MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of October 24, 2022

Last week's newsletter discussed how mortgage rate increases are more detrimental to household budgets outside the U.S. You can read it here *Newsletter - Moulton Wealth*. But this week let's review why you shouldn't expect a "Fed Pivot" to save you from poor portfolio risk management.

The Fed has made it clear that their number one priority right now is to fight inflation. In fact in his most recent press conference he said, ***"We have got to get inflation behind us. I wish there were a painless way to do that. There isn't."***

The last CPI inflation was up 8.2% in September of 2022 vs September of 2021. That's off the year over year peak of 9.06% set in June but still far above the Fed's 2% target. Core CPI which excludes volatile food and energy was up 6.6% in September 2022 vs September 2021. That is the highest of the cycle.

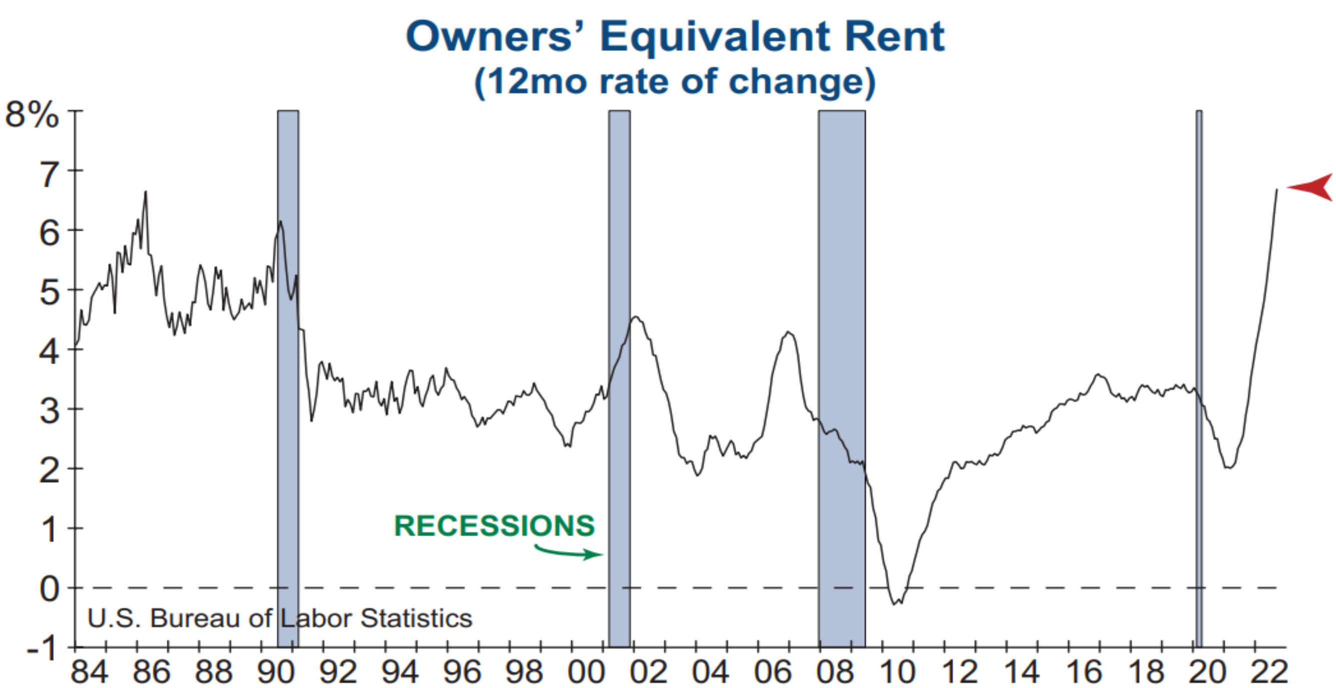
This tells us that there's a lot more that needs to be done.

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. You can also read all the past newsletters and take the test to find your Risk Number.

Expect more rate hikes. Expect more tightening (i.e. withdrawing dollars from the system). Expect more pressure on the economy to slow. Expect a rise in unemployment, and expect further declines in stock and housing prices.

