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THIRD QUARTER 2022

There's a saying in the newspaper business; "Don't bury the headline". With that in mind, the third quarter saw further stock market losses. Our view remains unchanged from our Second Quarter newsletter when we warned of further market declines ahead but that it will also present opportunities for those who don't doggedly ride it down…

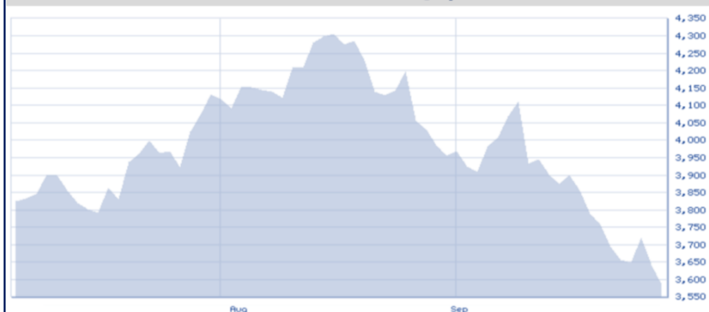
There will be a time to return to a full equity allocation. But we think it will be from much lower levels.

After all, you can't buy low if you don't sell high.

If you remain invested in the same buy and hold portfolio you've had the last 10 years you're likely to suffer bigger losses from here. In fact we're likely not half way to the bottom in terms of either time or drawdown.

The third quarter of 2022 was a very rough one for equities. September's quick drop left the S&P 500 down 5.3% for the quarter. This marked a 52-week low, and September was logged as the worst performance for the S&P 500 since March 2020.

S&P 500 Q3/2022 - 5.3%



DJIA Q3/2022 - 6.7%

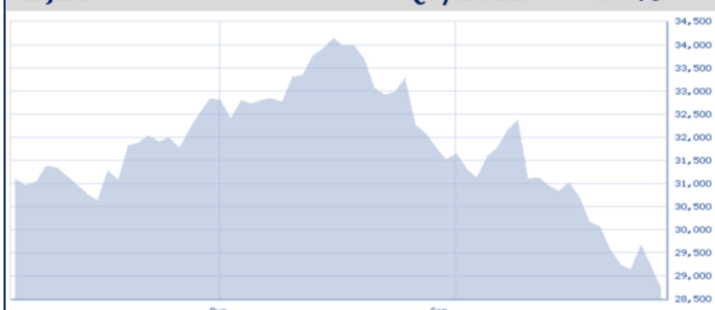


Chart Source: www.bigcharts.com

MONEY RATES

(as posted in Barron's 10/3/2022)

	LATEST WEEK	YR AGO
Fed Funds Rate*	3.09%	0.08%
Bank Money Market[z]	0.14%	0.07%
12-month CD[z]	0.82%	0.15%

*z – Bankrate.com (Source: Barron's; bankrate.com) * - Average Effective Offer*

The Dow Jones Industrial Average (DJIA) also set a 52-week low, closing down 6.7% for the quarter. This marked the third consecutive quarter decline, bringing it down 21% to date for 2022. Similar to the S&P 500, the DJIA experienced its worst month in September since the pandemic-driven lows in March 2020.

Having said that, the extent of losses is the only thing comparable to 2020. In 2020 the Fed was cutting rates and printing $4 trillion, at the same time Congress was printing another $4 trillion and handing it out to consumers. This fueled a swift rebound in stock prices. If anything, this is the opposite environment with the Fed raising rates and withdrawing liquidity and Congress cutting spending. In fact during fiscal year 2022 (the U.S. fiscal year ends in September) the U.S. budget deficit fell by the largest one year amount ever; $1.4 trillion. *(Source: Reuters, 10/21/22)*

