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**MOULTON HOT MINUTES**



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**Week of May 30, 2022**

Is the bear market over? After a week of gains – finally – we’re hearing a lot of debate across twitter and the talking heads whether “that was it” as in “is the bear market over?”

Probabilities tell us last week wasn’t “it” and the bear market is not “over”.

Last week the S&P-500 gained +6.58%, the Dow gained +6.24% and the NASDAQ gained +6.84%. Remember, in last Monday’s newsletter we wrote:

*“...bear markets always include counter trend rallies (not so charitably referred to as “sucker’s rallies”) and we suspect we’ll have another soon. If you’re nimble enough to profit from a bounce and then get out before the*

***UP COMING***  
***RISK MANAGEMENT***  
***SEMINAR***

***BRING A GUEST***

- **JUNE 22<sup>ND</sup> @ 9:30 AM - SPOKANE**
- **JUNE 29TH @ 11:00 AM – RICHLAND**

***downtrend resumes, good for you. But most investors should instead use the rally to reduce risk (i.e. sell stocks) – assuming they don't want their portfolio losses to get deeper."***

That was timely. And the rally could continue. In fact during the Great Financial Crisis we had several “*sucker's rallies*”, all eventually reversed to lower lows. We also saw something similar in March of this year. Each time the market reversed the gains and continued to new lows.

But we're told that the consumer is flush with cash, and since consumer spending is 70% of GDP, the economy is fine.

Are you flush with cash?

It's important to be careful about relying on “averages”. On average you and Warren Buffett are multi-billionaires. Does that mean you can go out and buy a multi-million dollar yacht?

According to Zippia Research, the average income in the U.S. is \$63,214 but the median is \$44,225. The median means that half of all consumers make under \$44,225. Likewise the average household income is \$87,864 but the median household income is \$61,937.

Gallup polled consumers to see if they are really flush with cash (from research partner Hedgeye). The responses point to the opposite. Each income category below represents roughly 1/3 of consumers. Some quick math then tells us that over half of all households surveyed were moderately or very concerned about having enough money to pay “normal

# Lower-Income Households

(Highest Marginal Propensity of Consumption)

# Hit Hardest

## Two-Thirds of Lower-Income Americans Have Doubts About Just Paying Their Monthly Bills

Question:

"Next, please tell me how concerned you are right now about each of the following financial matters, based on your current financial situation -- are you very worried, moderately worried, not too worried or not worried at all?"

Share (%) of respondents, by **ANNUAL HOUSEHOLD INCOME**, who are **VERY** or **MODERATELY** WORRIED about:

	Less than \$40,000			\$40,000 to \$99,000			\$100,000 or more		
	2021	2022	ΔY/Y	2021	2022	ΔY/Y	2021	2022	ΔY/Y
Not having enough to pay normal monthly bills	56	73	+ 17	46	52	+ 6	32	36	+ 4
Maintaining the standard of living you enjoy	51	66	+ 15	35	40	+ 5	7	18	+ 11
Paying rent, mortgage or other housing costs	47	59	+ 12	30	34	+ 4	7	15	+ 8
Making minimum payment on credit cards	27	38	+ 11	17	22	+ 5	3	8	+ 5
Not having enough money for retirement	63	75	+ 12	63	62	- 1	46	54	+ 8
Paying medical costs for normal healthcare	62	72	+ 10	59	61	+ 2	39	37	- 2
Paying medical costs for serious illness or accident	53	62	+ 9	43	48	+ 5	20	19	- 1
Paying for your children's college	39	37	- 2	34	40	+ 6	31	31	0

Data Source: Gallup (05/09/2022)