Wall Street hopes that inflation will fall quickly and cites instances from the 1970's when it did just that. If it did fall quickly, the thought goes, not only would the Fed stop raising rates, they would start cutting rates and printing money – the so called "Fed Pivot". This is the same formula used by the Fed since at least the Great Financial Crisis to prop up stock and housing prices, under the theory of a "wealth effect". The theory says if we see our housing prices and stock prices rise, we will spend more. Unfortunately it also created the current real-estate and stock market bubbles and led investors to become lackadaisical in protecting their portfolios. After all, if the Fed is going to step in and prop up the stock market, why not just go all in and ride it up?

Regardless, this isn't the 1970's and there are three good reasons we think that it's unlikely the Fed will pivot any time soon.

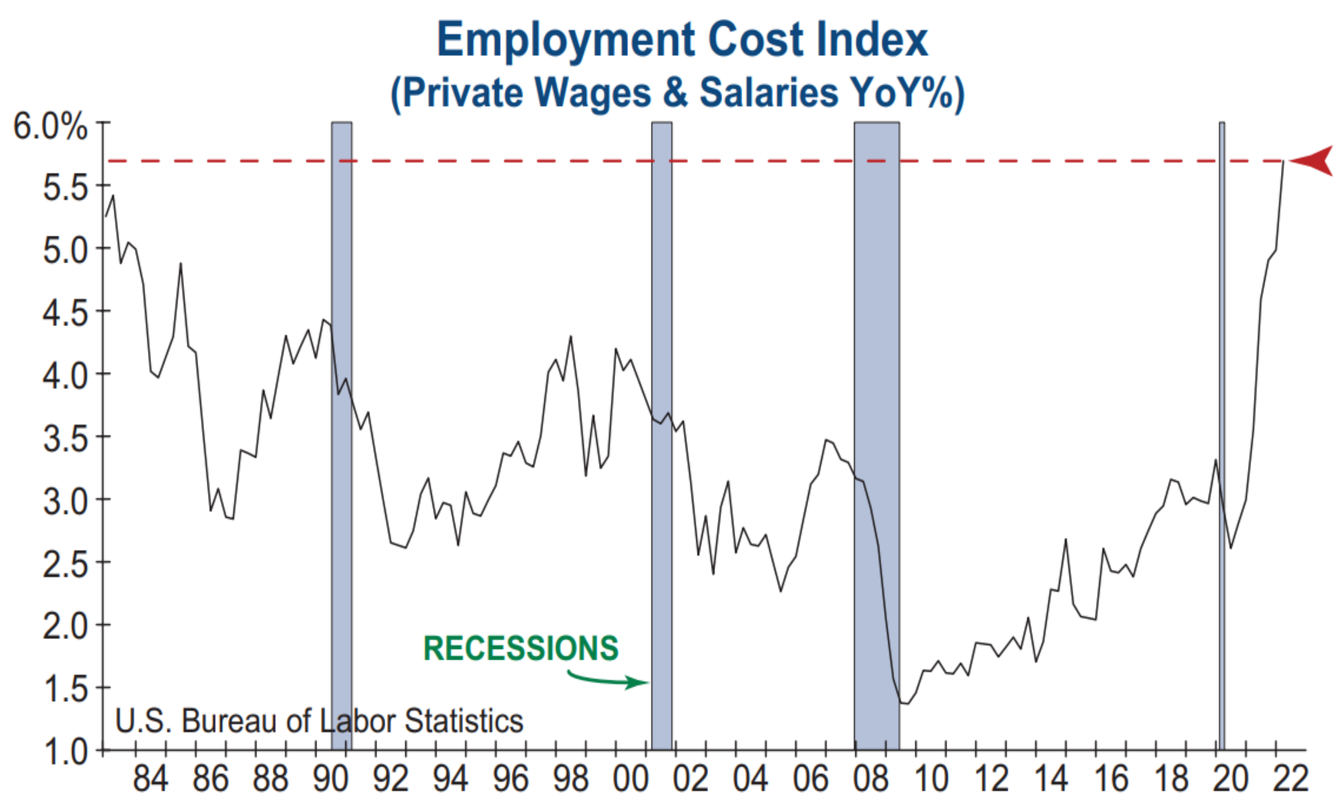


First is the biggest component of CPI inflation called Owners' Equivalent Rent (OER). It is based on a survey of homeowners as to what they believe their home would rent for. Historically OER has tracked actual house price increases, but catches up slowly over time.

OER comprises 24% of CPI and recently hit an all-time high going back some 40 years. The previous chart is from InvesTech Research.

