MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of December 12, 2022

Last week's newsletter discussed the sequence of events in a Fed tightening cycle from higher rates, to pinched consumer spending, to lower corporate profit margins, to lower corporate profits, to… lower stock prices. You can read it here: *Newsletter - Moulton Wealth*.

Is it optimistic and/or patriotic to remain fully invested at all times? We would suggest neither. In fact it's just more Wall Street talking points.

A somewhat unscientific survey at a professional investor conference was shared on twitter by Bob Elliott of Unlimited Funds. Of those questioned, 100% thought there would be a recession in 2023. Of those same respondents, 0% thought stocks would be lower 1 year from now.

Does that make any sense to anyone?

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.

Last week we included a chart showing recovery of losses incurred during recessionary bear markets took much longer than non-recessionary bear markets. In fact the average over the lifetime of the markets was 129 months from peak to trough and back again to peak. Before you dismiss this as hyperbole, the S&P-500 took about 156 months to regain the peak of the Dot.com bubble.

Yet those at this conference, arguably sophisticated investors, thought a recessionary bear market would be "fixed" within 12 months.

Why?

Probably two reasons:

1. Their experience over the past 13 years has consisted of Fed money printing rescuing every market decline.
2. Career risk. If they always cheerlead and the market goes up, they're geniuses. If they do so when the market declines and it results in their clients losing money, they can fall back on all the Wall Street talking points.
   a. No one could have seen it coming.
   b. Everyone's losing money.
   c. It always come back.
   d. You haven't lost unless you sell.

   I won't bore you with more, and there are plenty. Not only will they be telling their clients this, so will the talking heads on television, in the newspapers, on the internet, etc.

So either way, they'll be protected.

Regardless, their tenor was that the Fed wouldn't let the markets decline appreciably.

Listen to Rial's and Don's radio show,

"Your Money Matters"

