MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

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Week of July 18, 2022

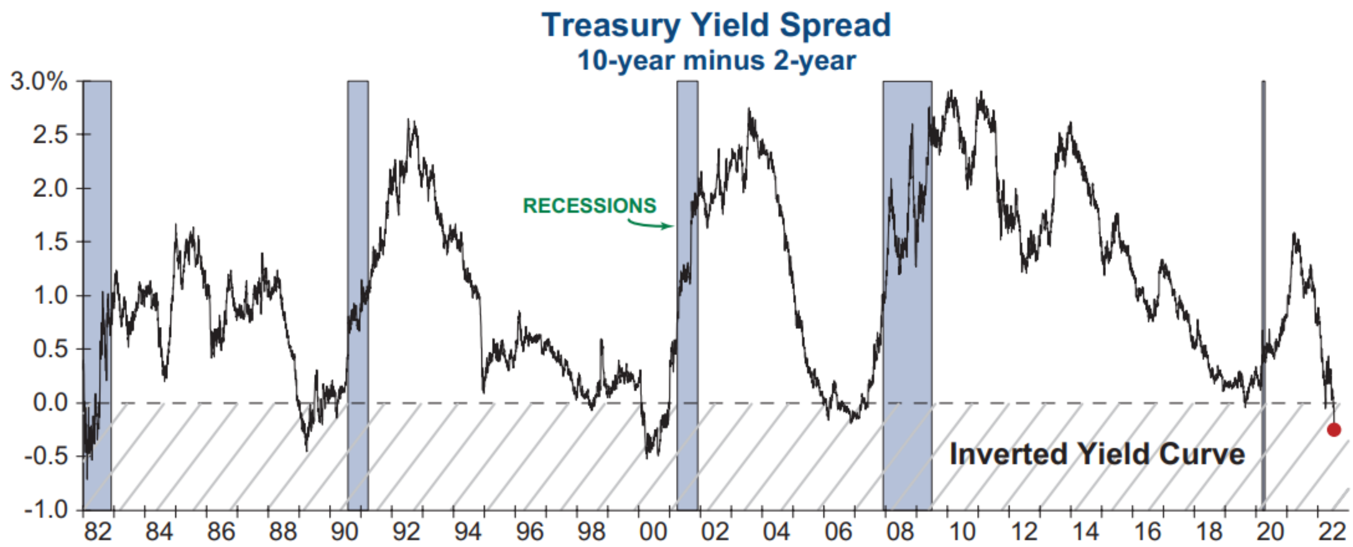
The 2 year/10 year treasury yield curve inverted once again.

What does that mean?

Nothing good.

Normally, a longer term investment should pay more (*i.e. yield more*) than a shorter term investment. When they invert it means the shorter term investment is actually yielding more than an equivalent longer term investment.

Historically a 2 year / 10 year treasury inversion signals a recession. In fact the following chart from InvesTech Research shows the history of inversions since 1982.



Although it's difficult to see on this chart, it first inverted in early April of this year. We talked about it on our radio show on April 2nd (you can find it by clicking here) and in our April 4th weekly newsletter (you can read it by clicking here).

Please see our new website www.MoultonWealth.com. Of the many improvements, the most important is we now host podcasts of past radio shows, allowing you to listen at your convenience. If you've not heard any yet, we'd suggest starting with 05-28-22 (Connecting the Economic Dots) as well as 05-21-22 (Housing Bubble) and of course the most recent show.

The last time it was inverted this much was in 2000, some 22 years ago. How did stocks fare after that inversion? The S&P-500 FELL…

-11.7% over the following 3 months,

-16.9% over the following 6 months,

-23.3% over the following 12 months,

and -48.1% to the eventual bottom.

Of course it doesn't mean it will play out the same way this time but ignore it at your own peril. Recessions are very bad for stocks.