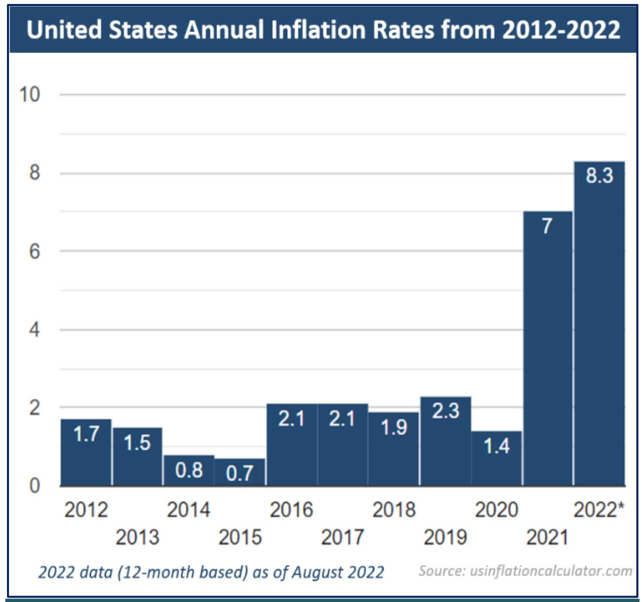
If massive money printing drove stocks higher from Covid lows, what will the opposite do?

Let's be clear about how the Fed is trying to fight inflation.

The price of anything is set by the intersection of supply and demand. Worldwide Covid lockdowns cut off supply as workers stayed home. At the same time worldwide government handouts made demand skyrocket. The result, not surprisingly, are higher prices, a.k.a. inflation.

How are Central Banks around the world fighting this? Certainly they cannot impact supply. They can't get rid of Covid or send everyone back to work, or do anything to increase supply. All they can do is attempt to reduce demand so that it crosses supply at lower prices.

Central Bankers around the world are trying to reduce demand by making us feel poorer so we won't buy as much stuff.



KEY TAKEAWAYS

- The Fed raised interest rates 0.75% in September and indicated it will keep increasing rates until inflation is defeated.
- A recession is almost a certainty.
- This is a worldwide inflationary environment meaning almost every Central Bank around the world is tightening financial conditions.
- Treasury yields are providing favorable interest payments but still risk principal loss.
- Volatility is a key factor in this economic environment. Keep in mind, volatility rises during bear markets not bull markets.
- ***We are here for you to discuss any concerns you have.***

What makes us feel poorer?

We feel poorer if our houses fall in value, if our portfolios fall in value and if corporations lay off more employees so our jobs are at risk.

Making your portfolio continue to fall in value is not an unfortunate side effect of Fed policy, ***it is the GOAL of Fed policy*** and will continue to be so until inflation falls substantially.

LISTEN TO RIAL AND DON'S RADIO SHOW,

"YOUR MONEY MATTERS",

EVERY SATURDAY MORNING AT 8:00 AM KXLY RADIO CHANNEL 920 AM IN SPOKANE AND AT 9:30 AM ON NEWSTALK RADIO CHANNEL 870 AM IN THE TRI-CITIES AREA

(BOTH SHOWS ARE ALSO AVAILABLE ON OUR WEBSITE WWW.MOULTONWEALTH.COM)

The annual inflation rate for the United States was 8.2% for the 12-months ending September 2022. Americans continued to feel the pinch as fuel prices and grocery receipts remained markedly higher.

During the quarter, first-time unemployment claims hit a 4-month low, which is both good news and bad news. The good news is more Americans have jobs, the bad news is the Fed, which takes unemployment rates into consideration when making adjustment, is likely to continue their aggressive tactics against inflation. Jefferies economist Thomas Simons wrote, "The labor market remains very tight, and the claims data do not show any signs that slack is emerging. If anything, the recent claims data suggest that the labor market is tightening up even more." *(Source: barrons.com, 9/29/22)*

The Fed also looks at the impact of shelter costs when deciding policy moves. Housing prices still remain high in many areas of the country, even with the significant increase in mortgage rates and elevated rental costs.

"I think that shelter inflation is going to remain high for some time. We're looking for it to come down, but it's not exactly clear when that will happen. It may take some time. Hope for the best, plan for the worst," Powell said during the September FOMC meeting. *(Source: cnbc.com, 9/21/22)*

Chief Economic Christopher Rupkey at FWDBONDS in New York, stated, "The Fed won't be slowing the pace of their rate hikes yet with 75 basis points in November and 50 basis points more in December a virtual certainty." Rupkey continued, "The Fed is going to go until something breaks, but so far, nothing is breaking besides the stock market and early signs that home prices are starting to fall." *(Source: fidelity.com 9/29/22)*

There are always multiple factors that need to be watched that can directly affect equity markets. Here are four concerns that could be major factors in determining the direction of equity markets at this time:

The continuation of rising inflation rates. The inflation rate is still not losing steam despite the Fed's efforts. All eyes are on the Fed's movements to combat inflation, which has been and will continue to be a major factor in the economic environment at this time.