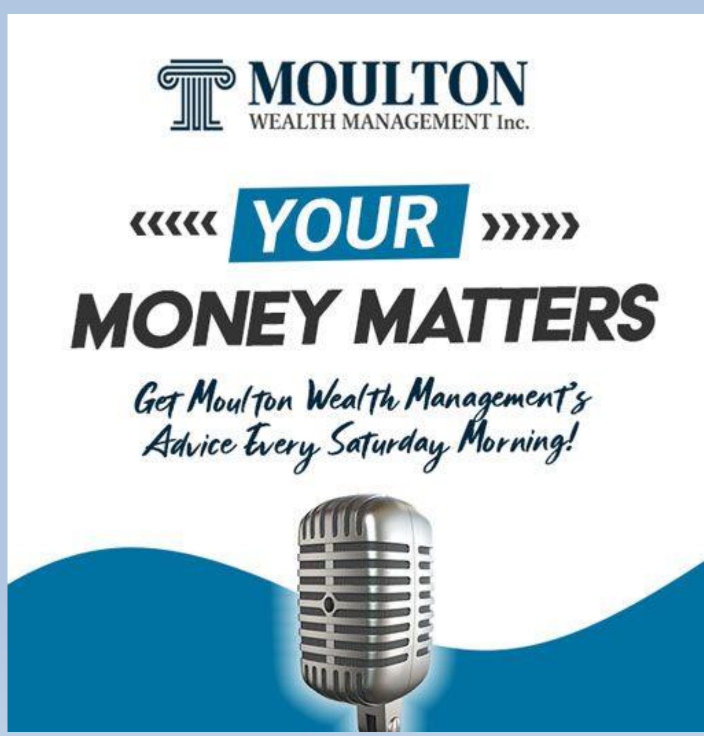
every Saturday Morning at

8:00 am on KXLY radio channel 920 am in Spokane

and at 9:30 am on NewsTalk Radio Channel 870 am in the Tri-Cities Area

listen live at www.newstalk870.am again at 9:30 each Saturday morning

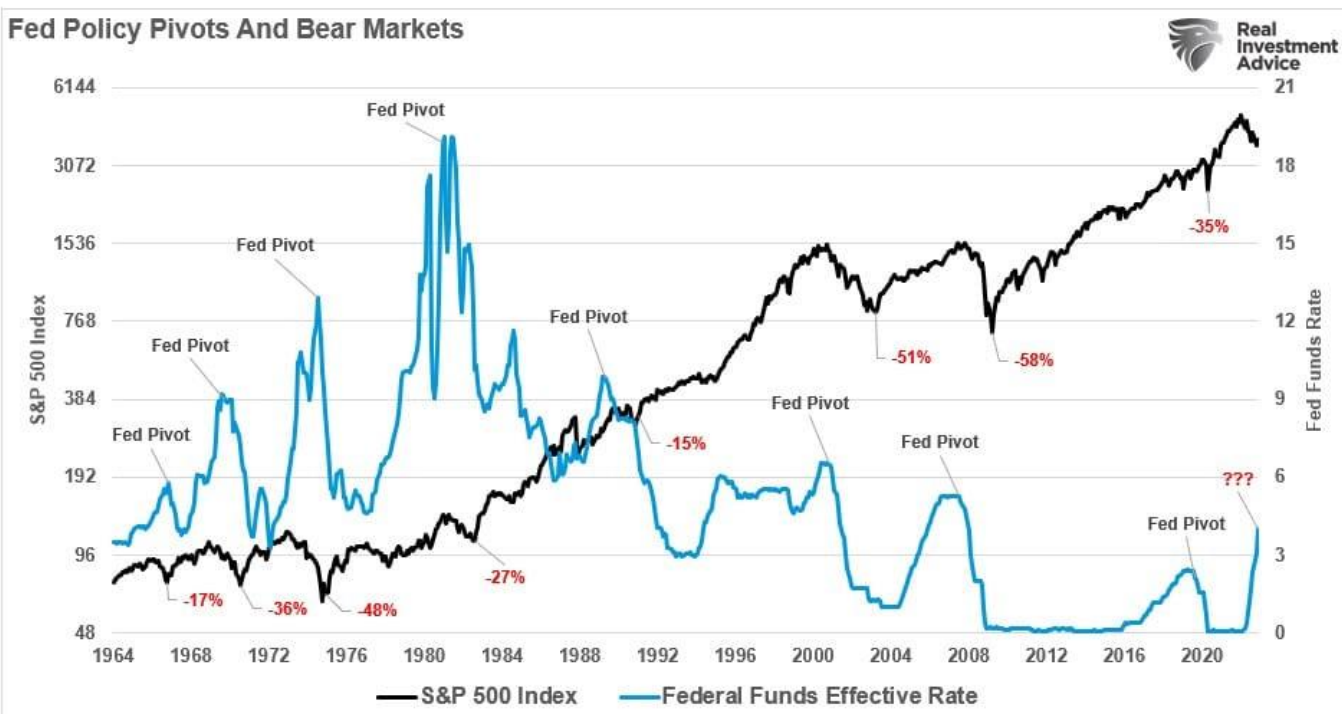
Or visit our website moultonwealth.com for podcasts



But what if the Fed can't bail out Wall Street this time, as opposed to the last 13 years, because this time we have inflation?

Or, even if they are willing to cut rates and try to save the market, how bad must things get before they'll start?

Lance Roberts of Realinvestmentadvice made an interesting point recently. Historically Fed "pivots" from raising rates to cutting rates is not at all a reason to celebrate. In fact, that's when the bulk of market declines begin.



Why should this actually make sense?

The Fed cuts rates when things are bad, not when they're good!

And as you can see on the chart, when the declines begin, they can be vicious.

In the Great Financial Crisis, the S&P-500 fell 24% from the start on October 9, 2007 until the Lehman bankruptcy on September 15, 2008. That was close to a year, and not that far off from what we've lived through this year.