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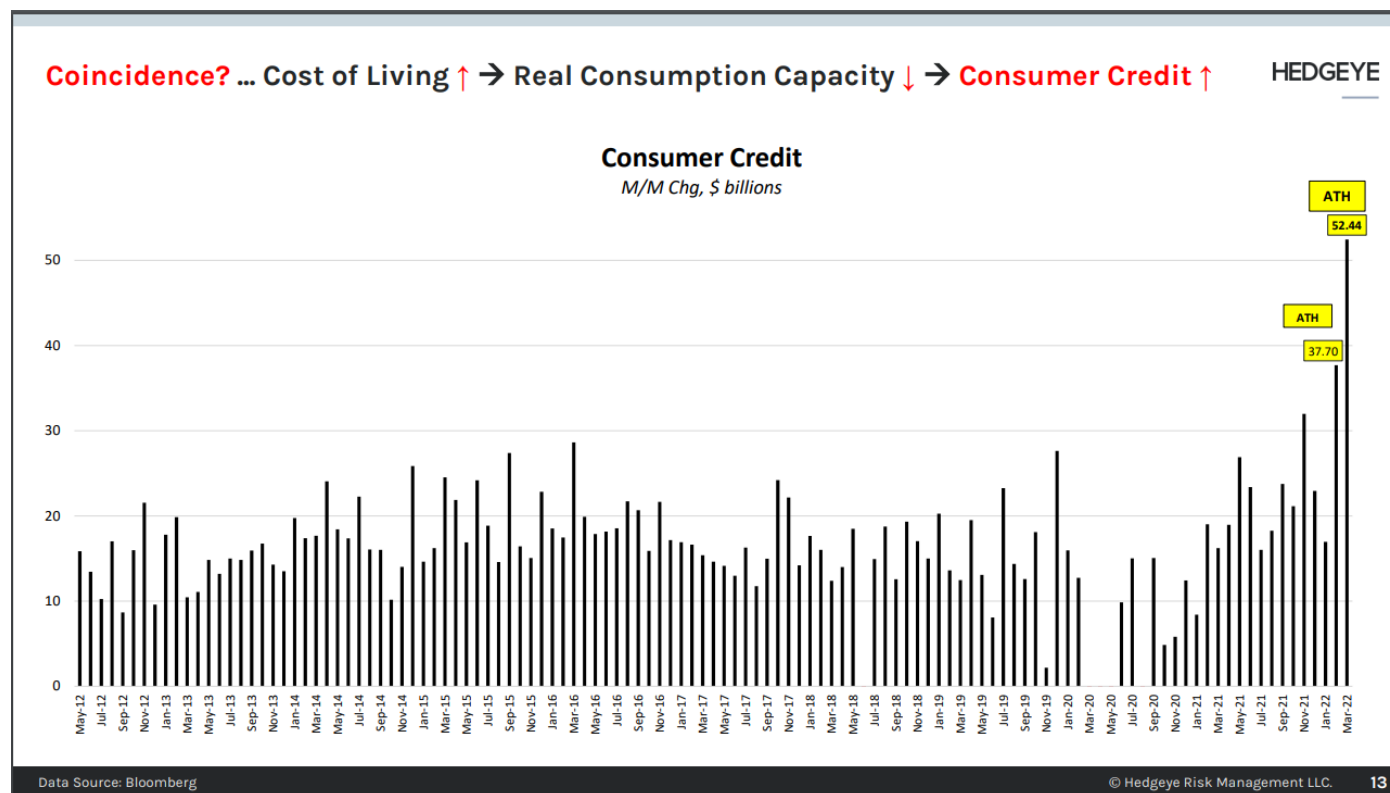
Data Source: Gallup (05/09/2022)

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monthly bills”. And the number concerned has risen dramatically. As you’d expect, the most concern is among lower income households, but even those making over \$100,000 are not immune. It is unlikely that consumers concerned about “normal monthly bills” are “flush with cash”.

How are consumers getting by? Taking on more debt. Again from Hedgeye, consumer credit has seen possibly the fastest rise ever and is the highest in at least a decade.



Why do you care as an investor?

