST!
7919 N. Division—Spokane
May 18th @ 9:30 AM

TRI-CITIES

Hampton Inn
486 Bradley Blvd; Richland
May 25th @ 11:00 AM

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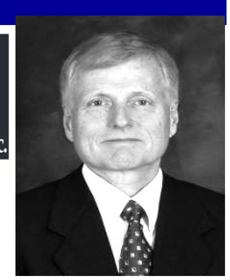

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Call to reserve a spot: 509-922-3110

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

Help us grow in 2022!

This year, our goal is to help more people!

If you are currently a client, we would be honored if you would:

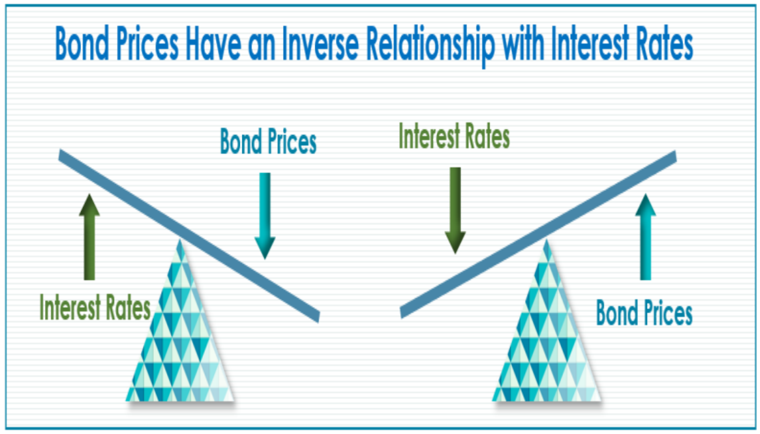
- Add a name to our mailing list;
- Bring someone to a workshop, or
- Have them come in for a complimentary initial meeting

If you are not yet a client but would like to find out more, you can:

- Add your name to our mailing list;
- Attend a workshop, or
- Come in for a complimentary initial meeting

Please call us at Moulton Wealth Management, Inc. **509-922-3110** and we would be happy to assist you.

Advisory services through Moulton Wealth Management, Inc., an independent Registered Investment Advisor registered with the SEC declines. Having already fallen appreciably, we suspect they will return to their more "normal" role as a counter to falling stocks.



Remember, bonds typically are a key component to a diversified portfolio and can provide a good shield from equity volatility. However, please keep in mind that investors who placed a large percentage of their portfolio in bonds with the expectation of generating stable returns could have seen lackluster results. If you'd like to explore any exposure you have to bonds and whether or not they are still a good fit for your personal goals, please contact us. We are monitoring how the Fed's movements and rising interest rates are affecting bond yields.

Investor's Outlook

What does this all mean for investors?

The short answer is consider adjusting your portfolio allocation to a more defensive posture (i.e. less in stocks and more in cash and/or high quality bonds).

As stated earlier, our models show growth and inflation will fall in rate of change through the balance of the year. Certainly we're seeing it in growth with both GDP and corporate earnings rising much less than last quarter. And we think we'll still see it in inflation despite the unexpected Russian attack on Ukraine.

Now add the Fed who has been vocal about their goal to slow inflation by slowing demand, and you get a recipe for a recession which almost always includes a bear market in stocks.

It's not prudent in our opinion to ignore the economic reality of slowing growth and inflation in rate of change, coupled with a Fed who is trying to push them both down even more.

Now is an ideal time for a proactive approach to your investments as opposed to "buy and hope". Having a solid investment strategy is an integral part of a well-devised, holistic financial plan. Staying disciplined and following that strategy, especially during times of volatility, is equally important.

LISTEN TO RIAL AND DON'S RADIO SHOW,

"YOUR MONEY MATTERS",

EVERY SATURDAY MORNING AT 8:00 AM 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 AM EACH SATURDAY MORNING…

(BOTH SHOWS ARE ALSO AVAILABLE LIVE VIA THE INTERNET)

Are your concerns being "heard" by your financial professional or might they as well use a recorded reply such as…

"The market always comes back."

"It's just a paper loss."

"You can't time the market."

"Everyone's losing."

"You don't want to sell at the bottom."

Soon they can add….

"No one could have seen that coming."

We are here for you.

We pride ourselves in offering:

- individualized advice tailored to your specific needs and goals;
- consistent and meaningful communication throughout the year;
- client meetings;
- continuing education for all our team members on issues that may affect you;
- Proactive planning to navigate the changing landscape.

Remember, a skilled financial professional can help make your financial journey easier. Our goal is to understand your needs and create an optimal plan to address them.

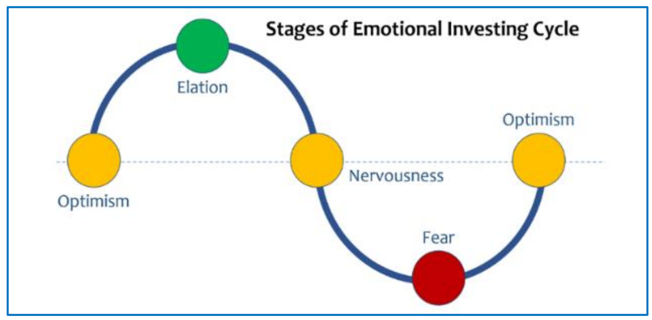
While we cannot control the wind, we can adjust the sails.

As always, we appreciate the opportunity to assist you and your financial matters.

There are four factors that investors should always focus on:

1. **Your risk tolerance or appetite.** How much risk are you willing to take, or better yet, how much can you afford to take? Of course a well-designed, defensive strategy can help with downside risk but whenever investing, losses are possible.

2. **Your time horizon.** The amount of time you want to be invested in any particular situation can help you determine your entry and exit points. Longer-term horizons provide more flexibility than shorter-term horizons.



3. **Your behavior.** How well can you emotionally endure the potential ups and downs of your investments? Market volatility is part of the investment experience and can create panic and anxiety. Making rational decisions during this mindset can be more difficult. Again, two factors can help moderate destructive behavior: ***first, relying on data over news stories and second, having a mathematically based, defensive strategy in place to keep "normal" losses from becoming catastrophic.***

4. **Your overall strategy, especially how you plan to mitigate losses.** Are you employing a strategy that doesn't fit you fiscally or emotionally? Perhaps you think of yourself as a "buy and hold investor", but admit you have sold at inopportune times in the past when losses were too severe to tolerate. We always say that it's nice if markets come back, but will your portfolio in a time that aligns with your retirement? This is especially critical if you're relying on those funds for living expenses.

We believe employing a sell discipline to protect your retirement is critical to your investment success.

Remember, you can't buy low if you don't sell high.

Investing is a marathon, not a sprint…

But even in a marathon, it's important to manage risk with an eye towards limiting losses. After the last two bear markets, the first 100% (or more) gains in the S&P-500, over multiple years, were required just to get back to break even. Using years of gains simply to recoup past losses does not further your retirement goals.

Please listen to our radio show as we cover many of the topics, and we have a bit of fun. You can also sign up for a free Financial Physical.

For more information, call the office and sign up for our weekly email newsletter.

Yours truly,

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

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

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