Then in just over a month from September 15, 2008 to October 27, 2008 the S&P-500 fell ***ANOTHER*** 28.8%. And from September 15, 2008 to the ultimate bottom, about 5 months later, it fell ***ANOTHER*** 43%.

Not only do bear markets normally unfold in two stages with the latter stage being the more virulent, it also demonstrates that risk happens slowly and then all at once.

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 gave back much of their previous two weeks' gains, as some surprisingly strong economic data dampened hopes that the Federal Reserve might be able to slow or cease its program of raising interest rates to cool inflation. The S&P 500 Index recorded its worst return in five weeks, while the small-cap Russell 2000 Index endured its worst week since late September. The Dow Jones Industrial Average shed almost one thousand points (-953) finishing the week at 33,476—a decline of -2.8%. The technology-heavy NASDAQ Composite declined -4%, while the large cap S&P 500 pulled back -3.4%. The mid cap S&P 400 index gave up -4.1%, while the small cap Russell 2000 fared the worst of the major indexes, ending the week down -5.1%.

International Markets: Canada's TSX retreated -2.6%, while the United Kingdom's FTSE 100 pulled back -1.1%. On Europe's mainland, France's CAC 40 and Germany's DAX ended the week down -1.0% and -1.1% respectively. In Asia, China's Shanghai Composite finished the week up for a sixth consecutive week, adding 1.6%. Japan's Nikkei rebounded 0.4%. As grouped by Morgan Stanley Capital International, developed markets finished down -1.2%. Emerging markets ended the week down -1.3%.

Commodities: Energy markets continued to get pummeled. West Texas Intermediate crude oil plunged -11.2% to $71.02 per barrel, along with Brent crude which finished down -10.2%. Precious metals maintained their luster. Gold finished the week up $1.10 to $1810.70 per ounce. Silver rose 2% to $23.72. The industrial metal copper, viewed by some analysts as a barometer of world economic health due to its wide variety of uses, ended the week up 0.7%.

U.S. Economic News: The number of Americans filing for first-time unemployment benefits climbed last week, a sign the red-hot labor market may be slowly cooling off. The Labor Department reported initial jobless claims rose to 230,000, up 4,000 from the prior week and matching estimates. The number of people applying for jobless benefits is one of the best barometers of whether the economy is getting better or worse. New unemployment filings have gradually risen from a 54-year low of 166,000 last spring. Meanwhile, the number of people already collecting benefits, known as "continuing claims", rose by 62,000 to 1.67 million. That's the highest reading since February. Chief economist Joshua Shapiro of MFR Inc. stated, "While the level of initial claims remains very low on a historical basis, signaling that the labor market remains reasonably vibrant, an uptrend does appear to be starting."

The U.S. economy continued to grow last month according to a survey from the Institute for Supply Management (ISM). ISM reported its service-sector index, which makes up the vast majority of U.S. economic activity, climbed 2.1 points to 56.5 in November—a strong sign that the economy continues to expand steadily. Readings over 50 signify the economy is still growing and above 55 are viewed as exceptional. The reading exceeded the consensus forecast for a 0.7-point decline to 53.7. In the details, the production gauge jumped 9 points to 64.7, while new-orders pulled back half a point to a still-strong 56%. Some positive news on the inflation front, the prices-paid index fell 0.7 points to 70%. Prices are rising much more slowly than they were in the spring. Still, the report wasn't strong enough for many analysts to change their views of an impending recession. Oren Klachkin, lead U.S. economist at Oxford Economics wrote in a note to clients, "Activity remains fairly resilient for now, but we believe that it's only a matter of time before Fed interest-rate hikes and tighter financial conditions push the economy into a recession."

Consumers continued to borrow at a solid pace in October, the Federal Reserve reported. Total consumer credit rose $27.1 billion, up from $25.8 billion the prior month. From the same time last year, borrowing is up 6.9%, up 0.3% from the prior month. Economists had been expecting a $26 billion gain, according to a Wall Street Journal forecast. Revolving credit, mainly credit cards, rose 10.4% in October after an 8.2% gain in the prior month. Non-revolving credit, typically auto and student loans, rose 5.8% down from a 6.1% growth rate in the prior month. Of note, according to separate data from the New York Federal Reserve Bank, credit card balances are up 15% over the past year—the largest increase in more than 20 years.

