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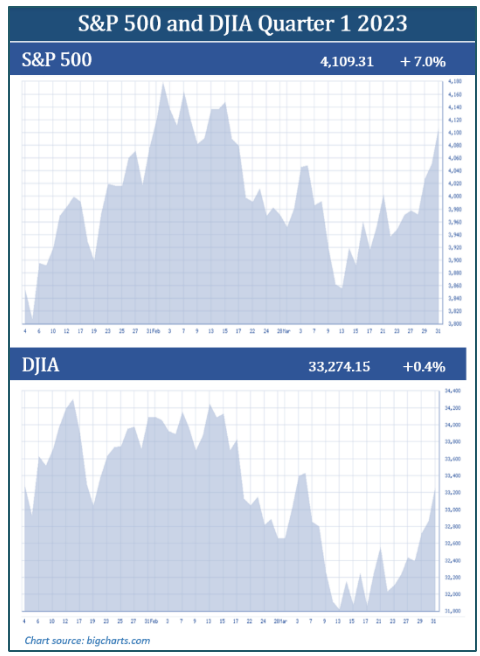
FIRST QUARTER 2023

The first quarter of 2023 had investors sitting on the edge of their seats as the equity markets took them for a bumpy ride. In the end, the quarter did close on a good note, with U.S. stocks having a late quarter comeback following some positive news that the Federal Reserve's preferred inflation gauge took a dip in February after an uptick in January. The core personal consumption expenditures price index (PCE) (excluding food and energy) increased 4.6% in February from a year earlier, slowing from a 4.7% 12-month annual pace in January. It was up 0.3% from January, compared with a 0.4% increase that was originally expected by economists. This was a welcome sign that the Fed may be gaining traction in its long battle against inflation. *(Source: barrons.com, 3/31/2023)*

The first three months of 2023 were a classic example that volatility can be very prevalent in equity markets. When the dust settled, the Dow Jones Industrial Average (DJIA) ended the quarter up 0.4%, after rising 3.2% in the last week of the quarter, its largest one-week gain since the week ending November 11, 2022. The DJIA closed on March 31, 2023, at 33,274. The S&P 500 rose 7.0% during the first quarter, which is its best three-month performance since the fourth quarter of 2021. The S&P 500 closed the quarter at 4,109. *(Source: cnbc.com, 3/31/23)*

However, inflation remains well above the Fed's 2% target range. The U.S. annual inflation rate was 6.0% for the 12 months



MONEY RATES
(as posted in Barron's 4/3/2023)

	LATEST WEEK	YEAR AGO
Fed Funds Rate*	4.85%	0.34%
Bank Money Market[z]	0.32%	0.07%
12-month Certif[z]	1.61%	0.20%

Z - Bankrate.com (Source: Barron's; bankrate.com)
** - Average effective offer*

ending February 2023, following a rise of 6.4% in the previous period, according to U.S. Labor Department data published March 14, 2023. Declaring victory and lowering interest rates now could prove to be too soon. One of the Fed's key indicators, the unemployment rate, hit a 50 year low of 3.4%. This is important. Historically, to beat inflation the Fed needs us to all feel economically less secure. As such, we will be less likely to buy unnecessary "stuff", which reduces demand. Lower demand vs supply equals lower prices. To make us all feel economically less secure, we have to worry about our portfolios as well as our jobs. It's unlikely the Fed stops raising rates until unemployment rises and/or the stock market breaks.

"Although inflation has been moderating in recent months, the process of getting inflation back down to 2% has a long way to go and is likely to be bumpy," Fed Chairman Powell stated during a testimony before the Senate Banking Committee in early March. *(Source: npr.org, 3/7/2023)*

The next FOMC meeting is set for May 2-3 and another possible rate hike could be enacted.

Equities will likely remain hypersensitive, surging on positive news days, and retreating when negative economic data is released. We continue to abide by our belief that the key is to track the data and more specifically, the rate of change of the data. And unfortunately, but factually, the economic data is deteriorating overall.

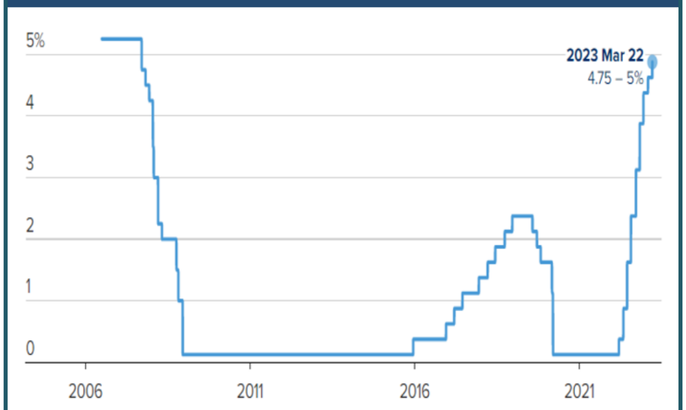
KEY TAKEAWAYS

- The Fed raised interest rates again in the first quarter, ending the quarter at target rate range of 4.75 – 5.00%.
- The Fed is positioned to further increase federal interest rates in 2023, if necessary.
- Inflation showed signs of slowing down, with a rate of 6% for the 12-month period ending February.
- Treasury yields are providing favorable returns.
- Volatility remained in the economic environment as we enter 2023.
- Thoughtful and mathematically based risk management action may ultimately be the most prudent course from here.
- ***We are here for you to discuss any concerns you have.***

As your financial professional, we are committed to keeping you apprised of any changes and take necessary action to protect your hard earned capital.

