MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of August 22, 2022

Has inflation peaked?

Maybe.

Is it likely going to fall relatively quickly as the market and Wall Street seem to think?

Probably not.

First, let's review the year over year inflation numbers starting in 2021 and through the last report.

January 2021	+1.4%
February 2021	+1.68%
March 2021	+2.62%
April 2021	+4.16%
May 2021	+4.99%
June 2021	+5.39%
July 2021	+5.37%
August 2021	+5.25%
September 2021	+5.39%
October 2021	+6.22%
November 2021	+6.81%
December 2021	+7.04%
January 2022	+7.48%
February 2022	+7.87%
March 2022	+8.54%
April 2022	+8.26%
May 2022	+8.58%
June 2022	+9.06%
July 2022	+8.52%

If we chart this it looks like this.

Does that tell you that inflation has definitely peaked and begun to roll over? We could only conclude "maybe".

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 HIGHEST PROBABLE OUTCOME OF THE CURRENT RALLY IN STOCKS IS THAT IT IS A BEAR MARKET RALLY AND WILL BE ENTIRELY REVERSED WITH NEW, LOWER LOWS. DON'T FALL FOR OLD WALL STREET TALKING POINTS.

(See our upcoming September monthly newsletter for history)

Let's look at it differently. From a mechanical perspective, each month the year over year change in inflation requires us to add a new month and remove the oldest month. For example, July 2022 year over year inflation compares July 2022 to July 2021. August's number will require us to add the new August inflation number and remove the July 2021 number. If the number we add is higher than the one we remove, the year over year inflation rate will rise. If the number we add is lower than the one we remove, the year over year inflation rate will fall. We don't know what the next numbers will be but we do know what numbers will be removed.

The next four months to be removed are 0.2%, 0.3%, 0.8% and 0.5%. Annualized, all but 0.8% are lower than the current year over year number.

In fact the Cleveland Fed has an inflation Nowcast model. As of Friday, they predict August's inflation to be +0.19%. If we remove 0.2% and add 0.19% year over year inflation will remain at 8.5%. If we assume all future months this year will equal the average of the last 12 months, inflation will end the year at 10%. If we assume instead that all future months this year will equal the average of the last 36 months (including the shutdowns) inflation will end the year at 8.4%.

IF INFLATION DOESN'T FALL QUICKLY, THE FED IS UNLIKELY TO STOP RAISING RATES. IF THE FED KEEPS RAISING RATES, GROWTH WILL CONTINUE TO SLOW AND STOCKS WILL LIKELY GO LOWER.

There's another problem we have to overcome before inflation can appreciably decline – shelter (housing). Back in the days of stagflation the Bureau of Labor Statistics (BLS) decided they didn't want to include housing in their inflation number since, they reasoned, it's not a cost but an investment. Instead they substituted Owners' Equivalent Rent (OES). This is calculated

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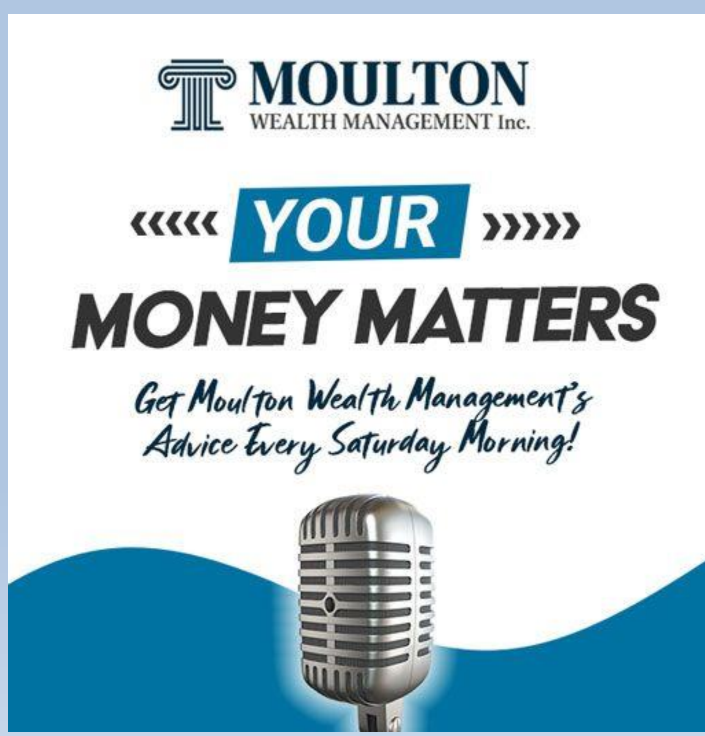