Prices at the producer-level picked up last month but slowed slightly on an annual basis. The Labor Department reported wholesale prices rose 0.3% in November, slightly above forecasts for a 0.2% rise and its third consecutive increase. The core producer price index, which excludes volatile food, energy, and trade prices, also rose 0.3% in November, up from a 0.2% gain in the prior month. The increase in producer prices over the past 12 months slowed to 7.4% gain from 8.1% in the prior month. That is the slowest annual advance since May 2021. Although hotter than expected in November, inflation at the wholesale level is showing steady deceleration from its peak in March. Matthew Martin, economist at Oxford Economics wrote, "PPI inflation continued to trend downwards, but economic momentum will keep it elevated until at least the second quarter of next year."

International Economic News: According to the IMF, the Bank of Canada will likely need to keep interest rates at or above 4% for most of 2023 to cool an overheated economy and tame high inflation. The central bank's benchmark overnight interest rate currently stands at a nearly 15-year high of 4.25% after a 50-basis point hike announced this week. The IMF, in its annual review of Canada's economy said, "the key immediate priority is to bring inflation down without triggering a recession," and that it welcomed the Bank of Canada's "decisive policy tightening." The bank has raised rates at a record pace of 400 basis points in nine months to fight inflation that is far above its target. Money markets expect the policy rate to peak at 4.36% in June and end 2023 at about 4.10%.

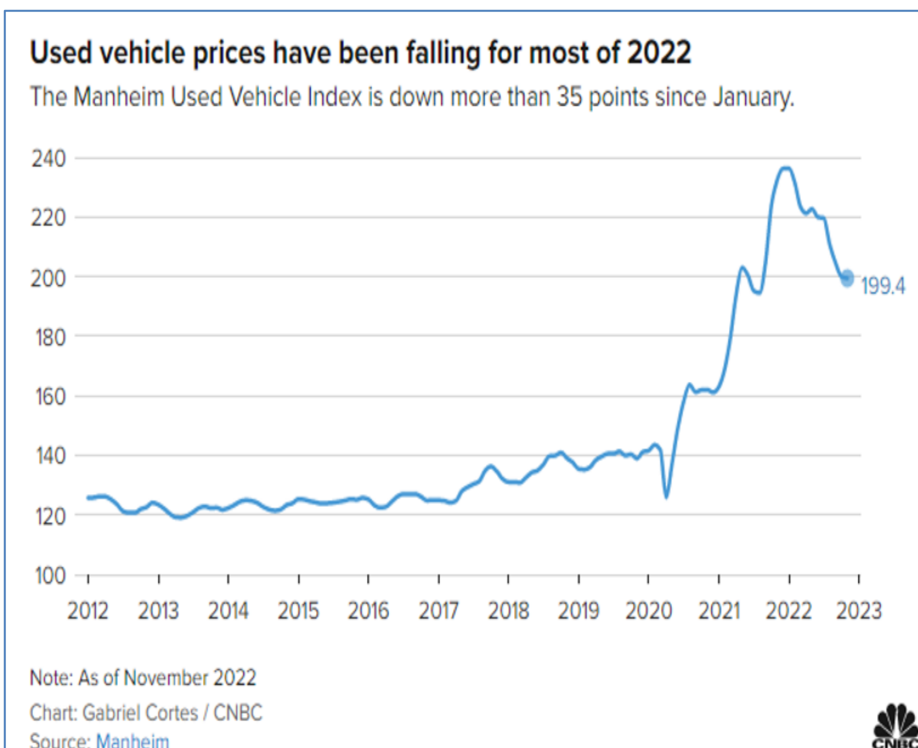
Across the Atlantic, the United Kingdom faces a "lost decade" of growth if action isn't taken to address slumping business investment and worker shortages, a leading business lobby group has warned. In a bleak economic forecast published this week, the Confederation of British Industry (CBI) said that three quarters of companies continue to struggle to find qualified workers for unfilled positions. The CBI urged changes in government policy, including a more flexible immigration system and tax breaks to boost investment. "Britain is in stagflation," CBI director general Tony Danker wrote in his statement. "With rocketing inflation, negative growth, falling productivity and business investment, firms see potential growth opportunities but a lack of 'reasons to believe' in the face of headwinds are causing them to pause investing in 2023," he concluded.

