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MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of April 24, 2023

Last week's newsletter discussed the importance of weighing risk vs reward whenever making an investment decision. In doing so, though, overweight the former. If you make less than you could have, that's still a win. But if you lose too much, you may not recover for years, if ever. You can read it here: [Newsletter - Moulton Wealth](#).

If you've attended a seminar, read these newsletters, listened to our radio show or met with us in person, we hope you appreciate the fact that we work hard to measure, map and present the data that can impact the stock market today. It's a lot of work. In fact it would be much less work to instead just talk about 100 year averages, seasonal tendencies, performance by year

ATTEND OUR...

RISK MANAGEMENT

SEMINAR

BRING A GUEST

- **MAY 24TH @ 9:30 AM – SPOKANE**
- **APRIL 26TH @ 11:00 AM - RICHLAND**

CALL **509-922-3110** TO RESERVE A SEAT *OR IF YOU WANT A SECOND OPINION ON YOUR PORTFOLIO!*

within Presidential terms, etc. After all, those don't change much, so the same arguments can be regurgitated in between vacations for years on end. Measuring and mapping the data, each day, takes much more work. But we strongly believe it's important, as it's not the average of things that matter, it's the particular of what's happening today.

This past week one of our research partners, Hedgeye, hosted a series of guests (economists, money managers, etc.) to explore their views on the economy and stock market. These guests were some of the industry heavyweights including David Rosenberg, Rosenberg Research, Liz Ann Sonders, Chief Investment Strategist of Charles Schwab, Stephanie Pomboy, founder of Macro Mavens, Jim Bianco, Bianco Research, and others. Like us, they have been around for a couple real bear markets, and like us, they follow the data rather than the narratives.

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.

One and all, those interviewed were concerned about the direction of the economy and its implications for the stock market.

But it wasn't their concern per se that was striking, instead it was their degree of concern. It left viewers with a question...

Are you bearish enough?

Sure we've been ringing the warning bell for some time. But these professionals, all seasoned over decades of work in the financial industry, were worried about a much longer and severe recession and bear market than even we have articulated. They also noted that the progression of events leading into bear markets always rhyme:

- There's initial concern with a market reaction.
- We're told all is well and since the economy and stock market don't crater immediately, we believe it.
- This sets off a series of rallies confirming our beliefs.
- Economic gravity finally wins out and we're all forced to face reality and with that comes the most vicious leg of the bear market.

None could say when that would happen. But all were very certain it's coming. Not based on their hunches, or feelings, or beliefs. But based on the actual data.

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

"YOUR MONEY MATTERS"

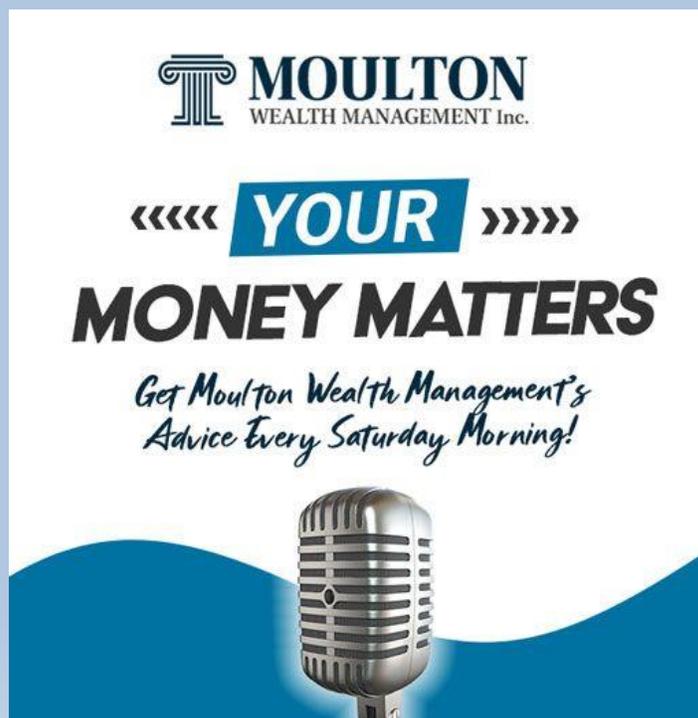
EVERY SATURDAY MORNING AT

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



We often hear a two pronged explanation of what is happening today by those who advocate buy and hold. In the first part they tell us...

“The Fed is hiking too fast, too far, is clueless, etc.”

In the second part they assure us

“The Fed will pivot, cut rates, start printing money, etc.”

If you break it down it says...

“Don’t blame us for the reckless and clueless Fed. We were right to tell you to buy and hold, it’s the Fed that’s making the mistakes.”

And...

“Once the Fed comes to their senses and pivots by stopping their rate hikes and starting money printing, you’ll realize how smart our advice was.”

But in reality, is that true?

First, we all need to take responsibility for our own risk management process. Whether the Fed is the problem, or the economy, or the man on the moon doesn’t really matter. It is what it is. It’s up to us to protect ourselves.

And second, I’m guessing no one reading this has spent their lives waiting for the next government bailout to save them. Yet that’s what the “Fed pivot” is.

What if it doesn’t come, or at least doesn’t come until that lack of risk management means you’ve lost half of your hard earned capital?