by surveying home owners about how much they would charge were they to rent out their house. As you might guess, most home owners have no idea since we don't stay abreast of the rental market. As such this measure notoriously lags the real cost of housing, though it eventually, at least somewhat, catches up.

Shelter is 1/3 of CPI inflation. According to BLS, OES is up +8.1% *over the last two years*! Not per year, mind you, but total. Meanwhile, the Case Shiller Home Price Index shows US home prices have risen by +39.7% over the two years ended May 2022.

Likewise, the BLS estimate of rental prices is up a nearly identical +8.3% over the last two years. This while the CoreLogic Single Family Rent Index is up +13.4% over the last year alone.

Using history as a guide, this component of inflation will gradually adjust higher to better represent the reality of shelter, holding inflation higher for longer.

Only recessions have a reliable track record for reducing inflation to the extent necessary to reach the Fed's goals. And recessions are historically bad for stock market returns.

As an investors, you can *"see no evil, hear no evil, and speak no evil",* and then act surprised that the market reverses this bear rally and sets new lows (after all most advisors and money managers will do just that). Or you can proactively prepare so that you are ready to buy what could be generationally low stock prices in the future.

"The current bear market rally looks to be almost over."

Michael Hartnett, Bank of America 8-19-22

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: U.S. stocks gave back a portion of last week's strong gains after St. Louis Fed President James Bullard, typically a "hawkish" policymaker, appeared to dampen hopes that inflationary pressures had peaked. "The idea that inflation has peaked is…not statistically really in the data at this point," Bullard asserted in an interview. The Dow Jones Industrial Average declined 54 points finishing the week at 33,707, a decline of -0.2%. The technology-heavy NASDAQ Composite retreated -2.6% to 12,705. By market cap, the large cap S&P 500 declined -1.2%, the S&P 400 mid-caps retreated -1.4%, and the small cap Russell 2000 fared the worst, ending the week down -2.9%.

International Markets: Major international markets finished the week mixed. Canada's TSX fell -0.3%, while the United Kingdom's FTSE 100 rose 0.7% - its fifth consecutive week of positive closes. France's CAC 40 and Germany's DAX closed down -0.9% and -1.8%, respectively. In Asia, China's Shanghai Composite finished down –0.6%, while Japan's Nikkei added 1.3%. As grouped by Morgan Stanley Capital International, developed markets finished the week down -3.1% and emerging markets shed -2.8%.

Commodities: Precious metals and energy finished the week to the downside as well. Gold closed down -2.9% to $1762.90 per ounce while Silver dropped a steep -7.9% to $19.07. Brent crude oil shed -2.1% to $95.95, while West Texas Intermediate finished down -1.8% to $90.44. The industrial metal copper, viewed by some analysts as a barometer of global economic health due to its wide variety of uses, gave up a slight -0.1%.

