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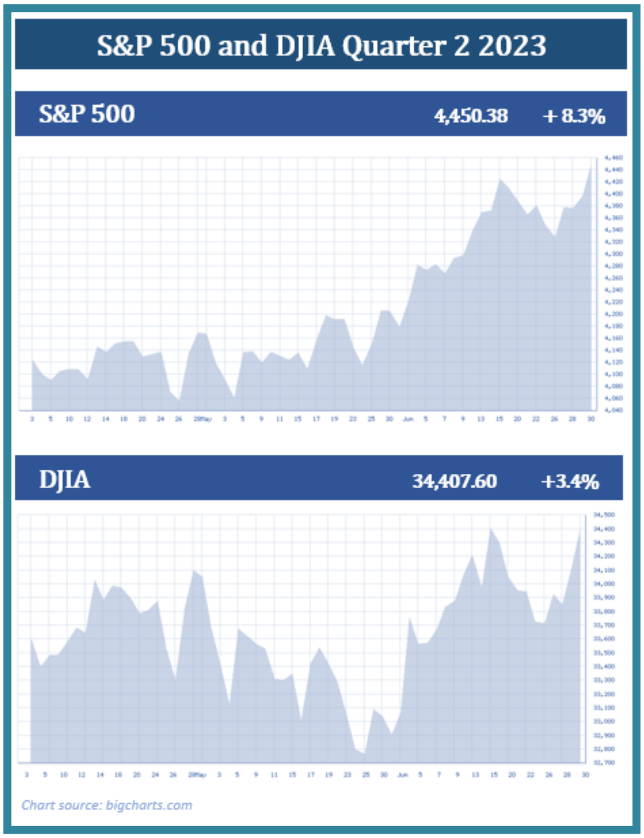
SECOND QUARTER 2023

The second quarter of 2023 tested even the most seasoned investor. It was a quarter that included the U.S. reaching a debt ceiling agreement, the Federal Reserve pausing their aggressive interest rate hikes, and bank failure fears. During the quarter, equity markets continued to defy odds by staying strong, and the major indexes ended the second quarter higher than they started.

Some experts are arguing that the S&P 500 bull market could be a temporary stroke of luck before an impending recession. The recent rally was fairly concentrated in the big tech sector and did not include many categories like most mid- and small-cap stocks. They suggest that this rally will likely need to broaden its horizons in order to continue.

"This recent bull market move is no guarantee we are out of the woods from the downturn," Jeremy Siegel, Wharton School Professor and renown economist, said in his commentary piece for WisdomTree. "I remain cautious, and I do not think we have the start of a major up move here," he added.

While we can speculate and deliberate on what the economy will do, no one has predictive powers and, as the last few years have shown us, anything can happen. What investors do know is that



MONEY RATES *(as posted in Barron's 6/26/2023)*

	LATEST WEEK	YR AGO
Fed Funds Rate*	5.09%	1.59%
Bank Money Market[z]	0.32%	0.09%
12-month Certif[z]	1.70%	0.37%

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

uncertainty remains a key theme. It was just over a year ago that you could borrow at historically low (near zero) interest rates. In January 2021, the inflation rate was at only 1.4%. Since then, the cost of necessities and living expenses has increased significantly. For example, the average price of a loaf of white bread has increased 23.19% since 2020. *(Source: www.in2013dollars.com)*

During the quarter, we faced another "debt ceiling crisis" although serious investors considered it more political theatre. Some key changes that come from the debt ceiling deal are:

- A reduction in direct spending on domestic programs (this does not include Social Security or Medicare).
- A reduction in IRS funding. In 2022, as part of the Inflation Reduction Action, Congress approved $80 billion for the expansion of the IRS. This new bill pared that number back to reallocate the funds for other areas.
- A small increase in spending (a maximum of 1% in 2025) for military and veteran affairs.
- Claw backs of unused COVID-19 funding.
- Expedition of large energy and infrastructure projects.

After the debt ceiling deal, equity markets remained positive and historically, on average, U.S. stock markets have risen in the months following an agreement to raise the debt ceiling.