OER shows no sign of slowing down and while likely it will slow in the coming months considering plummeting home prices, it will be some time before it falls enough to allow a Fed pivot.

Second is one of the most stubborn inflation contributors – wages. Why is it stubborn? Once given it is very difficult to "take back" wage increases. BLS tracks private wages and salaries in its Employment Cost Index. It too is at an all-time high. But possibly more concerning is the speed that it has gotten there. We believe in tracking economics in terms of "rate of change", and this rate of change is impressive. It has risen much faster and to a greater degree than any advance on record.



Finally is something called "sticky inflation". The data for the following chart comes from the Atlanta Fed and BLS. It measures the price changes in items dubbed "sticky". This means price changes in items that tend to change slowly over time. The reason they are sticky is once these prices have risen, they are less likely to reverse easily. Although sticky inflation is not at an all-

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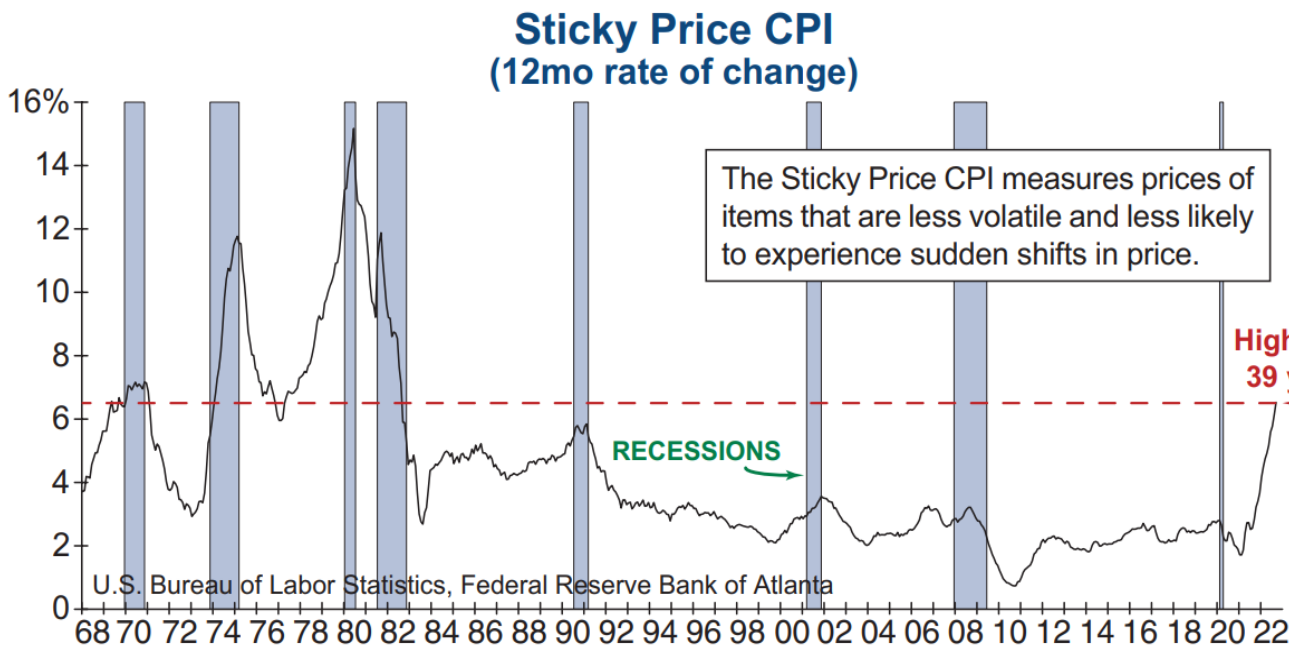
time high, the 12 month change is the highest in 39 years. It also doesn't appear to have peaked yet.



Inflation is unlikely to rapidly decline in the months ahead, and as such the most probable outcome is for the Fed to stay true to its word and keep pushing down the economy, employment, housing prices and your portfolio value.

In fact we think it very likely we are not even half done with this bear market.

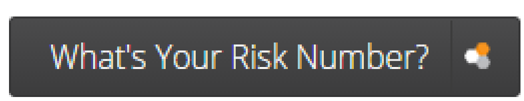
If you're concerned about your portfolio, come in for a ***free second opinion***. You would do so if a doctor suggested a dangerous medical procedure. Why wouldn't you do so for your financial future?