U.S. Economic News: The number of Americans filing for first-time unemployment benefits fell by just 2,000 last week to 250,000, indicating layoffs remain near historically low levels and the labor market remains robust. Economists had expected new claims to total 260,000. Most companies are still reporting difficulty finding enough skilled eligible workers to fill open positions. Meanwhile, continuing claims, which counts the number of people already receiving benefits ticked up by 7,000 to 1.44 million. That number remains near a 50-year low. Economic adviser Stuart Hoffman of PNC Financial Services summed up the report succinctly writing, "The labor market remains in good shape. However, the rise in initial claims since April is a cool breeze blowing at the hot labor market this summer."

The National Association of Realtors (NAR) reported sales of existing homes fell for a sixth consecutive month in July, its weakest level of sales since May 2020. Excluding the pandemic, the level of sales activity was its lowest since November 2015. Compared with the same time last year, sales were down 20.2%. As expected, prices moderated as well. The median price of an existing home fell to $403,800. Meanwhile, there's currently a 3.3-month supply of homes available on the market. Analysts generally consider a 6-month supply of homes a "balanced" housing market. Sales declined across all regions of the country, but the West saw a "dramatic decline" in sales from a year ago of 30%.

Confidence among the nation's homebuilders continued to pull back in August, its eighth consecutive month of declines. The National Association of Home Builders (NAHB) reported its Home Builder Confidence Index fell to 49 this month. Economists had expected a reading of 54. The current reading is the first time since May of 2020 that the index fell below its break-even measure of 50. At the same time last year, the index stood at 75. All 3 gauges that make up the headline reading fell. Current sales conditions fell by 7 points, while the component that tracks buyer traffic pulled back 5 points to 32—its lowest level since 2014 (outside of the pandemic). The gauge that assesses sales expectations for the next six months fell by 2 points. All regions posted a drop in builder confidence, with the West and Northeast leading the pack with 11-point and 9-point declines, respectively. "Tighter monetary policy from the Federal Reserve and persistently elevated construction costs have brought on a housing recession," NAHB's chief economist, Robert Dietz, said in a statement.

The number of new homes under construction fell -9.6% in July to 1.45 million--their lowest level since early 2021, the Commerce Department reported. Economists had expected housing starts to drop to a 1.52 million rate. On an annual basis, total housing starts fell -8.1% from this time last year. Meanwhile, building permits, which analysts use as a guide for future building activity, fell 1.3% to 1.67 million. This reading exceeded the consensus forecast of a 1.63 million decline.

Sales at U.S. retailers fell in July, but it wasn't necessarily a negative for the U.S. economy. Sales were down largely due to cheaper gasoline and fewer purchases of new cars and trucks. Sales were stronger in other areas of the economy, a good sign that should help ease recession worries. If auto and gasoline sales are set aside, sales actually rose a solid 0.7% in July. Internet sales surged 2.7% helped by Amazon Prime Day. Inflation did not play as big a role as in previous months. The cost of living remained unchanged in July for the first time since May 2020, just two months after the start of the coronavirus pandemic. Michael Pearce, senior U.S. economist at Capital Economics stated, "While overall retail sales were unchanged in July, the details were far more encouraging."

Minutes from the Federal Reserve's last meeting released this week showed the Fed plans to continue raising interest rates in to so-called "restrictive territory" to cool inflation and anchor consumers' inflation expectations. Then it hopes to take a break. Central bankers remain alarmed over persistently high inflation and a "very tight" labor market, the minutes show. As such, they anticipate having to raise the target range for the short-term interest rates beyond the "neutral" rate and toward a restrictive policy stance. July's 0.75 percentage point rate hike brought the federal-funds rate to a range of 2.25% to 2.5%. Fed members also suggested that the pace of rate hikes and balance sheet shrinkage would be data dependent and that it likely would become appropriate at some point to slow the pace of tightening to assess the impact of policy changes on bringing down inflation.