InvesTech Research went on to warn us not to underestimate the downside risk from here. Every bear market starts out as a correction and the worst bear markets start out as small bear

LISTEN TO RIAL'S AND DON'S RADIO SHOW,

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EVERY SATURDAY MORNING AT

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

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LISTEN LIVE AT WWW.NEWSTALK870.AM AGAIN AT 9:30 EACH SATURDAY MORNING

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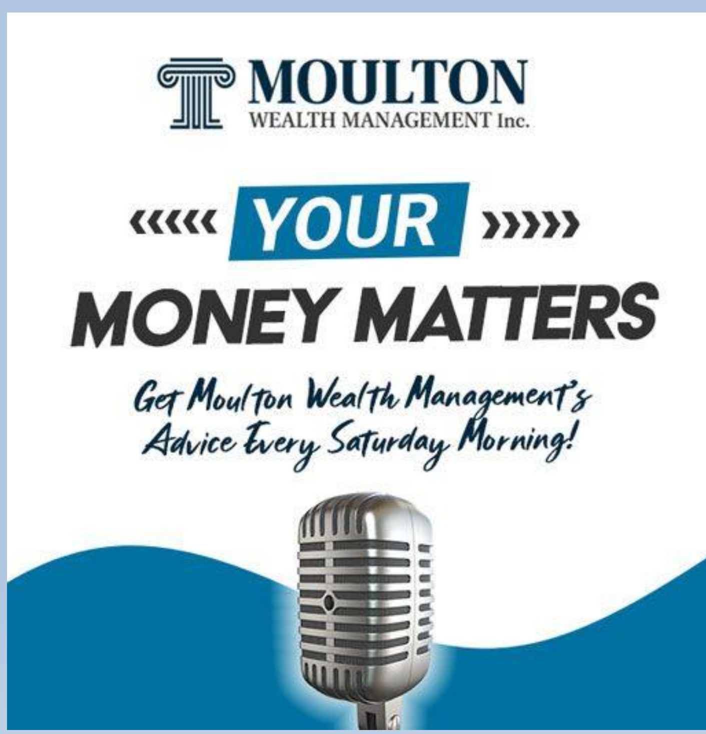


markets. Bear markets are more volatile than bull markets. If the volatility we've seen so far in 2022 continues, it will join a notorious group of the most volatile, and worst bear markets going back to 1965. Those would include 1973-1974, 2000-2002 and 2008-2009. All of those ended in the -50% decline range.

Will this one be that bad?

That's the point – no one knows. But it would be irresponsible to assume it won't be.

"Some will inevitably argue that "this time is different" and today's yield curve inversion may not carry the same message, but with our focus on managing risk this is not a bet we are willing to make."

James Stack – InvesTech Research

As an aside, but topical to today's market and economic set up, Goldman Sachs announced earnings for the second quarter this morning. Some of the headlines…

- CNBC – Goldman Sachs crushes analysts' expectations …
- CNN – Goldman still rules Wall Street: Earnings blow away forecasts…
- Investor Business Daily – Dow Jones rallies 300 points as Goldman Sachs Jumps on Earnings…

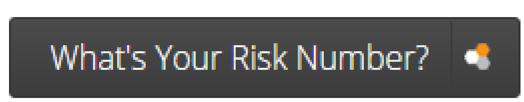
While all of these are true from a strict sense, they may be a bit misleading. Goldman Sachs' second quarter earnings were down -47% year over year, and their revenue was down -23%. *(It was also interesting that they didn't do even worse because their trading desk – not their buy and hold desk – did better than expected.)* Meanwhile their stock is down about -18.5% as of this writing vs the close of the second quarter 2021. Given revenues down -23%, earnings down -47% and stock price down only -18.5%, it seems there could be more room to fall.

Is it too late to protect yourself? Considering we may be only 1/3 of the way to the bottom we would suggest "no".

What is your defensive plan?

Call or attend a seminar to hear about ours.

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: Stocks remained volatile in relatively light trading, as investors absorbed inflation data and the beginning of second-quarter corporate earnings reports. The Dow Jones Industrial Average ticked down -0.2% to 31,288, while the technology-heavy NASDAQ Composite declined -1.6% to 11,452. By market cap the large cap S&P 500 declined -0.9%, while the mid cap S&P 400 gave up -0.7% and the small cap Russell 2000 ended the week down -1.4%.

International Markets: International markets finished the week predominantly to the downside. Canada's TSX declined -3.3%, while the United Kingdom's FTSE 100 gave up -0.5%. France's CAC 40 finished flat, while Germany's DAX shed -1.2%. In Asia, China's Shanghai Composite declined -3.8% but Japan's Nikkei finished up 1%. As grouped by Morgan Stanley Capital International, developed markets closed down -1.5%. Emerging markets declined -3.6%.