KEY TAKEAWAYS

- The Fed raised interest rates once in May, but halted rate increases in June, keeping the 5.0 – 5.25% target rate range.
- A debt ceiling agreement was made in June - ending a lot of anxiety and potential economic crisis.
- Inflation is continuing to slow down, reaching 3% in June.
- Treasury yields are still providing favorable returns.
- Volatility in the economic environment remains.
- Keeping in mind the long term, and using a data driven process, instead of being driven by emotions, either greed or fear, will ultimately serve investors well.
- ***We are here for you to discuss any concerns you have.***

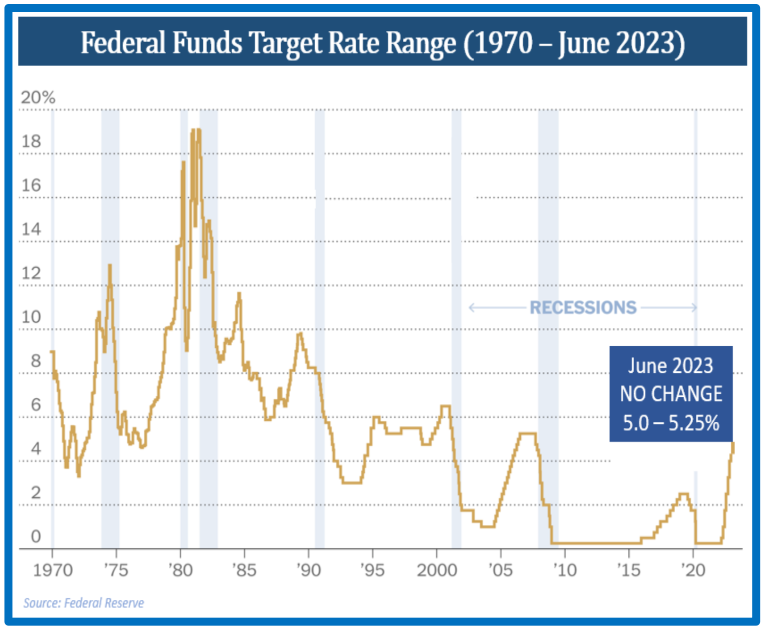
Although the second quarter was kind to investors, this is not the time to become complacent. With political pressures and continuing changes in monetary and fiscal policy, equity market volatility could remain very prevalent.

Global issues, including the continuation of the war in Ukraine and the strained China/U.S. relationships could also generate additional uncertainties for investors.

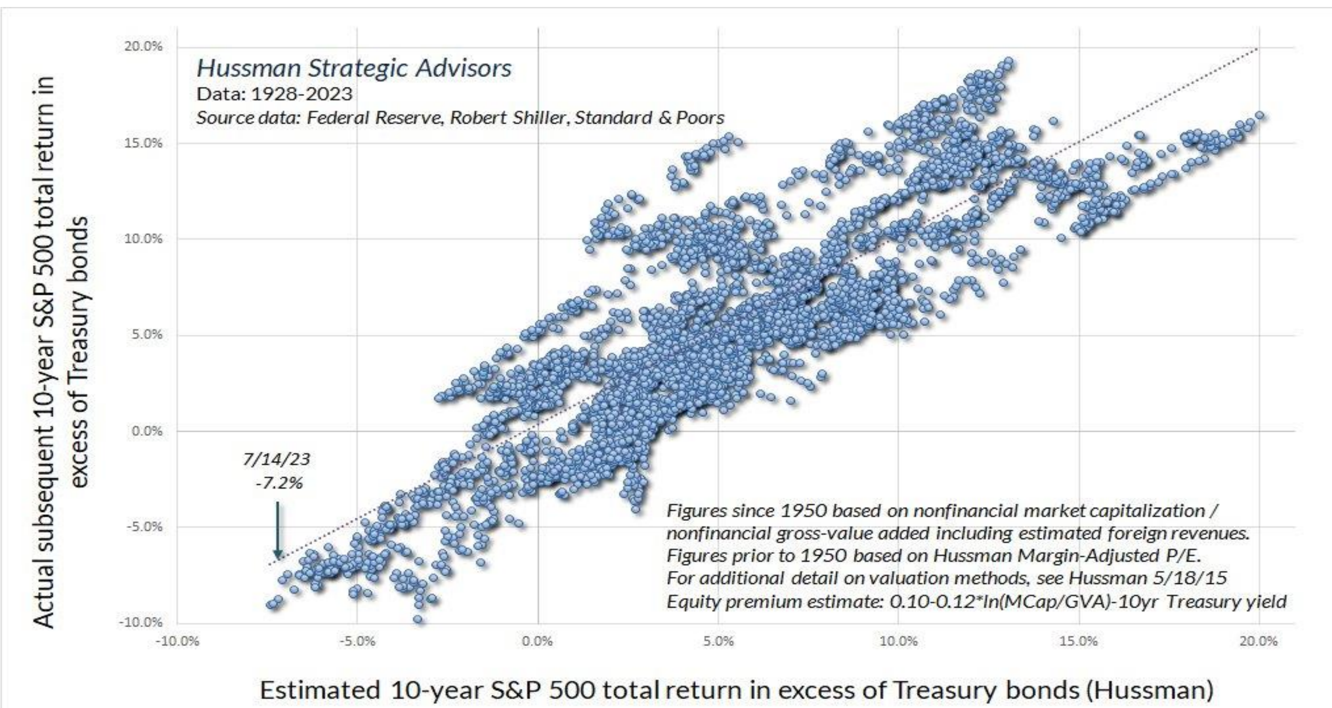
Fortunately, investors have a more compelling palette of investment options than they've had in over a decade. The good news from the Fed rate hikes is they created safer investment options that actually pay reasonable interest. Given the economic and political uncertainty, this has led many to choose a higher concentration in interest bearing accounts.