Inflation & Interest Rates

Inflation peaked in the summer of 2022 and has primarily been on a downward trend since, but is still not close to the Feds target rate of 2%. Although the Fed did feel it necessary to continue increasing the federal interest rate range in the first quarter of 2023, they did so at a slower rate.



Federal Funds Target Rate (July 2006 – March 2023)

Source: Federal Reserve Bank of New York; cnbc.com
Note: December 2008 – March 2023 data reflects midpoint of Federal Reserve's targe range.

After a series of 0.5% rate increases, February saw a 0.25% increase, bringing the interest rate range to 4.50 – 4.75%. They matched it in March with another 0.25% hike, to a range of 4.75 – 5.00%. The Federal Reserve still expects to bring the interest rates to 5.1% by the end of 2023, which means that they expect one more rate hike before they pause. Today's rates are currently at the highest level since September 2007.

In the Fed's quest for price stability, the March increase represented the ninth-rate hike since March 2022 when the rate range was only 0.25 - 0.50%.

With inflation slowly starting to show signs of improvement, we may see the Fed stop raising interest rates at some point in 2023. We are close to the median projection among Fed officials for a final interest rate target range. With inflation at 6.0% in February, down from 6.4% in January and down 3.1% from the record high of 9.1% in June of 2022, it appears that the Fed is finally making progress. However, Fed Chair Jerome Powell is still carefully watching key economic indicators in addition to unemployment rates, including personal consumption expenditures (PCE), and consumer price index (CPI). Their Press Release following the March FOMC meeting said, "The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments." *(Source: federalreserve.com, 3/22/2023)*

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"YOUR MONEY MATTERS",

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

Previously, Fed Chair Jerome Powell stated at the FOMC's February post meeting press conference, "We're going to be cautious about declaring victory and sending signals that we think the game is won." *(Source: bankrate.com 2/7/2023)*

Although closer to the end of rate hikes than the beginning, it's important to understand that hikes impact the economy (and stock market) on a lag. Experts estimate that it takes 9-12 months for each hike to be fully felt by the economy. Logically this should make sense as higher rates don't impact businesses and consumers until they need credit at those higher rates. And the process of consumers and businesses needing credit is ongoing, not all at once. Regardless, rate cuts may not happen until sometime in the future. Currently, Chair Powell stated that, "rate cuts are not in our base case" for the remainder of 2023. *(Source: cnbc.com, 3/22/2023)*

As your financial professional, we are committed to keeping a vigilant eye on all aspects of financial planning that may affect you, including interest rates and inflation. If you'd like to know how these may affect your portfolio, please contact us to discuss any strategies that may help combat the effect on your personal situation.

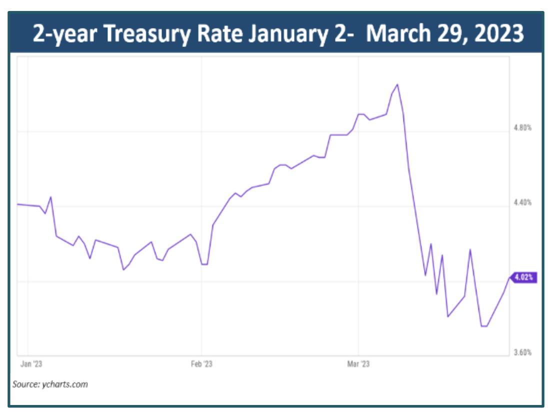
The Bond Market and Treasury Yields

Treasuries yields fell after the shutdown of Silicon Valley Bank, the biggest bank failure since the financial crisis, triggered many investors to run for cover in safer assets, such as government bonds. On the Monday after the Silicon Valley Bank collapse, the 2-year Treasury yield posted its biggest 3-day drop since the aftermath of the 1987 stock crash on October 22, 1987. The benchmark 10-year Treasury note yield also fell, settling at 3.543%. *(Remember yields down = bond price up)* *(Source: cnbc.com., 3/13/23)*

Treasury Yields Comparison

January 3, 2023				March 31, 2023			
5-year	10-year	20-year	30-year	5-year	10-year	20-year	30-year
3.94	3.89	4.06	3.88	3.60	3.48	3.81	3.67

Source: www.treasury.gov



Volatility has been very prevalent in what is typically a less volatile sector for investors. Bonds are typically a good option for a conservative, diversified, and well-balanced portfolio as they are usually more stable than stocks.

We currently hold the bulk of clients' risk managed portfolios in U.S. Treasuries, U.S. Treasury Money Market and U.S. Treasury floating rate bond ETFs. As both the previous rate hikes and those still to come continue to slow economic activity, it's hard to imagine corporate earnings and stock prices won't be negatively impacted. If you'd like to

Fed now says to expect a recession. Believe them!