What is your defensive plan?

There's still time.

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 regained upward momentum as investors reacted to better-than-expected earnings reports from some prominent companies and hints that the Federal Reserve may moderate its pace of interest rate hikes. The benchmark S&P 500 index enjoyed its best gain in nearly four months, while the Dow Jones Industrial Average marked its third consecutive week of gains rallying over 1448 points to close at 31,083—a gain of 4.9%. The technology-heavy NASDAQ Composite rose 5.2%, while the S&P 500 added 4.7%. The mid cap S&P 400 and small cap Russell 2000 rose 3.0% and 3.6%, respectively.

International Markets: Almost all major Western indexes finished the week positively as well. Canada's TSX rose 2.9%, while the United Kingdom's FTSE 100 gained 1.6%. On Europe's mainland, France's CAC 40 and Germany's DAX rose 1.7% and 2.4%, respectively. Asian indexes, however, did not follow along. China's Shanghai Composite fell -1.1%. Japan's Nikkei declined -0.7%. As grouped by Morgan Stanley Capital International, developed markets finished the week up 3.5%, and emerging markets added 3.1%.

Commodities: Precious metals finished the week in the green. Gold rose 0.5% to $1656.30 per ounce, while Silver rallied 5.5%. West Texas Intermediate crude oil ticked down -0.7% to $85.05 per barrel. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, gained 1.5%.

U.S. Economic News: The number of Americans filing for first-time unemployment benefits fell last week, even as the broader economy is showing definitive signs of slowing. The Labor Department reported initial jobless claims fell by 12,000 to 214,000 in the seven days ended October 15. Economists had expected new claims to total 230,000. Analysts view the number of people applying for jobless benefits as one of the best barometers of whether the economy is getting better or worse. New filings have been slowly creeping higher over the past month, but remain at very low levels signaling the labor market remains tight. Meanwhile, 'continuing claims', which counts the number of people already receiving benefits, rose by 21,000 to 1.39 million—still near a 50-year low. However, most analysts aren't expecting claims to remain so low much longer. Chief economist Rubeela Farooqi of High Frequency Economics wrote in a note, "We expect layoffs to rise gradually over coming months as demand slows in response to aggressive Fed tightening."

The sentiment of the nation's homebuilders fell for a record tenth month in a row this month, a situation that is both "unhealthy and unsustainable", according to the National Association of Home Builders (NAHB) chairman Jerry Konter. The NAHB reported its monthly sentiment index fell 8 points to just 38 in its latest reading. Outside of the pandemic, the latest reading is its lowest since August of 2012. For perspective, the index at this time last year was at 80. All three gauges that make up the headline number fell. Current sales conditions fell by 9 points, while sales expectations for the next six months fell by 11 points. The measure of prospective buyers fell by 6 points. All four regions of the country posted a drop in builder confidence, led by the South and West. Mortgage rates have doubled from last year, now exceeding 7%, which has considerably cooled buyer demand.

Sales of existing homes fell again, as the downturn in housing continues to gather steam. The National Association of Realtors (NAR) reported existing-home sales fell 1.5% to a seasonally-adjusted annual rate of 4.71 million in September. It was its eighth consecutive monthly decline, the first time that's happened since 2007. The decline was in line with economists' forecasts. Outside of the pandemic, the level of sales activity was at its lowest since September 2012. Compared with the same time last year, home sales were down 23.8%. As expected, prices continued to come down as well. The median price for an existing home fell to $384,800 from $389,500 in August. Expressed in terms of a months-supply metric, there is currently a 3.2-month supply of homes on the market. Before the pandemic, a five to six-month supply was generally considered a 'balanced' housing market.

Factory activity in the New York region pulled back this month—the third consecutive negative reading. The New York Federal Reserve reported its 'Empire State Business Conditions index', a gauge of manufacturing activity, fell 7.6 points to -9.1 in October. Economists had expected a decline to just -5.0. In the details of the report, the index for new orders remained unchanged at 3.7, while the shipments index plunged 19.9 points to -24.1. On the inflation front, the prices-paid index rose 9 points to 48.6. Richard Moody, chief economist at Regions Financial stated the U.S. factory sector is under pressure from falling orders, thinning backlogs, and right-sizing of inventories. Firms reported they are not expecting conditions to improve over the next three months.

