



MOULTON WEALTH MANAGEMENT INC. ***MOULTON HOT MINUTES***

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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June 2022

Where does the economy stand?

This is a really important question. We're likely headed into, or are already in, a recession. If it's a shallow recession, market declines should be less than if it's a deep recession.

The key is consumer spending. Consumer spending is roughly 70% of GDP. We're hearing from the talking heads that the consumer is really strong. In fact they tell us consumer cash reserves are well above pre-pandemic levels. As such we can live off of that cash hoard to offset higher prices.

We disagree about consumer strength for a variety of reasons.

First, the small business forward outlook per NFIB is the lowest it's been in at least 32 years at -50, which is when they began tracking it. It's worse than the Dot.com bubble and worse than the Great Financial Crisis, which was the previous low at -20. Small businesses are the "canary in the coal mine" regarding consumers. They are by and large fed by consumer spending much more so than business to business or government spending. ***Small businesses cite the reasons for their concern – rising costs and falling demand.***

At the heart of the "falling demand" part may be workers' real hourly earnings. Real hourly earnings are hourly earnings minus inflation. It's what workers are earning in "buying terms" not just dollars. ***Real hourly earnings have fallen for the last 12 months.***

So it shouldn't surprise anyone that consumer confidence has also fallen dramatically. The University of Michigan publishes the industry standard of consumer confidence surveys. The most recent survey shows 59.1. This is about the same level as the worst of the Great Financial Crisis and down -28.7% from a year ago. ***If consumers aren't confident, they reduce spending.***

But consumers are flush with cash, right? No, ***ON AVERAGE consumers are flush with cash.*** Also, ***ON AVERAGE***, Warren Buffett and nine homeless people have net worths of over \$10 billion dollars. Does that mean the nine homeless people are flush with cash? Most consumers aren't either.

Of households making under \$40,000 per year, 73% are concerned they won't be able to afford regular monthly bills. Last year it was 56%. Even of those making \$40,000-\$99,000, 52% are concerned they won't have enough to pay regular monthly bills. For reference, the median household income in the U.S. in 2021 was \$79,900 per Housing & Urban Development, ***meaning over half of all Americans fall into one of those two categories.***

So how are people coping? ***They are charging more on credit cards.*** In the first quarter of 2022 an astounding 220 million new credit cards were opened in the U.S. Accordingly, 2022 consumer credit has risen at the fastest pace possibly ever, and is almost double the previous high of the last decade. And this data is from March, it is almost certainly higher now. ***Rising prices coupled with***

falling real hourly earnings = higher consumer credit.

If consumers are struggling to make ends meet, where is the last place they cut back?

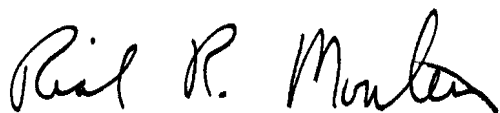
Food.

An April 3, 2022 survey asked consumers if they stopped themselves from purchasing something at the grocery store because the price was higher than normal. 29% of respondents said "yes, often", 40% said "yes, a few times" and 31% said "no, not at all". Fast forward just one month to May 8, 2022 and the same survey results showed "yes, often" rising to 35% and "no, not at all" falling to 28%. ***More consumers are being forced to skip food items due to rising costs.***


How about bigger, more discretionary purchases? Used car prices had skyrocketed post Covid due to free money stoking demand at the same time that chip shortages limited supply. They now appear to be losing momentum. The first quarter of 2022 saw used car prices falling faster than any quarter since 2014. Interestingly, it's not across the board. The biggest declines have been in cars that were 2, 3 and 4 years old. But cars over 10 years old have seen price increases. ***Consumers are buying older cars because they can't afford newer ones.***

On our May 21, 2022 radio show we discussed in detail how unaffordable housing has become.

Yours truly,



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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 ask them to send an email with their information and permission to be added.

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Redfin shows us that a four week average of the cost of mortgage payments on a median priced home have increased +43.4% in the last year alone! ***In fact that mortgage payment (not including taxes or insurance) now eats up almost 37% of the pretax median household income.***

Do these actual statistics of consumer behavior indicate a consumer "flush with cash" and "strong"? We would suggest, "No".

What does that mean for your portfolio?

While bear markets without a recession normally average a ~ 20% decline, bear markets in a recession average ~30%+ declines and in a deep recession average ~40%+ declines.

We're not nearing a stock market bottom. There is still time to protect yourself and your retirement

If you had sold stocks in 2001 after the S&P-500 had already declined about -18% (roughly where we are as of this writing) you would have missed an additional decline of -38.2%. If you had sold stocks in 2008 after the S&P-500 had likewise declined about -18%, you would have missed an additional -47% drop.

Our investment discipline includes a mathematically based defensive process.

Does yours?

Call or attend a free seminar to hear about it.

***The Consumer is tapped out.
A deep recession & a deep
bear market have likely
already begun.***

Weekly Radio Show:

**8:00 AM KXLY 920 AM
Spokane and Area**

**9:30 AM KFLD 870 AM
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