



**DONALD J. MOULTON**  
CFP®, RFC

**MOULTON WEALTH MANAGEMENT INC.**

## **MOULTON HOT MINUTES**

**SPECIALIZING IN RETIREMENT AND TAX PLANNING**

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### **Week of February 13, 2023**

Last week's newsletter discussed "Divergences and Adaptation". Specifically the stock market technicals are telling a different story from the economic macros. You can read about it here: [Newsletter - Moulton Wealth](#).

Are we headed for a soft landing as the media claims?

First, what is a soft landing? Essentially the hope is that the Fed can slow the economy just enough to bring down inflation, but not so much that it causes a recession. From an investor perspective, whether we can attain a soft landing is important because bear markets outside of

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recessions are much shallower and shorter than bear markets in recessions. And as makes sense, the deeper and longer the recession, the deeper and longer the bear market.

***Please see our new website [www.MoultonWealth.com](http://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.***

Wall Street (and in turn the media) has been telling us that “yes, this time it appears we can attain the elusive soft landing.” Due to a myriad of circumstances, this particular Fed tightening cycle doesn’t have to lead to a recession. It is somewhat unique.

Some headlines:

- Dallas Fed – US economy on track for a soft landing
- Fed chairman projects a soft landing for the US economy
- Fed sees soft landing for the economy
- Investors bet on a soft landing
- Soft landing in sight for the economy; rate cut next?
- Was that a soft landing or have we not touched down yet
- A soft landing?
- Soft landing OK for dollar
- What recession? Some economists see chances of a growth rebound
- Jim Cramer says economy is headed for a soft landing
- US junk bonds rally on economic soft landing bets
- America is starting to feel very good about avoiding the whole recession thing.

Seems pretty obvious that not only is a soft landing possible, it is likely.

Or is it?

Should this particular set of economic circumstances lead us to believe a soft landing is more probable than, say, the set of circumstances leading to the Dot.com Bubble recession or the Housing Bubble recession?

Possibly. After all, those recessions and bear markets were apparently obvious at the time. They certainly are obvious in hindsight.

*LISTEN TO RIAL'S AND DON'S RADIO SHOW,*

## ***"YOUR MONEY MATTERS"***

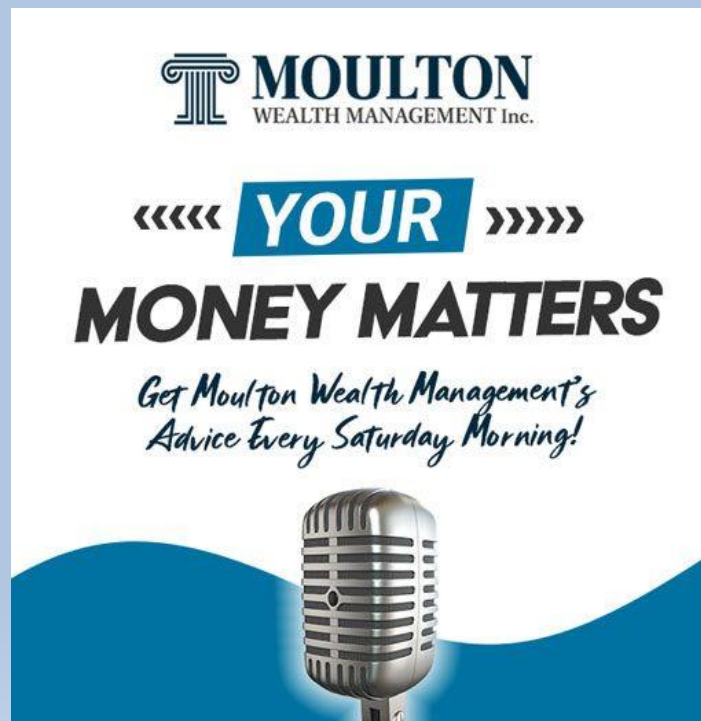
*EVERY SATURDAY MORNING AT*

*8:00 AM ON KXLY RADIO CHANNEL 920 AM IN SPOKANE*

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*OR VISIT OUR WEBSITE [MOULTONWEALTH.COM](http://MOULTONWEALTH.COM) FOR PODCASTS*



Back to our headlines, this time with the date of publishing. (h/t @MichaelKantro)

- Soft landing in sight for the economy; rate cut next? – *December 5, 2000*
- Was that a soft landing or have we not touched down yet? – *October 1, 2000*
- A soft landing? – *June 21, 2000*
- Soft landing OK for dollar. – *September 5, 2000*
- Dallas Fed – US economy on track for a soft landing – *September 26, 2007*
- Fed chairman projects a soft landing for the US economy – *February 15, 2007*
- Fed sees soft landing for the economy – *February 14, 2007*
- Investors bet on a soft landing – *December 12, 2006*
- What recession? Some economists see chances of a growth rebound. – *February 9, 2023*
- Jim Cramer says economy is headed for a soft landing. – *February 6, 2023*
- US junk bonds rally on economic soft landing bets. – *February 7, 2023*
- America is feeling better about avoiding a recession. – *January 11, 2023*

If you're not familiar with those dates, let us refresh your memory.

***The first four were written while we were already in the first year of the Dot.com Bubble bear market. By the end the S&P had fallen about -50% top to bottom and the NASDAQ over -80%.***

***The next four were written leading up to the Housing Bubble bear market during which the S&P-500 fell some -57% and the NASDAQ fell about -56%.***

***The final four are current.***

But don't worry. I'm sure the Wall Street crowd is right this time. They're certainly convinced of it.

This is not to say that today is the same as the Dot.com Bubble or the Great Financial Crisis/Housing Bubble. It's to point out that human nature is human nature and Wall Street is Wall Street. Though they tell us today's economic circumstances are unique and so the outcome is likely also unique (i.e. soft landing), they also thought the same into two of the bigger bear markets ever.

***Ironically, the Dot.com and Housing bubble bear markets occurred with the Fed cutting rates to support the market and economy. Today they're still raising rates in an attempt to restrict the market and economy. Maybe the media had more reasons to expect a soft landing then, than now.***

Regardless, the more things change, the more they stay the same. Or as a good friend used to put it, "It's the same, but different."

History doesn't repeat, but it does rhyme.

***Don't wait until you have suffered unrecoverable losses before taking action.***

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 three stages with the last being the most 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](http://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*

What's Your Risk Number? 

*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.*

**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.***

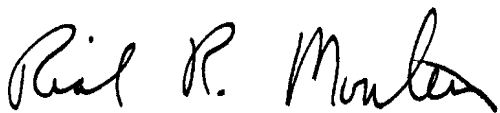
***The drop didn't retrace only a few months or even a couple years.***

We discuss many of these issues on the weekly radio show and invite you to listen.

## **WEEKLY FOCUS – THINK ABOUT IT**

***“It's the same, but different.”***

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.

*Investment services offered through Moulton Wealth Management, Inc., an independent Registered Investment Advisor. 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. Consult your financial professional before making any investment decision. You cannot invest directly in an index. Past performance does not guarantee future results. 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.*

<https://twitter.com/MichaelKantro>

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**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.)