Commodities: Most commodities finished the week with sizeable losses. Gold declined -2.2% to $1703.60 per ounce and Silver ended down -3.3% to $18.59. West Texas Intermediate crude oil closed down for a second consecutive week, giving up -6.9% to $97.59 per barrel. Brent crude oil declined -5.6% to $101.16. The industrial metal copper plunged -8.2%.

U.S. Economic News: The number of Americans filing first-time unemployment benefits rose to their highest level since last November, the Labor Department reported. Initial jobless claims rose by 9,000 to 244,000 last week. Economists had expected new claims would inch down to 234,000 from 235,000. That was the highest level of new claims since early November 2021. Meanwhile, the number of people already collecting jobless benefits fell by 41,000 to 1.33 million. That number is now back to pre-pandemic levels.

Small businesses haven't been this pessimistic about the economy in almost 50 years, the National Federation of Independent Businesses (NFIB) reported. Their small-business optimism index fell 3.6 points to 89.5—its lowest level since the start of the pandemic in 2020. The index has declined in five of the past six months. Furthermore, the share of small firms that expect business conditions to improve in the next six months fell to its lowest level on record. Small businesses once again identified high inflation as their biggest problem. Firms have raised prices to cover their own rising costs, but in many cases, not enough to maintain profit margins, the survey found. "As inflation continues to dominate business decisions, small business owners' expectations for better business conditions have reached a new low," said NFIB Chief Economist Bill Dunkelberg. About the only bright spot in the report was that small businesses still report trying to add workers. However, 94% of firms actively trying to hire found "few or no qualified applicants," the survey said.

The latest Consumer Price Index showed that inflation rose to a 41-year high, as the price of gasoline and food continued to surge higher. The Labor Department reported the Consumer Price Index (CPI) jumped 1.3% last month, pushing the annual rate of inflation up 0.5% to 9.1%--the highest level since November 1981. Meanwhile, the core rate of inflation, which omits food and energy, rose by "just" 0.7%. That was also above forecasts, but the increase in the core rate slowed to 5.9% from 6% in May. The Fed views the core rate as a more accurate measure of future inflation trends because gas and food prices tend to be more volatile. Analysts don't expect inflation to cool anytime soon. Senior economist Sal Guatieri of BMO Capital Markets wrote, "Inflation may not peak for a while and might remain stubbornly high for longer than anticipated." Furthermore, the hotter-than-expected inflation numbers means the Federal Reserve may have to counter with a more aggressive rate hike than earlier-anticipated. "The odds of a larger-than-75-basis point Fed rate hike on July 27 just went up materially," Guatieri added.

Prices again surged at the wholesale level, implying there will be no relief anytime soon for consumers. The Labor Department reported its Producer Price Index (PPI) jumped 1.1% last month, with little evidence that broad inflation pressures were going to moderate in the near future. Economists had expected a 0.8% gain. On an annual basis, the increase in wholesale prices rose to 11.3%, from 10.9%. Just a year-and-a-half ago, prices were rising at a less than 2% pace. If food, gas, and retail trade margins are omitted, so-called 'core' producer price rose just 0.3%--its smallest increase in four months. U.S. economist Mahir Rasheed of Oxford Economics stated, "Despite a modest improvement in supply conditions, price pressures will remain uncomfortable in the near term and bolster the Fed's resolve to prevent inflation from becoming entrenched in the economy."

Sales at the nation's retailers rose more than expected last month, as consumers remain resilient despite higher prices. The Commerce Department reported retail sales increased by 1% in June, better than estimates of a 0.9% rise. That marked a big jump from the 0.1% decline in May. However, unlike most other government statistics, the retail figures are not adjusted for inflation. But inflation rose 1.3% during the month, which suggests retail sales were actually slightly negative. Rising costs for food and gasoline in particular helped propel the increase, which was nonetheless broad-based against the various metrics in the report. Andrew Hunter, senior U.S. economist at Capital Economics wrote, "The 1.0% [month-over-month] rise in retail sales in June isn't as good as it looks, as it mainly reflects the boost to nominal sales values from surging prices."