Further interest rate increases. The Fed's key solution for fighting inflation is to raise interest rates. To date, their efforts have not produced satisfactory results. Interest rate increases this year have been consistently followed-up by a decline in equity markets.

Geopolitical unrest. Equity markets do not like uncertainty and with the ongoing war between Russia and the Ukraine and concerns over a major conflict with China and Taiwan, geopolitical unrest continue to be something we are keeping a watchful eye on.

Recession. There is a lot of talk about a recession. Fears that the Fed's aggressive moves will plunge the economy into a deep recession have been a continual news headline. A recession is technically defined as having two successive quarters of economic decline. Empirically, we are in recession territory. However, even if we are in a recession, it's difficult to know how deep it will be.

Regardless, investors should understand that volatility is likely to be here for a while.

As your financial professional, we are committed to keeping you apprised of any changes and activity that could directly affect you and your situation.

Inflation & Interest Rates

This year, we have experienced the fastest rise of inflation since the 1980s. Despite the Federal Reserve's efforts to slow down this runaway train, inflation is still strong.

Could we see a lost decade in the stock market?

Protect your retirement; there's still time

Weekly Radio Show
Saturday Mornings

8:00 AM KXLY 920 AM Spokane and Area

9:30 AM KFLD 870 AM Tri-Cities and Area

Www.MoultonWealth.com for Podcasts

- **How employing and consistently following a defensive system could help you to a better retirement.**
- The Secure Act tax law change could alter how you leave your retirement accounts!
- What happens when an economic downturn makes it difficult for companies to pay back their massive debt?
- Why Buy and Hold Investing was right for the 80's and 90's yet very wrong for today.
- Will inflation eat up your assets?
- How to potentially decrease taxes on your hard earned Social Security Income
- To Roth or not to Roth?

And so much more!

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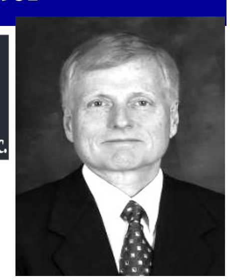

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Advisory services through Moulton Wealth Management, Inc., an independent Registered Investment Advisor registered with the SEC.

At the September FOMC meeting, Fed Chair Jerome Powell expressed that, “Our expectation has been we would begin to see inflation come down, largely because of supply side healing. We haven’t. We have seen some supply side healing, but inflation has not really come down.”

In their continued efforts to combat public enemy #1, the Fed increased their interest rates again by 75 basis points (or 0.75%) for a target range of 3.0% to 3.25%. This marked the third time the Feds have raised rates by 75 basis points and the fifth time they have increased rates in 2022.

Equity markets responded negatively to this news. The DJIA closed the day down 522.45 points (or 1.7%). The S&P 500 dropped 1.71% and after the close on that short announcement day in September, was down more than 10% for the past month and 21% from its 52-week high. *(Source: cnbc.com; 9/20/22)*

With September’s year over year inflation rate being 8.2%, and the core inflation rate (less volatile food and energy) reaching a cycle high of 6.6%, policymakers still have a long battle ahead when trying to bring inflation to a more stable pace. In November, the Federal Reserve will meet once again. It is anticipated that at that meeting rates will again be increased by another 0.75%.

At a post September meeting news conference, Powell stated he remains on course with his intentions expressed at the Fed’s annual symposium in August, "My main message has not changed since Jackson Hole. The FOMC is strongly resolved to bring inflation down to 2%, and we will keep at it until the job is done." *(Source: cnbc.com; 9/21/22)*

It is always a good idea for investors to try to at least keep pace or exceed inflation rates. Median federal funds rate projections from the recent FOMC meeting were revised for 2022, increasing to 4.4%, 1% higher than the previously projection in June of 3.4%. For 2023, projections increased from 3.8% to 4.6%, and for 2024 to 3.9% from 3.4%.

What does this mean for you? It’s very possible that interest rates above the last few years’ historically low rates will be here for some years to come. Since the 2010’s, Americans had been enjoying these historically low interest rates. Now, interest rates are front and center as the Fed stands by its commitment to combat inflation.