***Because the worst bear markets happen during recessions and if consumer spending dries up, the probability of a recession increases dramatically.***

Remember why this is happening. In large part it is due to inflation. As the cost of necessities rise, it crowds out other spending. This is what the Fed is just beginning to fight.

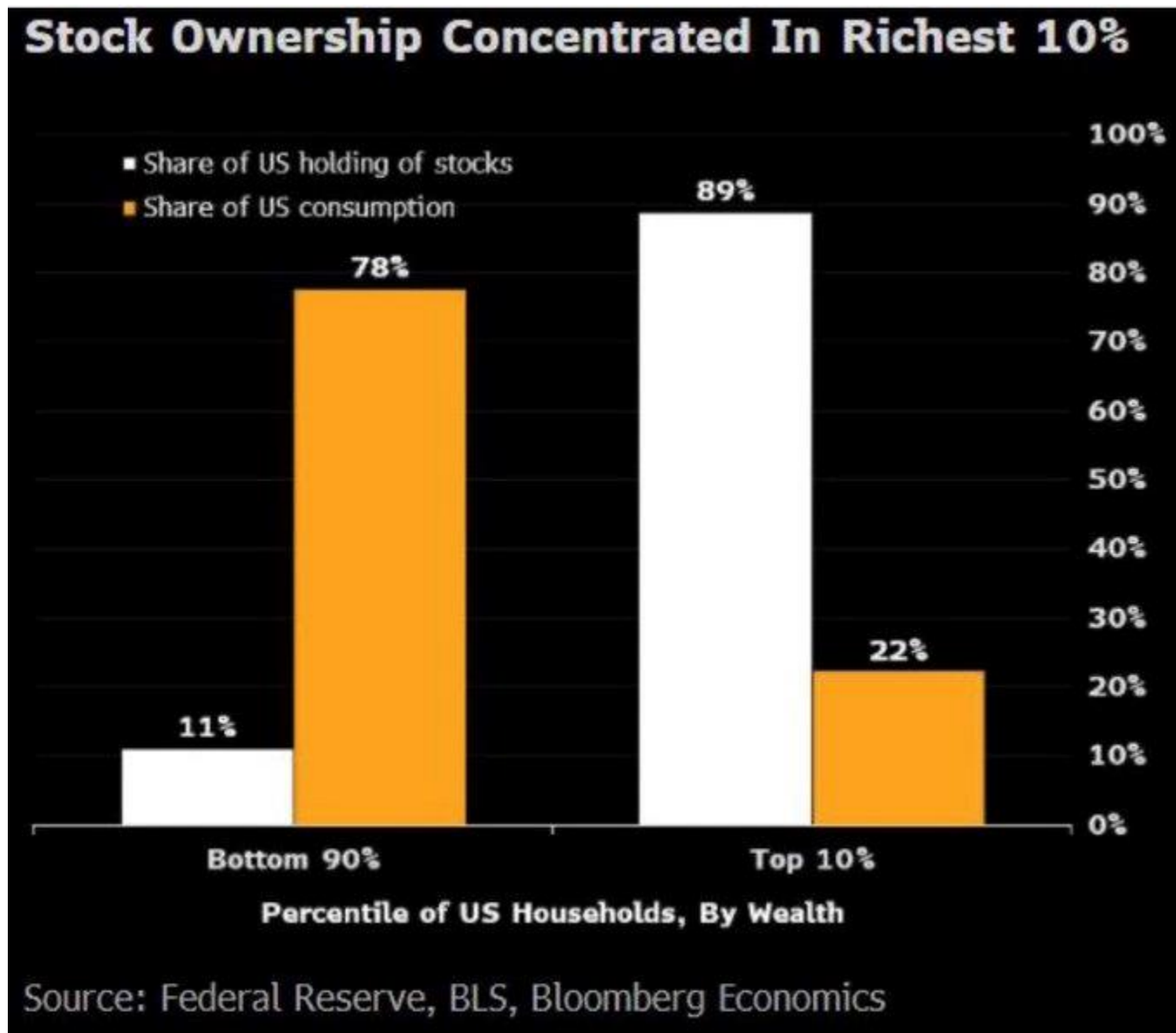
How will they fight it?