International Economic News: Inflation in Canada is not likely to return to the Bank of Canada's 2% target until 2024 after "possibly peaking in June", analysts say. In its bid to return inflation to its target, the BoC raised its benchmark interest rate by 225 basis points to 2.50%--including a full percentage-point move at its last policy decision in July. Josh Nye, senior economist at Royal Bank of Canada wrote in a note, “Even with the economy likely to see a mild recession next year, we think it will take until 2024 to get inflation back to target, or reasonably close.” Canadian inflation slowed to 7.6% in July on lower gasoline prices, down from an almost 40-year high of 8.1% in June, but measures of core price pressures that strip out the most volatile components, such as energy, have continued to climb.

Across the Atlantic, confidence among consumers in the United Kingdom has fallen to its lowest level in almost 50 years as the rising cost of living weighs on personal finances and economic prospects. Research from Nuremberg-based data provider GfK showed the August index score for overall consumer confidence fell to -44 from -41 the previous month. That was the lowest reading since records were first produced in 1974. Also of note, retail sales volumes were down -3.4% in July on an annual basis, but the *value* of sales was up 7.8% over the same period, highlighting the rise in prices on the street.

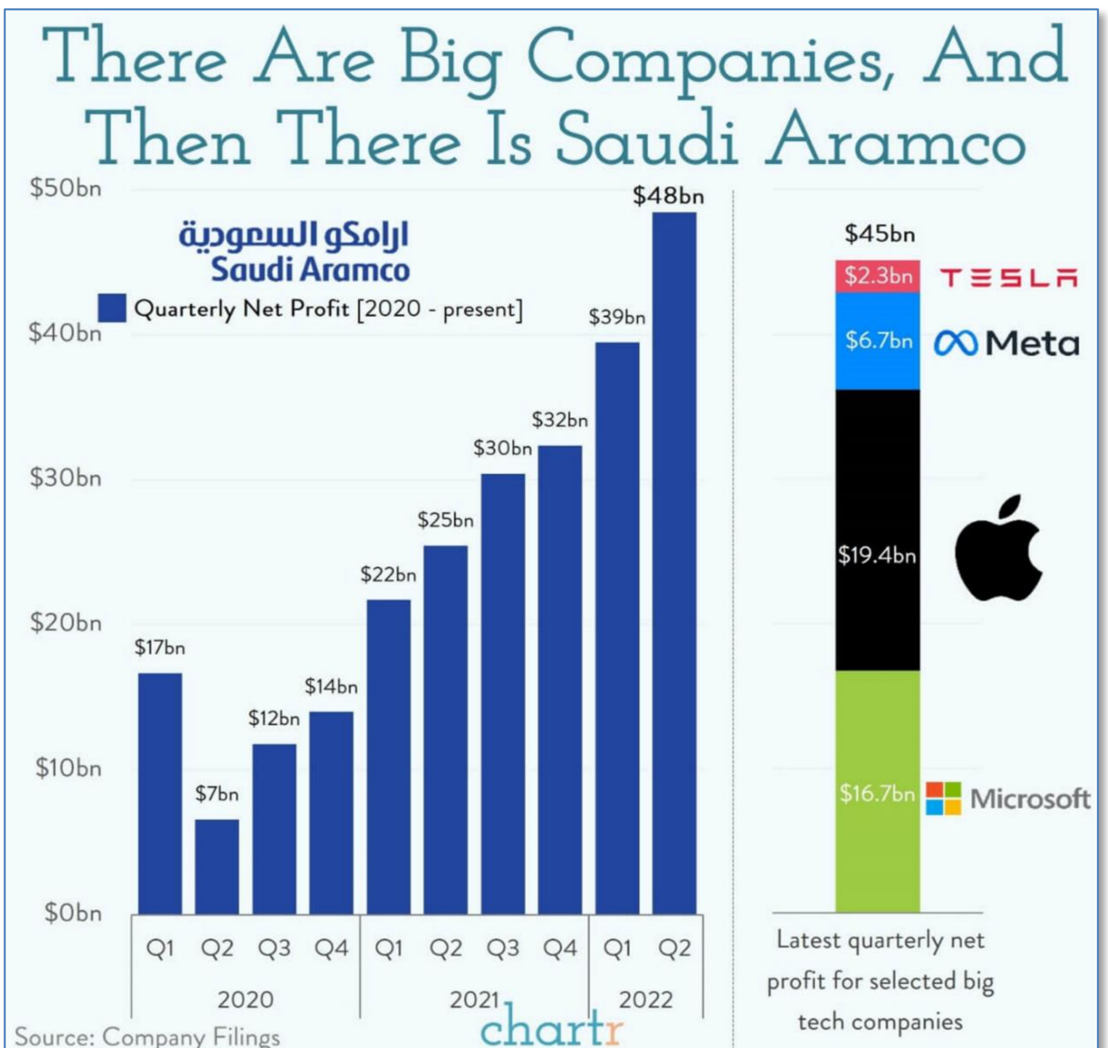
On Europe’s mainland, more French workers than ever quit their jobs at the end of 2021 and start of 2022, as the balance of bargaining power shifted away from employers, a labor ministry study showed. Between October and March, over 1 million workers quit, the ministry’s Dares research body showed. Ninety percent of those workers had coveted permanent labor contracts which offer some of the highest job protection in the world. Growing numbers of people across many countries have left their jobs during the COVID-19 pandemic as skilled workers start to re-evaluate careers and life choices - a phenomenon that a U.S. management professor famously dubbed the "Great Resignation". "Bargaining power is changing in favor of employees", Dares said.