The Federal Reserve's 'Beige Book', a collection of anecdotal reports from each of the Federal Reserve's member banks, stated the U.S. economy grew at a modest pace since mid-May, but several of the central bank's regional districts reported growing signs of slowing demand and recession concerns. Most districts reported that consumer spending moderated as high food and gas prices diminished discretionary income. Substantial price increases were reported across all districts. The outlook for future GDP growth "was mostly negative," with business contacts noting expectations of further weakening of demand over the next six to 12 months.

International Economic News: The Bank of Canada raised its policy rate a full point to 2.5% in an effort to curb inflation. The full-percentage-point rate increase (not seen since 1998) surprised markets. The bank cited "higher and more persistent inflation" and added more rate hikes would be needed. The move was more forceful than the 75-basis point increase economists had forecast. In its decision the bank wrote, "With the economy clearly in excess demand, inflation high and broadening, and more businesses and consumers expecting high inflation to persist for longer, the Governing Council decided to front-load the path to higher interest rates." The Bank of Canada also dramatically raised its near-term inflation forecasts and made clear it expects price gains to go higher, averaging approximately 8 percent in the middle quarters of 2022.

Across the Atlantic, the United Kingdom's economy unexpectedly returned to growth in May, fueled by a boom in holiday bookings and healthcare expenditures. The UK's Office for National Statistics said gross domestic product (GDP) rose by 0.5%, following a revised 0.2% decline in April. Despite the overall rise in activity on the month, the latest snapshot revealed a decline in consumer services driven by falling retail sales and a slump in sports activities and recreation. The ONS said healthcare was the biggest driver as more people saw GPs, offsetting the winding down of the coronavirus test and trace and vaccination schemes. Paul Dales, chief UK economist at Capital Economics stated there is "still a real risk" that the economy could fall into recession in the fall when energy prices are set to rise again.

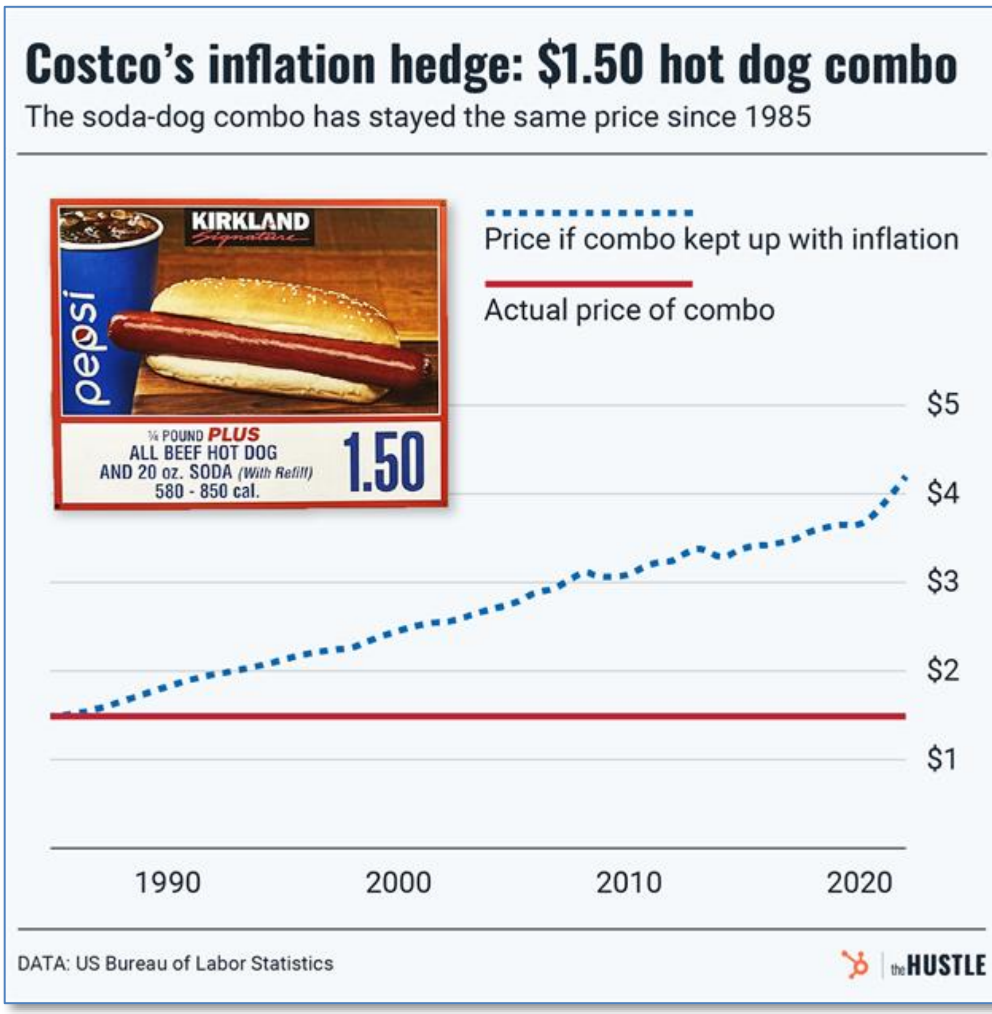
On Europe's mainland, the Bank of France said the country's economy grew about 0.25% in the second quarter of the year. The increase came despite record inflation, the knock-on effects of Russia's invasion of Ukraine and growing uncertainty about the outlook for business. An assessment based on a monthly survey of 8,500 firms published by the central bank showed that industrial activity last month was stable and services advanced slightly. This month, business leaders expect a slight decline in industry and moderate growth in services. Bank of France Governor Francois Villeroy de Galhau stated, somewhat poetically, "Activity isn't brilliant, but it is resilient."