Bear Markets in Recessions are Much Deeper and Longer than Outside of Recessions!

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
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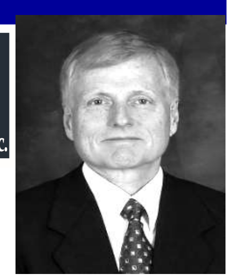

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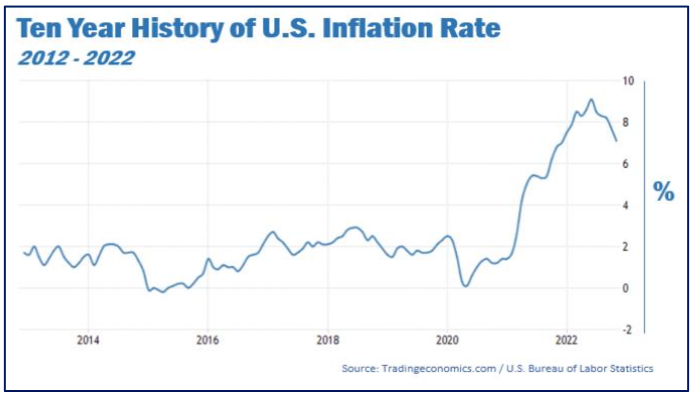
Register here: 509-922-3110

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

explore how bonds could fit into your retirement income strategy, please contact us so we can help you make the best decision for your portfolio.

Investor's Outlook

It's fair to say that the first quarter of 2023 was filled with ups and downs. In January, we saw a decent upward trend in equities, primarily as a result of the prospect of future rate hikes to be slower or better yet, paused and then pivoted to easing, in the near future.



Then in February, the Fed's raised rates by .25%. Equity markets responded unfavorably to the announcement. Then in March, we saw another rate increase and a brand-new surprise when three major financial institutions, Silicon Valley Bank, Signature Bank, and Credit Suisse, collapsed. This triggered more market instability and uncertainty. But somehow, the quarter still ended on a positive note.

What will the next quarter and beyond bring for investors? This is the first inflationary bout of this magnitude in over 50 years. The last time we had such inflation, stocks suffered significant losses. This should be no surprise because it's the goal of the Fed as part of their plan to reduce demand. The bottom line is ***"PROTECT YOURSELF"***.

Our goal as your financial professional isn't to guess at what might happen, nor is it to ignore what might happen. Our goal is to measure and map the economic and financial data and use it in mathematically based systems to protect capital. Certainly returns after recessions have been fruitful, but if you lose 30%-40% of your portfolio *during* the recession, those good returns are needed just to recoup losses.

Although we believe investing is a long term commitment, we don't think it should be taken as an excuse not to think. Investing is and always should be a measure of risk vs reward. As risk rise and potential reward falters, it makes little sense to dogmatically remain fully invested in the same allocation one had when risk was low and reward was high.

Our goal as the steward of your wealth is to help you through uncertain times like these. We always attempt to help you create a well-crafted plan customized for your unique situation and goals that takes into consideration how you will react to the markets ups and downs, including your time horizon, tax implications, liquidity needs, risk tolerance, and your overall personal objectives.

We take pride on offering our clients first class service that includes:

- A proactive, individually tailored approach to each client's financial goals and needs.
- Consistent and meaningful communication throughout the year.
- A schedule of regular client meetings.
- Continuing education for all our team members on issues that may affect our clients.
- Proactive planning to navigate the changing environment.

We always recommend discussing with us any changes, concerns, or ideas that you may have prior to making any financial decisions so we can help you determine your best strategy. There are often other factors to consider, including tax ramifications, increased risk, and time horizon changes when altering anything in your financial plan.

Please remember that as a valued client, we are accessible to you! Feel free to contact us with any concerns or questions you may have. We appreciate the trust and confidence you place in our firm.

For the first time in history, the Fed said they expect a recession, albeit a mild one. Take what they say to heart. They are telegraphing what to expect so don't say you weren't warned or couldn't have seen it coming.

We stand by the mantra of "proceed with caution". Patience will indeed be a virtue as the current financial markets we are experiencing will continue to be challenging. Two words should resonate with wise investors during these times: protection and patience. Investing in equities should be viewed as a long-term commitment, but not one that necessitates inaction when conditions warrant it.

How many years of your retirement do you want lost to volatile markets?

Unfortunately in our opinion, for those who listen, Wall Street is more than happy to provide a multitude of misleading statistics in an effort to keep you invested regardless of the risk to your lifestyle, retirement and family. 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) is that it will be a shallow and brief bear market. Yet we've already 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 have 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.

GMO founder Jeremy Grantham recently told CNN that his best case is ANOTHER -27% drop in the stock market from here, is worst case is ANOTHER -50% drop.

Although we've made some headway in bringing down inflation, the Fed has told us it's not yet enough.

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 large – risk to your portfolio.

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 our next 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.

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.

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

Four factors that investors should consider 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? 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 what investments are appropriate. 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, and how losses play into it.** 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.

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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