We continue to abide by our belief that investing is a long-term commitment, ***but that managing risk along the way is paramount to successfully attaining your goals.***

John Hussman PhD of Hussman funds estimates that S&P-500 prices at current levels equate to an equity "risk premium" of -7.2%. What does that mean? ***That based on history, the current valuation level of stocks should lead investors to expect a return 7.2% less per year than risk free Treasuries for the next decade.***



How could that happen?



It historically happens with a big equity bear market followed by years of good returns used to claw back losses instead of compounding gains.

As your financial professional, we are committed to keeping you apprised of what the data tells us and to always keep focused on protecting and preserving your hard-earned capital.

Inflation & Interest Rates

In the first half of the year, we saw some easing of inflation. In June 2023, prices increased by 3% compared to 8.6% in May 2022 according to the 12-month percentage change in the consumer price index (CPI). *(Source: statista.com, 6/19/23)*

Some have surmised that this spells the end of inflation and that the Fed will soon cut rates, supporting further stock market gains. We think that unlikely for several reasons:

1. The base effects tell us that inflation will not likely continue to decline as readily in the second half of the year as it did for the first half. Remember, even as the rate of increase in inflation has declined significantly, we still have positive inflation. Considering the data, if prices stopped going up entirely (something we've not seen), inflation would still be 3% in December of 2023. This is because the comparisons become less favorable (i.e. the comparable 2022 inflation numbers flatten so coming in lower becomes harder). Since we don't think prices will flat-line from here, there's a good chance we'll see inflation increase, or at least become more "sticky" at current levels, in the coming months.

2. The Fed has been very clear they want inflation down to 2%. Even after the most recent inflation announcement, some Fed members publicly called for higher rates.

3. Core inflation – less food and energy, is still far above the Fed's target at 4.8%. And food inflation is even higher. Food away from home is still up 7.7% even as food at home has fallen back to 4.7%.

4. At best the Fed might hold rates steady if inflation continues lower, but they will only cut if a crisis mandates it. Therefore, as an investor, you shouldn't hope for cuts – it's one of those "careful what you wish for".

In fact, Fed Chair Powell himself has indicated as much when he said, "If you look at the data over the last quarter, what you see is stronger than expected growth, a tighter than expected labor market, and higher than expected inflation." He continued, "So that tells us that although policy is restrictive, it may not be restrictive enough and it has not been restricted for long enough." *(Source: finance.yahoo.com 6/28/23)*

Federal Tax Receipts declined significantly! This is normal during recessions.

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

- **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!

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

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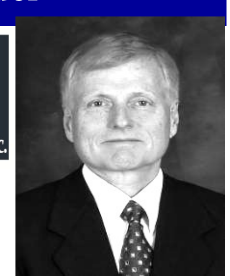

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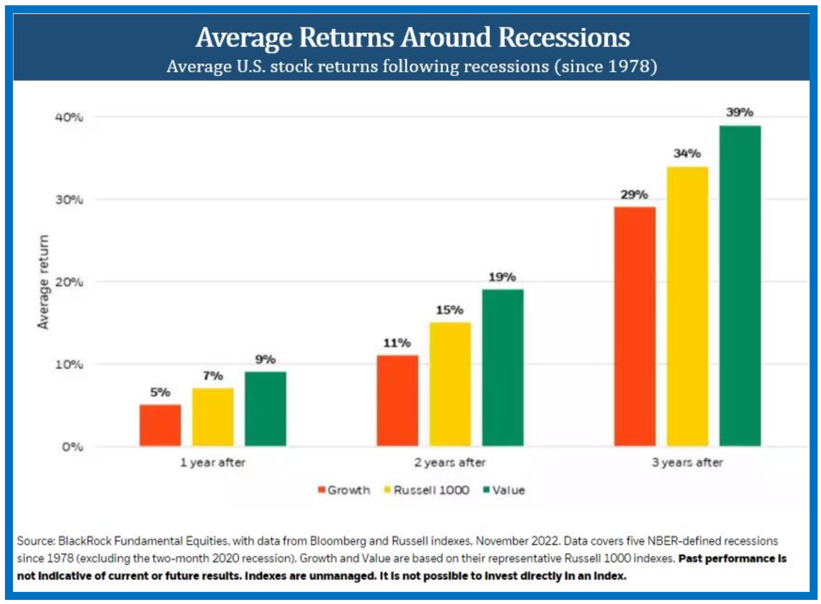
Advisory services through Moulton Wealth Management, Inc., an independent Registered Investment Advisor registered with the SEC.

