MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

1220 N. MULLAN ROAD
SPOKANE, WA 99206
509-922-3110

DONALD J. MOULTON
CFP®, RFC

www.moultonwealth.com

RIAL R. MOULTON
CFP®, CPA/PFS, RFC

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What if we told you that stocks are more expensive today than they were at the beginning of the bear market, even as prices have declined?

We've previously discussed that bear markets unfold in three stages.

The first stage is driven by price to earnings (P/E) multiples compressing. What's that mean? Determining if a stock is cheap, expensive, or somewhere in between is done by comparing the stock price to the earnings. The price is a multiple of the earnings. So if a theoretical company was expected to make $10/share in earnings and the stock was trading at $200 per share the multiple is 20 times earnings ($200/$10). In the first stage of a bear market investors – for whatever reason, as each bear market begins with its own – decide that 20 times earnings is too expensive and they only want to pay, for example, 15 times earnings. That means the stock declines from $200/share to $150/share (15 times $10).

The second stage of a bear market comprises a relief rally. As stock prices decline, investors begin to think the selloff was overdone. As such they decide that the stock, formerly costing $200 per share is a bargain at $150/share and they begin buying. Now the market rallies. It probably won't get all the way back to its former highs, but it gets part way there. In our example, let's assume investors think a fair value is 17 times earnings and as such the price moves from $150 to $170 (17 times $10).

The final stage – and the one with the biggest decline – is when investors begin to realize that the earnings are going to be less than the assumed $10/share. That's when stocks get hit with a double whammy.

1. Earnings have to be reduced in the P/E calculation.
2. At the same time, investors begin to rethink how big a multiple they're willing to pay for a company whose earnings are falling.

Again, doing the math, if earnings are expected to fall 20% that reduces them from $10 to $8 per share. At the same time a P/E of 15 which seemed cheap at $10/share now seems expensive for a company with falling earnings. Let's say the new fair value assumed by investors is a P/E of 12. The share price then declines to $96/share (12 times $8).

This is how a stock once considered a good deal at $200/share can fall by 50%+ in a complete bear market with most of the decline happening during the third stage.

What's that have to do with today?

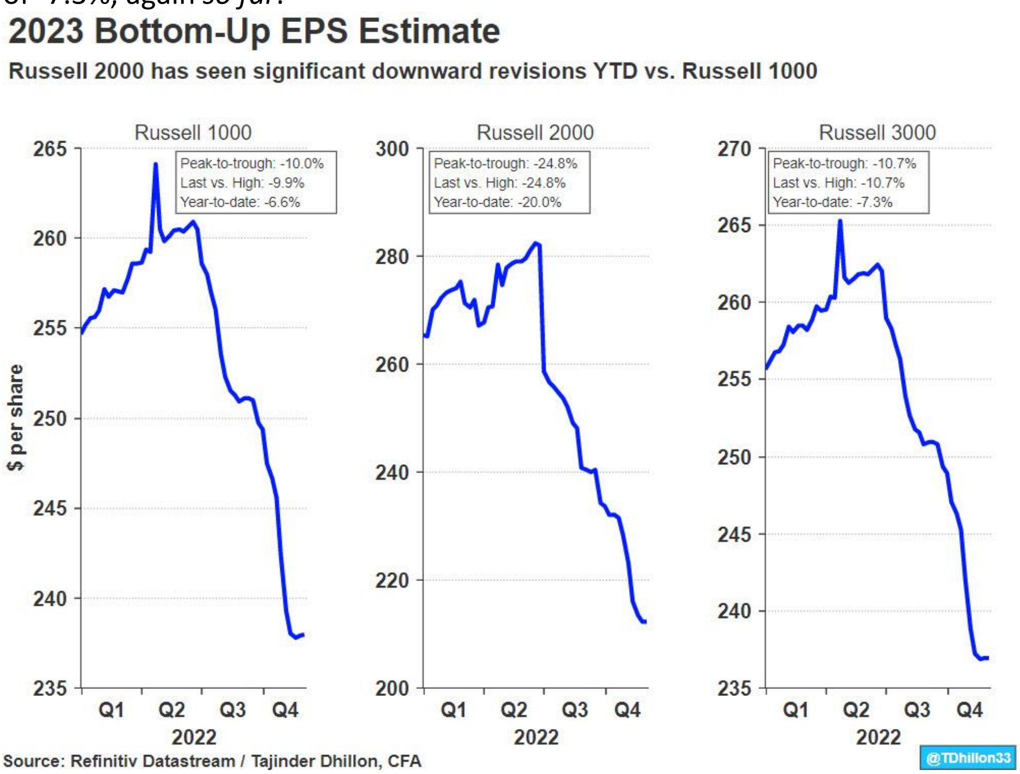
From the peak to the bottom of 2022 (so far) the S&P-500 declined -25.4% on a closing basis. (In our example this was our stock falling from $200/share to $150/share) This was stage 1.