Europe's economic powerhouse, Germany, announced that it will halt all imports of Russian coal next month and Russian oil by the end of the year. A top economic aide to German Chancellor Olaf Scholz announced the move amid pressure on European countries to end their dependence on Russian energy. "In accordance with the sanctions, imports of Russian coal will go down to zero despite the fact that Russia supplied 40% of all our coal," Joerg Kukies stated. Kukies added that Germany also aims to end its dependence on oil supplies from Russia by the end of the year. "Ridding yourself of that dependence [on the Druzhba oil pipeline] is not a trivial matter, but it is one that we will achieve in a few months," he said. Germany is the second-largest buyer of Siberian coal after the Netherlands.

In Asia, China - the world's second-largest economy - reported its worst economic performance in two years adding to concerns of the prospect of a global recession. China's economy shrank by 2.6% in the second quarter, its National Bureau of Statistics said. On an annual basis, growth slowed to just 0.4%. It was the worst quarterly GDP report since the first quarter of 2020, when China reported a 6.8% contraction as the coronavirus pandemic took hold. The sharp slowdown is a painful setback for China, which last year was leading the pack of major economies in its rebound from the pandemic. Fu Linghui, spokesperson for the National Bureau of Statistics, said, "Looking at the next stage, the risk of stagflation in the global economy is rising."

Bank of Japan Governor Haruhiko Kuroda warned of "very high uncertainty" over the economic outlook and stressed anew the central bank's readiness to ramp up stimulus as needed to underpin Japan's fragile recovery. The remarks reinforced expectations the Bank of Japan will remain the outlier among central banks raising interest rates to combat soaring global inflation. "Uncertainty regarding Japan's economy is very high" given risks such as the COVID-19 pandemic's impact, the conflict in Ukraine and rising commodity costs, Kuroda said. "We won't hesitate to take additional monetary easing steps as necessary," he stated.

Finally: If it made up the majority of the Labor Department's "CPI basket", the rate of inflation would currently be…zero. We're talking about the ever-reliable $1.50 Costco hot dog combo, priced at $1.50 when introduced in 1985 and unchanged since then. Before Craig Jelinek became CEO of Costco in 2012, he suggested to then-CEO Jim Sinegal that the retailer raise the price of its hot dog combo as they were losing money on it. According to Jelinek, Sinegal said, "If you raise [the price of] the effing hot dog, I will kill you." Had the Costco hot dog combo just kept pace with inflation, it would now cost about $4.13! (Chart from thehustle.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

“Some will inevitably argue that "this time is different" and today’s yield curve inversion may not carry the same message, but with our focus on managing risk this is not a bet we are willing to make.”

James Stack – InvesTech Research

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.

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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.)