On the following page we show the last three times the Fed was raising rates, stopped and held them steady and then began to cut rates (i.e. the Fed pivot). The top chart shows the Fed rates. The bottom chart shows the S&P-500. We’ve connected the two charts in time with a red vertical bar so you can see what the S&P-500 did in the past after the Fed pivot.

What you’ll note is the first instance was the Dot.com bubble and from the time the Fed pivoted to the stock market bottom was ~ -42%. The second was the Housing bubble and from the time the Fed pivoted to the stock market bottom was ~ -55%. The third was Covid and from the Fed pivot to the stock market bottom was ~ -24%.

Looking at the chart it’s easy to think, “*Yes, but the market came back so buying and holding wasn’t so bad*”. Remember, this chart covers 23 years. In the first instance, from the Fed pivot to the market bottom was about 2-1/4 years. And then from the bottom to regain losses from the point of the pivot was another 5 years. So the market came back, in about 7-1/4 years. In

the second instance from the Fed pivot to the bottom was about 1-1/2 years. To recover from those losses was another ~ 5 years. So again the market came back, but it took about 6-1/2 years. The third instance is the one the buy and hold crowd likes to point out. The Fed pivot happened about a year before the market topped, yet from the pivot point, all the interim gains plus another ~ -24% was lost. This time though, the market came screaming back in a few short months. Of course, some \$8T combined money printing between the Fed and the Government along with free checks make strange things happen. If you're holding out hope for the repeat of door number 3, good luck.



Also remember, none of these timeframes included inflation. We haven't seen inflation akin to today's since the 1970's. The Fed may pivot just as quickly as in the past, meaning losses may only take 5-8 years to recoup. But they may not pivot as quickly, meaning losses could linger for a decade or more.

Danielle DiMartino Booth worked at the Fed in Dallas for a number of years. She knows many of the players. She noted in a recent research paper that when Jerome Powell first joined the Fed in 2013, he was outspoken about his opposition to zero interest rates and Fed QE money printing. He feared that by bailing out poor decision making, the Fed would help foster speculation and market bubbles.

And he was correct.

Mrs. Booth went on in her paper to say Fed Chair Powell actually now has two objectives...

1. To beat inflation.
2. To end reliance of the financial system (including the stock market) on easy money and the Federal Reserve.

The previous chart that showed buy and hold investors “only” had to wait 5-8 years to regain losses was with the Fed actively trying to push the market higher.

How long will it take to recoup market losses if the Fed stands aside and lets real capitalism work?

Back to our panel. Many thought today’s market isn’t like the Dot.com bubble or the Great Financial Crisis. Instead it’s like combining the two.

Are you bearish enough?

We understand that much of what you likely hear and read is the antithesis of what we are saying and as such you could be conflicted. We suggest you consider what kind of investor you are.

If your goal is to make as much money as quickly as possible, you’re likely holding on to your positions and/or buying the dip.

If your goal is to protect what you have during economic market contractions so you can more fully participate in the next expansion and bull market, you should reduce risk in your investments now rather than continue holding the same portfolio you’ve had the last 10 years.

We strongly suggest that investors who are retired or close to retirement should be the latter.

If you’re positioned to protect against the downside, then the extent of such is not so much a concern.

And the extent could be significant.

The Great Financial Crisis was triggered by the popping of a bubble in real-estate. **The bubble in real-estate today is bigger by most measures.**

The Dot.com bear market was triggered by the popping of a bubble in equity valuations. **The equity bubble is bigger today by most measures.**

Neither the Dot.com nor the Great Financial Crisis bear markets had inflation, or nearly as much debt across consumers and businesses as we have today.

If the Dot.com bubble resulted in the S&P-500 falling ~ -50% and the NASDAQ falling over ~ -80%...

If the Great Financial Crisis saw the S&P-500 fall ~ -57% and the NASDAQ falling over ~ -50%...

How much might a market fall with levels exceeding both of those along with inflation and higher leverage?

You don't have to remain locked into the same approach as you had when these risks didn't exist. You are allowed to protect yourself. You can step away and then come back when the risks decline. Call us to find out how.

It's time to focus on return of your money rather than return on your money.

If you still have the same portfolio allocation you had during the bull market, we would ask "why"? The risk profile of the economy and market has changed dramatically and will likely continue to rise. Wouldn't it make sense to adjust your portfolio to what is actually happening?

To be clear, we'll have a great buying opportunity at some point in the future. Usually that happens with the market crashing and most investors disgusted with the thought of investing. If you lose much of your net worth, participating will be difficult.

"You can't buy low if you don't sell high."

Patience and asset protection will be key.

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 so far.

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 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.

What's Your Risk Number? 

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.

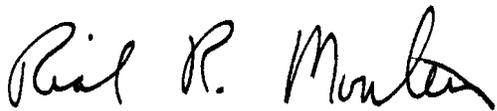
The drop didn't retrace only a few months or even a couple years.

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

WEEKLY FOCUS – THINK ABOUT IT

“Are you bearish enough?”

Yours truly,



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Certified Financial Planner™



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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://dimartinobooth.substack.com/p/too-small-to-not-fail-history>

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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.