Since they can't increase the supply, they have to push down demand.

***They have to make us all feel poorer.***

For the first time in arguably 20 years or more, the Fed is working against investors, not for us. It's the opposite response than we've become accustomed to which means market declines won't likely be short and shallow.

Specifically for stocks, they are predominantly owned by the richest Americans. In fact as can be seen on the following chart, the top 10% of Americans own 89% of the stocks yet represent only 22% of consumption. Meanwhile the bottom 90% own only 11% of stocks yet represent 78% of consumption. As the Fed tries to slow inflation, do you think that they will pivot to support 22% of consumption at the expense of the remaining 78% of consumption?



If that's your position, good luck. We're afraid you're going to need it.

***“Even if you’re on the right track, you’ll get run over if you just sit there.”***

Will Rogers – Actor, comedian

## ***What is your defensive plan?***

***LISTEN TO RIAL AND DON’S RADIO SHOW,***

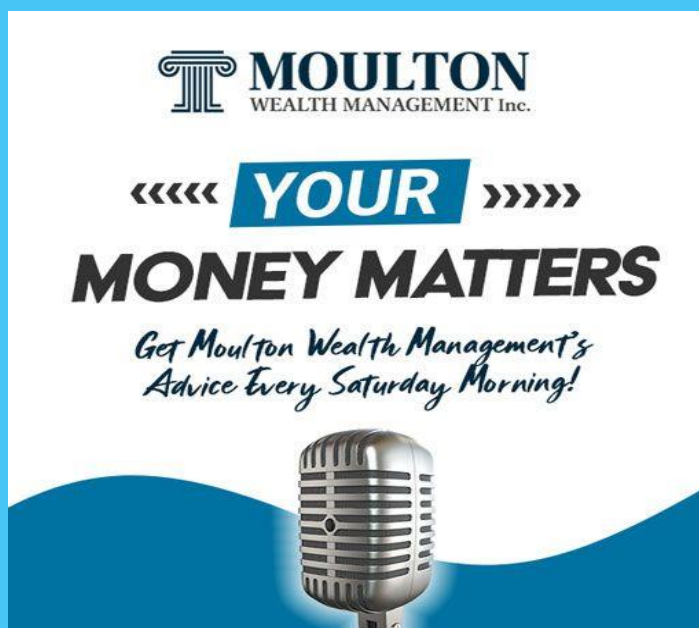
***“YOUR MONEY MATTERS”***

***EVERY SATURDAY MORNING AT***

***8:00 AM ON KXLY RADIO CHANNEL 920 AM IN SPOKANE***

***AND AT 9:30 AM ON NEWTALK RADIO CHANNEL 870 AM IN THE TRI-CITIES AREA***

***OR LISTEN LIVE AT [WWW.NEWTALK870.AM](http://WWW.NEWTALK870.AM) AGAIN AT 9:30 EACH SATURDAY MORNING...***



Call or attend a seminar to hear about ours.

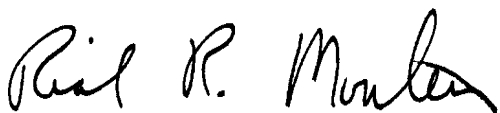
*Remember, we have a feature on our website: [www.Moultonwealth.com](http://www.Moultonwealth.com) to help you measure your risk tolerance. The problem with trying to decide how much risk to take is we all want to be aggressive when the market is going up, but conservative when it's going down. That's 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.*

What's Your Risk Number?

Thanks to everyone who has served and prayers for all who passed before us.

We miss you mom.

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.*

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[https://www.brainyquote.com/quotes/will\\_rogers\\_104938](https://www.brainyquote.com/quotes/will_rogers_104938)

**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.)