Similarly, the Philadelphia Fed reported its manufacturing gauge remained weak as well recording its fourth negative reading in five months. The Philadelphia Fed reported its gauge of regional business activity ticked up to -8.7 from -9.9 in the prior month. The reading was far below economists' expectations for a reading of just -0.5. New orders rose just 2 points to -15.9, while shipments remained unchanged at 8.6—its lowest reading since May 2002. The measure on the business outlook for the next six months fell sharply to -14.9 from -3.9.

The Federal Reserve's 'Beige Book'—a collection of anecdotal reports from each of its member banks, showed that inflation eased a bit in early fall, but higher interest rates and a slowing economy spurred more talk of recession. Some key points from the report--"Price growth remained elevated, though some easing was noted across several districts," the Beige Book said. In addition, the declining cost of fuel, commodities and freight costs also raised expectations among businesses "for price increases to generally moderate." Yet other businesses said high inflation was still pushing up wages and would continue to do so. Worries about recession have increased, especially in the Boston, Chicago and Philadelphia regions. "The outlook turned more pessimistic as recession fears spread," the Boston Fed said.

International Economic News: Former Bank of Canada governor Mark Carney said Canada would likely head into a recession next year but will fare better than many other countries and recover faster because of its strong economic fundamentals. Carney made the comments before the Senate committee on banking, commerce, and the economy. "I think a recession is both likely globally and most probable in Canada," Carney said. Carney told senators that China is "effectively in recession" now. Europe, he said, is entering a recession and the U.K. is already in one--and while the United States' economic momentum is propping up Canada, it will be in recession "at some point" next year. Carney cited a strong labor market and low unemployment as reasons why Canada will do better than other countries in weathering the coming recession.

After just 45 days in office, Liz Truss became the third Conservative prime minister to be toppled in as many years, and she will go down as the shortest-serving leader in British history. “I cannot deliver the mandate on which I was elected by the Conservative Party,” Truss said. Truss said she will remain in office until a replacement is chosen, which the Conservative Party said it would do by the end of next week. Analysts say Truss’ economic plan included many tax cuts that Britain simply couldn’t afford—pummeling the value of the UK’s currency and driving up costs for people and businesses.

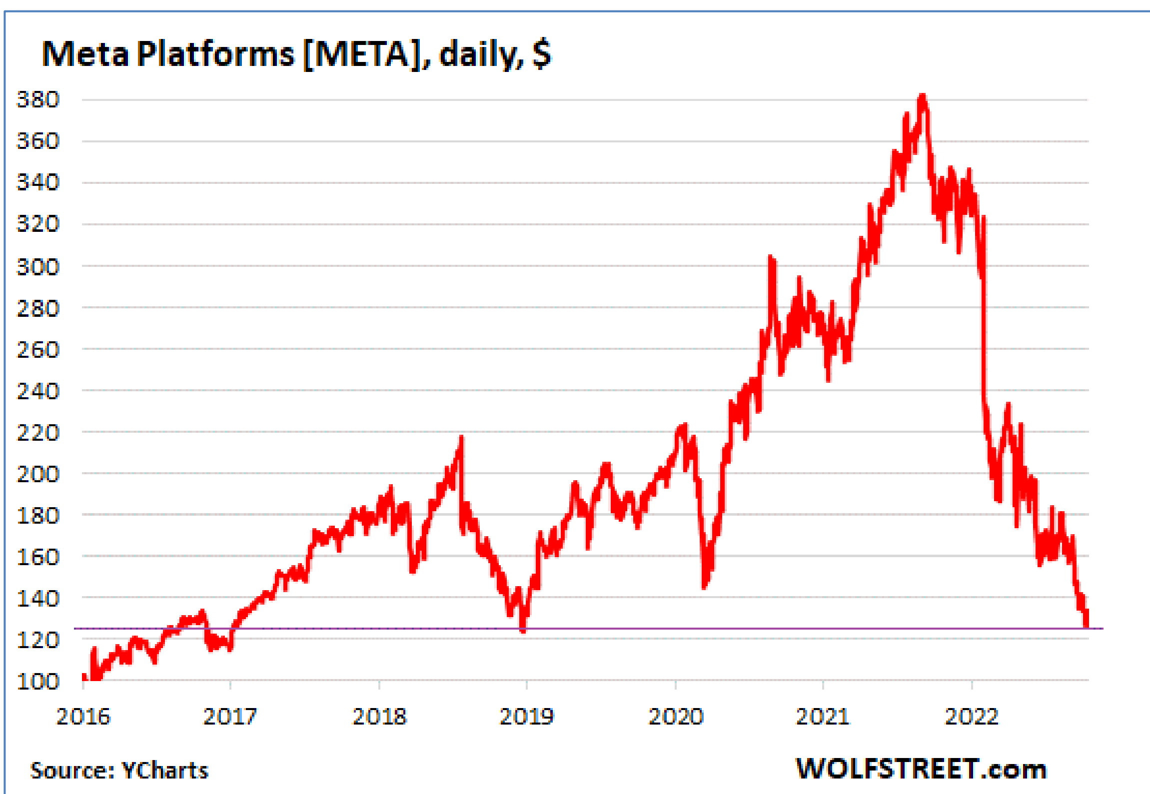
On Europe’s mainland, France's foreign minister voiced alarm over a massive US climate spending package, saying it risked unfair competition, but said Europe did not want a green trade war. Foreign Minister Catherine Colonna said parts of U.S. President Joe Biden's Inflation Reduction Act will “impact the level playing field between the US and European actors.” The Inflation Reduction Act is set to pump over $370 billion into green energy. Her remarks echoed similar comments from French and German economic ministers who called for a strong response from the European Union against state support for U.S. green companies. When asked if the tensions could fuel another trade rift similar to the earlier Boeing vs. Airbus showdown, she answered “We are certainly not looking for any war.”