Producer prices in Germany jumped at their fastest pace on record in July, underscoring the gloomy economic outlook in Europe’s largest economy and the broader European Union economy as well. Producer prices, which serve as a leading indicator for inflation at the consumer level, surged an annualized 37.2% last month—the biggest rise since records began in 1949. The monthly rise of 5.3% was also the highest on record. "The outlook for the further development (of the economy) is currently noticeably gloomy," the finance ministry said in its August monthly report, adding that it was marked by "a high degree of uncertainty". The record increases in producer prices were driven largely by skyrocketing energy prices, which as a whole were up 105% compared with the same time last year.

In Asia, China’s central bank cut its key lending rates in a surprise move this week as data showed the economy unexpectedly slowing in July. China’s National Bureau of Statistics showed industrial output grew just 3.8% in July, below the 3.9% expansion in June and far below the consensus forecast of 4.6% growth. However, analysts are increasingly concerned about China’s real estate market. According to Nikkei Asia, real estate defaults have soared over the past 12 months and S&P Global Ratings warned around 20% of Chinese developers it rates are at risk of insolvency.

Japan's economy grew at an annualized 2.2% in the second quarter, as robust private consumption provided a boost to its delayed recovery from the COVID-19 pandemic. The relatively strong economic data comes after GDP grew just 0.1% in the first quarter. The growth was driven primarily by a 1.1% rise in private consumption which makes up more than half of Japan's GDP. The latest result means that Japan's $4.07 trillion USD economy is now larger than it was before the onset of the pandemic. Still, the world's third-largest economy faces a weakening yen along with the same issues as the rest of the developed world—slowing global growth, rising inflation and supply chain constraints.

Finally: If you've been wondering where all the extra money you've been spending to fill up your gas tank has been going, there's a good bet at least some of it made it to Saudi Arabia's energy behemoth Saudi Aramco. Saudi Aramco isn't just big, it's huge. It announced an eye-watering $48.4 billion in net income in the second quarter alone. That's 2.5 times Apple's $19.4 billion, and exceeded the sum total of Apple, Microsoft, Meta/Facebook and Tesla combined! (Chart from 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

"The current bear market rally looks to be almost over."

Michael Hartnett, Bank of America 8-19-22

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 reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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https://www.forbes.com/sites/sergeiklebnikov/2022/08/19/bank-of-america-warns-of-textbook-bear-market-rally-predicting-new-lows-for-stocks/

***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.)