The S&P-500 has since rallied so that the year-to-date decline has been reduced to -16.7%. (In our example this was our stock climbing from $150/share back up to $170/share). This is stage 2.

Stage 3, the worst stage, happens when expected earnings start to get revised lower.

Refinitiv looks at earnings revisions. They report that 2023 earnings estimates for the Russell 1000 (big companies) have been cut by -6.6% *so far* this year. At the same time earnings estimates for the Russell 2000 (small companies) have been cut by -20% *so far* this year. Blended together they comprise the Russell 3000 which sees average cuts of -7.3%, again *so far*.

But even that may mask the extent of earning estimate degradation since the beginning of the year. The S&P-500 is an index of the biggest 500 companies in the U.S. While earnings estimates for 2023 have only been cut by -5.9% *so far* this year, if we remove energy companies, earnings estimates for all other industries have been cut by **-23.8%!** Remember in the earlier example we assumed earnings would be cut by -20%.



What's going to happen to the stock market as investors begin to realize their rosy earnings estimates won't be met?

It's not too late to protect yourself.

What is your defensive plan? Attend a free seminar or call the office to hear about ours.

Waiting could be costly.

Yours truly,

Rial R. Moulton, CFP®, CPA / PFS, RFC
Certified Financial Planner™ professional

Donald J. Moulton, CFP®, RFC
Certified Financial Planner™ professional

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 ask them to send an email with their information and permission to be added.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. Yahoo! Finance is the source for any reference to the performance of an index between two specific periods. Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Investments in securities do not offer a fixed rate of return. Principal, yield and/or share price will fluctuate with changes in market conditions and, when sold or redeemed, you may receive more or less than originally invested. No system or financial planning strategy can guarantee future results. Consult your financial professional before making any investment decision. You cannot invest directly in an index. https://www.edgeandodds.com/

As earnings estimates are revised lower, the worst of the bear market begins!

Weekly Radio Show Saturday Morning:

8:00 AM KXLY 920 AM Spokane and Area

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

Moultonwealth.com

SPOKANE

Hampton Inn—Valley
BREAKFAST!
16418 E. Indiana —Spokane
Jan. 18th @ 9:30 AM

TRI-CITIES

Hampton Inn
486 Bradley Blvd; Richland
Jan. 25th @ 11:00 AM

- **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!

COMPLIMENTARY SEMINAR

For those 50 years old and older

MOULTON WEALTH MANAGEMENT Inc.

1220 N. Mullan Rd; Spokane, WA 99223

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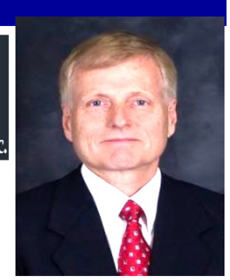

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Call to reserve a spot: 509-922-3110

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

Lower earnings = much lower markets

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2023 ex-energy earnings estimates for the S&P-500 have been revised down by –23.8%!

Spokane	No Cost Seminars for Retirees and those close to Retirement	Richland
Jan. 18th @ 9:30 AM		Jan. 25th @ 11:00 AM
Details Inside		*Details Inside*