Inflation (1970s – August 2022)

We continue to suggest that, if you haven’t already done so, to take a look at these areas of your financial situation:

- Proactively pay off all non-essential, interest-bearing debt. This is especially true for debt with a variable rate like credit cards.
- Maintain liquidity for short-term purchases.
- If you have a mortgage, lock in your rate.
- If you have bonds in your portfolio, understand their duration; and
- Review all income-producing investments.

As your financial professional, we are committed to keeping a vigilant eye on all aspects of financial planning that may affect you. Interest rates will continue to be near the top of our watch

list. If you are concerned about how interest rate increases may affect your portfolio, please connect with us to discuss any possible strategies that may help combat the effect on your personal situation.

Year End Tax Planning

It's that time of year again when investors should consider the totality of their 2022 taxes and what they may want to do before year end.

2022 Tax Brackets and Roth IRAs

Following are the tax brackets for 2022. Remember, these brackets phase out on January 1, 2026 and taxes will generally increase.

Tax Rate	Single	Married/Joint & Widow(er)	Married/Separate	Head of Household
10%	$0 to $10,275	$0 to $20,550	$0 to $10,275	$0 to $14,650
12%	$10,276 to $41,175	$20,551 to $83,550	$10,276 - $41,775	$14,651 to $55,900
22%	$41,176 to $89,075	$83,551 to $178,150	$41,776 - $89,075	$55,901 to $89,050
24%	$89,076 to $170,050	$178,151 to $340,100	$89,076 - $170,050	$89,051 to $170,9050
32%	$170,051 to $215,950	$340,101 to $431,900	$170,051 - $215,950	$170,051 to $215,950
35%	$215,951 to $539,900	$431,901 to $647,850	$215,951 - $323,925	$215,951 to $539,900
37%	$539,901 or more	$647,851 or more	$323,926 or more	$539,901 or more

With higher taxes coming, we think it wise for everyone to consider whether a Roth IRA conversion would be prudent. Some think you have to be working or under a certain age, and although contributing to an IRA or Roth IRA can have those restrictions, anyone can convert a portion of their existing IRA to a Roth IRA.

However doing so creates a taxable event on the amount converted and it can no longer be "undone" so make sure you work with a qualified professional to estimate the tax impact. Also don't forget the possible increase in the taxable amount of your Social Security due to an increase in Provisional Income.

Considering a Roth conversion is even more important in the context of Family Tax Planning. Under the Secure Act any beneficiary other than a spouse generally has to withdraw all the funds from an inherited IRA or Roth IRA within 10 years. As such beneficiaries who are still working may be pushed into higher tax brackets if they inherit a traditional IRA. If instead it is converted to a Roth before it's passed on, there is no tax impact for beneficiaries.

Call us if you want to review whether a Roth conversion makes sense for you and your family.

Capital Gains and Losses

Especially in our volatile 2022 stock market, your advisor should be helping you consider whether tax loss harvesting makes sense to reduce your overall tax burden. This can be especially important as mutual funds can distribute (i.e. you didn't sell anything but you still get taxed) large capital gains even in down markets. One of the advantages of Exchange Traded Funds (ETFs) over mutual funds, and why we prefer them, is they are less likely to make taxable distributions.

Any losses you realize (realized losses occur when you sell an asset at less than what you paid for it) can offset gains. But in addition, you can deduct up to $3,000 of the losses against ordinary income and carry forward any amount left over indefinitely. If you do sell an asset at a loss, keep in mind you can't rebuy it for at least 31 days or you trigger a "wash sale" and the loss won't count on your tax return.

What some investors are less aware of is "gain harvesting". If you are in the 12% bracket, a long term capital gain (i.e. the gain on an asset you've held for 1+ years) is taxed at 0% and has no wash sale rules. As such you could sell something for a gain and buy it back in 5 minutes. Why might you do that? To move up your "basis" so future sales – possibly under higher tax rates - would have smaller gains.

Here are the long term capital gains tax rates.