Investor's Outlook

There is much talk in financial circles about the possibility the U.S. will experience a recession in 2023. According to the New York Fed, the U.S. has a 70% chance of falling into a recession by May of 2024. The 2 year / 10 year U.S. Treasury yields are still inverted. Historically they have a 100% track record of predicting recessions, although the timing is variable. Obviously, no one can completely tell for sure when this will happen, and at what level of severity. *(Source: markets.businessinsider.com, 6/17/23)*

When asked about the possibility of a recession during the monetary policy session in Portugal in June, Chair Powell stated that, "There's a significant possibility that there will be a downturn," Powell said, adding that it's not, "the most likely case, but it's certainly possible." *(Source: cnbc.com, 6/28/23)*



Recession concerns have prompted Wall Street to waive all of their "don't worry, be happy" charts and arguments so investors will remain fully invested and they can keep collecting their fees. One of those is the table above. The implication is "Why worry about a recession, look at the stellar returns afterwards?"

But as with most things in life, the devil is in the details.

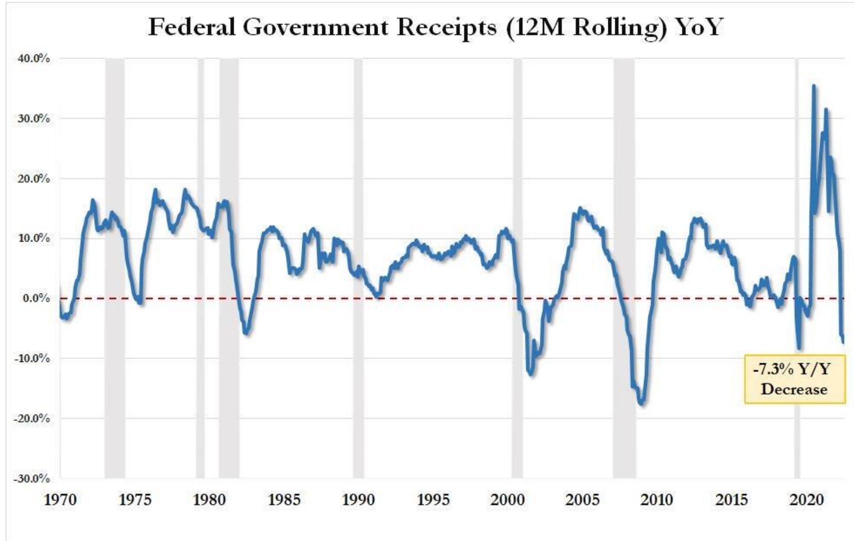
Money.com tells us that bear markets during recessions last an average of 20 months with declines for the S&P-500 averaging -35%.

If you applied these averages to the table above;

- ***One year after the bottom you'd still be down ~ -30%.***
- ***Two years after the bottom you'd still be down ~ -25.25%.***
- ***And three years after the bottom you'd still be down ~ -13%.***

Meanwhile, June 2023 Federal tax receipts came in down -9.2% on a twelve-month, year over year basis, and down -7.3% on a trailing twelve-month basis. This is the biggest drop in tax receipts since the complete lockdowns of June 2020. Notice the previous big drops and how they aligned with the vertical bars on the following chart. Those bars are recessions. *(Source: Kobeissi Letter 7/16/23)*

Heading into the third quarter, we will continue to keep an eye on inflation rates, economic growth data, and monetary policy moves. Here are a few tips to help you through uncertain times:



- Manage your portfolio risk and do not make decisions based solely on what you hear from the media. It seems like most news sources are no longer there to inform the viewer, but rather to incite fear and/or promote the views of advertisers.

- It is always sound judgement to live within your means and to not incur any more debt than necessary. During uncertain economic times and higher interest rate environments, it is even wiser to pay down your debt and try not to incur any more.

- If possible, continue to add to your savings. Staying consistent with contributions will help you achieve your savings goals. There are currently reasonable returns on many Certificates of Deposits (CDs) and savings accounts. If you'd like to discuss if these are good options for your situation, please call us.

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.

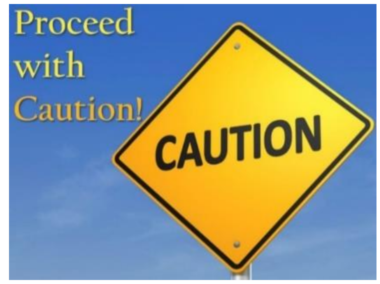
How many years of your retirement do you want lost to volatile markets?

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 -30% drop in the stock market from here, his 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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