The Germany government slashed its growth forecast for this year and now predicts the economy will shrink in 2023. In the first three months of 2022, economic output increased by 0.2%. However, Economy Minister Robert Habeck said that GDP is believed to have shrunk in the third quarter and is expected to do so again in the current fourth quarter--and again in the first quarter of 2023. The economy ministry expects Germany's gross domestic product to grow by 1.4% this year and then decline by 0.4% next year. That's a far cry from its estimates in late April when it had forecast 2.2% growth in 2022 and 2.5% next year. Inflation, rising energy prices and supply bottlenecks have all added up to a perfect storm for the German economy.

In Asia, a delay in the reporting of China’s GDP data has fueled concerns over the health of the world’s second-largest economy. A day before GDP data was to be published, Zhao Chenxin, a senior official at the National Development and Reform Commission (NDRC) stated, “The economy rebounded significantly in the third quarter.” The country’s performance, he added, was “outstanding”. However, hours later, the government’s statistics department quietly updated its website to clarify that the data would be delayed, without providing further explanation or comment. Economists had forecast growth of just 3.3%--far below the country's long-term average and its 5.5% target for the year. Robin Xing, chief China economist at Morgan Stanley stated, "Slightly above 3% sub-par growth is probably the best they can get with strict Covid management and the drag from the housing sector."

Japan is considering spending just over 20 trillion yen ($133 billion USD) on a new economic package aimed at helping households cope with accelerating inflation and improving tourism. Prime Minister Fumio Kishida is expected to make a formal decision next week so an extra budget to fund the package can be submitted to parliament, sources say. The total size of the package will likely be larger, given that spending by others, such as local governments, will be included. A nagging issue is how the government will secure funds when the country's debt is more than twice the size of the economy. Kishida, who has stressed the need for a "bold" package, is focusing on three areas--steps to cope with inflation and the effect of a weaker yen, spurring wage growth, and rejuvenating growth through investment and reform.

Finally: Social media and "tech" companies who rely on advertising dollars to be profitable have been under considerable pressure lately—to put it mildly. SNAP was the first major advertising-dependent social media company to report earnings this week, and it was a bloodbath. SNAP shares plunged 26% following its report to its lowest price since 2019—just $7.88. Even the biggest of all social media companies - Facebook - has been caught up in the carnage. Now calling itself by the widely-mocked name "Meta", Facebook is down 67% from its high of 13 months ago, which takes it all the way back to where it was in 2016. As one pundit put it, "Zuck sure has meta mess of Facebook!" (Chart by wolfstreet.com)



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

In fact we think it very likely we are not even half done with this bear market.

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, Statistics Canada, Yahoo! Finance, stocksandnews.com, marketwatch.com, wantchinatimes.com, BBC, 361capital.com, pensionpartners.com, cnbc.com, FactSet.)