2022 Long-term Capital Gains Rate	Single Taxpayers	Married Filing Jointly	Head of Household
0%	Up to $41,675	Up to $83,350	Up to $55,800
15%	$41,676 – $459,750	$83,351 - $517,200	$55,801 - $488,500
20%	Over $459,750	Over $517,200	Over $488,500
Source: irs.gov			

Keep in mind, any additional income such as the sale of an asset at a gain, even if that gain is taxed at 0%, could make more of your Social Security taxable therefore creating a higher tax bill.

Call us if you want to review whether gain or loss sales make sense for you and your family.

Charitable Gifting

One of the downsides to President Trump's tax cuts was higher standard deductions. Why was that a downside? Because if you don't itemize, you don't get any tax benefit from charitable contributions.

If you are charitably inclined, have an IRA and are over age 70-1/2 there is a solution called a Qualified Charitable Distribution (QCD).

Under the QCD rules, an IRA owner can send charitable gifts directly from their IRA to a charity without it impacting their taxes. Better yet, if you are taking Required Minimum Distributions (RMDs) these QCDs count as part or all of your RMD, even though you don't have to include them as taxable withdrawals. As such your charity gets money that they don't have to pay taxes on, and you satisfy your RMD with withdrawals you don't have to pay taxes on.

Call us if this is a strategy that you are interested in considering.

The Bond Market and Treasury Yields

Treasury yields are thriving in this environment. Our chart shows the significant increase in yields we have experienced since the beginning of 2022 across the 5, 10, 20, and 30-year time ranges. As of September 30, 5-year notes yielded 4.06%, 10-year notes yielded 3.83%, 20-year notes yielded 4.08%, and 30-year notes reached 3.79%. The benchmark 10-year Treasury note had not seen these rates for over 12 years, when it reached a high of 3.93%.

Bond investing can be tricky and the opportunity to take advantage of favorable bond yields could be brief. Also, please remember, while diversification in your portfolio can help you reach your goals, it does not ensure a profit or guarantee against loss.

The 2-year treasury reached 4.30% on September 27, which is the highest it has been since August 2007. This milestone brings concern to many analysts as they watch the inverted yield curve get steeper – what many believe to be a strong indicator of economic downturn.

2022 Treasury Yield Comparisons

January 4, 2022				September 30, 2022			
5-year	10-year	20-year	30-year	5-year	10-year	20-year	30-year
1.37	1.66	2.10	2.07	4.06	3.83	4.08	3.79

www.treasury.gov

Bonds which have historically been held by investors as a balance to equities have had a very rough ride in 2022. When rates go up existing bond prices go down. Longer term bonds tend to be the ones most affected, so investors need to watch the duration or length of the bonds they hold.

If you'd like to explore how bonds could fit into your retirement income strategy, please contact us. We are monitoring how the Fed's movements and rising interest rates are affecting bond yields.

Investor's Outlook

Unfortunately for those who listen, Wall Street is more than happy to throw out a multitude of misleading statistics in an effort to keep you invested regardless of current risks. Some of these are…

- **Bear markets are normal.** We would mention so is high blood pressure, getting out of shape, eating poorly and sickness. Yet we would never ignore them or hope them away because of it.
- **The long-term average frequency between bear markets is 3.6 years and they last less time than bull markets.** The Great Financial Crisis bear market in the S&P-500 took roughly 13 months from top to bottom, yet it took about 56 months to regain those losses. The fact that the bull market was longer did little good for your portfolio and retirement.

- **You haven't lost unless you sell.** Sadly, yes you have. If you don't think so ask your broker for the balance in your account as of December 31, 2021. At the very least you've lost months or even years.
- **A bear market doesn't mean a recession is coming.** The implication (or hope) here is that it will be a shallow and brief bear market. Yet we've had two consecutive quarters of negative GDP, which is a technical recession. Despite Wall Street trying to convince you this isn't the same as a "real recession", ***we've never had two consecutive quarters of negative GDP outside of a real recession.***

We're told not to worry about it because it's been a good run. *In fact that's even more reason to worry. Years and even decades of irresponsible monetary policy by both politicians and the Federal Reserve has stretched the economic rubber band much farther than is normal. When it snaps back we're concerned it could be vicious.*

Some tell us to "stay the course" and "ride out the bear market" rather than protecting ourselves. This may make sense if you have no plan or tested methodology and are just shooting from the hip. However, realize that it's possible there is a lot more downside in our future.