Across the Channel the mood was much more optimistic. The head of France's central bank, Francois Villeroy de Galhau forecasted the French economy will "probably" slightly expand next year. "I can't rule out a recession, but this is not our base line scenario", Villeroy stated in an interview, adding he for now expected "probably slightly positive growth" next year. The French central bank is due to publish a detailed growth outlook next week. It had earlier this year given a range of -0.5% to +0.8% for 2023 growth, saying current economic uncertainties would not allow it to give a more precise forecast. For this year, the central bank said the economy is on course to finish the fourth quarter with slightly positive growth, which "probably translates into a 2.6% growth rate for all of this year," Villeroy added.

Europe’s economic powerhouse, Germany, is facing a serious downturn in its housing market analysts say. With mortgage rates steadily increasing, home prices have already declined around 5% since March, according to Deutsche Bank data. Jochen Moebert, macroeconomic analyst at Deutsche Bank estimates home prices will drop between 20% and 25% in total from peak to trough. Holger Schmieding, chief economist at Berenberg stated, "The housing market is softening significantly," he said, citing a strong decrease in demand for loans and a drop in housing construction.

In Asia, Chinese President Xi Jinping met with Saudi Arabia’s King Salman bin Abdul-Aziz Al Saud in Riyadh for the first time in nearly seven years. While a number of deals were signed, at the heart of the visit was oil. Saudi Arabia is the top supplier of oil to China, and China is its biggest oil customer, importing $43.9 billion in Saudi crude in 2021. The two countries announced they will continue to "firmly support each other's core interests," sovereignty and territorial integrity, further pledging joint cooperation to ensure the "peaceful nature of Iran's nuclear program" and urging Tehran's cooperation with the International Atomic Energy Agency. The visit is a sign that China and the Gulf region are deepening their economic relations at a time when US-Saudi ties have been strained over OPEC’s decision to slash crude oil supply in the midst of higher energy prices.

Japan's economy is set to enter into recession as export growth slows, according to Capital Economics' Marcel Thieliant. The senior Japan economist at Capital Economics stated, “We think the Japanese economy will enter a recession sometime next year.” The recession will "mostly be driven by a drop in exports and also by becoming more cautious, which is typically what you see when exports start to fall," he said. Japan most recently reported a larger-than-expected trade deficit of $15 billion for the month of October. On an annualized basis, exports were down almost 4% in October from the prior month.



Finally: As inflation and shortages of key components pushed the average price of a new car to all-time highs (if you could even get one), it is logical that prices on used cars would follow suit – and they did. However, the bloom is off that rose and wholesale prices of used vehicles reached their lowest level in more than a year last month as interest rate hikes raised borrowing costs and fears of an imminent recession continue to spread. Cox

Automotive reported that its Manheim Used Vehicle Value Index, which tracks prices of used vehicles sold at its U.S. wholesale auctions, has declined 15.6% from record levels in January through November. Retail prices have not fallen as sharply as wholesale prices but are expected to follow suit. (Chart from CNBC.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

The Fed cuts rates when things are bad, not when things are good!

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.

https://realinvestmentadvice.com/real-investment-daily/

The Barclays Global Aggregate Bond Index *(formerly Lehman Brothers Global Aggregate Index), is an unmanaged market-capitalization-weighted benchmark, and 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.)