When the S&P-500 was down 21% from its peak during the Dot.com bear market (where we are as of this writing), it still fell another 35.6% to the ultimate bottom. When it was down 21% during the Housing bubble bear market, it still fell another 45.3% to the ultimate bottom.

While being diversified is important, it's unlikely to mitigate these drawdowns significantly, especially if bonds keep behaving poorly.

Investors have yet to see if the Fed's attempts to fight inflation will work effectively, and how long it might take. We are still not near the Fed's long term target inflation rate of 2%.

To be clear, as long as inflation remains elevated, the Fed will be actively working to slow the economy and bring down asset prices. This is a real – and very big – risk.

While it's not possible to perfectly time equity market tops and bottoms, we feel it is possible to sidestep much of the damage in bigger declines. By doing so investors can help avoid the panic that can lead to poor decisions, as well as the months or even years spent trying to regain losses.

There will be a time to return to a full equity allocation. But we think it will be from much lower levels.

After all, you can't buy low if you don't sell high.

Please call our office to discuss any concerns or ideas you have or bring them up at your next scheduled meeting. Prior to making any financial decisions, we highly recommend you contact us so we can help determine the best strategy. There are often other factors to consider, including tax ramifications, increased risk, and time horizon fluctuations when changing anything in your financial plan.

As always, please feel free to connect with us with any concerns or questions you may have.

Although investing should be thought of as a long term commitment, the benefits of a defensive strategy should be thought of in the same light.

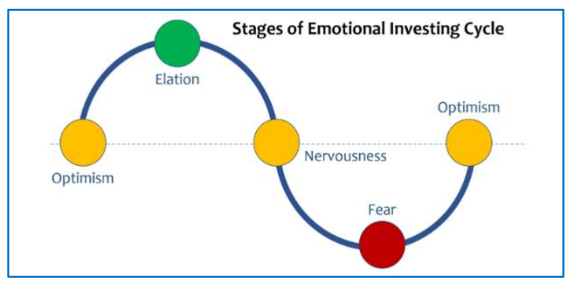
These and any other economic factors could complicate equity market performance for the remainder of 2022 and into 2023, so investors need to be prepared.

Regardless of how equities are performing, investors should always focus on their personal objectives and long-term goals.

Four factors that investors should focus on are:

1. **Your risk tolerance or appetite.** How much risk are you willing to take, or better yet, how much can you afford to take? Of course a well-designed, defensive strategy can help with downside risk but whenever investing, losses are possible.

2. **Your time horizon.** The amount of time you want to be invested in any particular situation can help you determine your entry and exit points. Longer-term horizons provide more flexibility than shorter-term horizons.



3. **Your behavior.** How well can you emotionally endure the potential ups and downs of your investments? Market volatility is part of the investment experience and can create panic and anxiety. Making rational decisions during this mindset can be more difficult. Again, two factors can help moderate destructive behavior: ***first, relying on data over news stories and second, having a mathematically based, defensive strategy in place to keep "normal" losses from becoming catastrophic.***

4. **Your overall strategy, especially how you plan to mitigate losses.** Are you employing a strategy that doesn't fit you fiscally or emotionally? Perhaps you think of yourself as a "buy and hold investor", but admit you have sold at inopportune times in the past when losses were too severe to tolerate. We always say that it's nice if markets come back, but will your portfolio in a time that

aligns with your retirement? This is especially critical if you're relying on those funds for living expenses.

We believe employing a sell discipline to protect your retirement is critical to your investment success.

A skilled financial professional can help make your journey easier. Our goal is to understand our clients' needs and then try to create a plan to address those needs.

Investing is a marathon, not a sprint…

But even in a marathon, it's important to manage risk with an eye towards limiting losses. After the last two bear markets outside Covid, the first 100% (or more) gains in the S&P-500, over multiple years, were required just to get back to break even. Using years of gains simply to recoup past losses does not further your retirement goals.

Please listen to our radio show as we cover many of these topics, and we have a bit of fun too.

For more information, call the office and sign up for our weekly email newsletter. You can also sign up for a free Financial Physical.

Yours truly,

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Our goal is to offer services to several other clients just like you! If you would like to share this article with a friend or colleague, please call us at **509-922-3110** and we would be happy to assist you!

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