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MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of October 9, 2023

Last week's newsletter attempted to list the headwinds we face along with possible consequences. Even though no one, admittedly, can predict the future, investing should include risk management based on probabilities. And the probabilities should be over time frames in line with your own, not over 100 years of history. You can read it here: [Newsletter - Moulton Wealth](#).

ATTEND OUR...

RISK MANAGEMENT

SEMINAR

BRING A GUEST

- **OCTOBER 18TH @ 9:30 AM – SPOKANE**
 - **OCTOBER 25TH @ 11:00 AM – RICHLAND**
- (BOTH HAVE BREAKFASTS)***

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

Last week's radio show discussed the jobs numbers along with the drama in the House of Representatives. Make no mistake, the nominees to become the next Speaker of the House want a shutdown in six weeks, when the current funding bill runs out. Whether you think it's a

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.

good idea or not isn't the point. The point is that it will be negative for the stock market should it last beyond a few days, if history is a guide. As we promised, we also spent more time on InvesTech's most recent research. You can listen here: [Your Money Matters – Moulton Wealth](#).

When we wrote the newsletter, we didn't yet know that Israel had been invaded by Hamas. Of course the most important, and tragic, part of any war is the loss of life. And this one is particularly horrific given the reports that the killing has been indiscriminant; men, woman and children. Let's all pray that this comes to a swift conclusion.

But whether we like it or not, there are implications for the economy, the biggest being the impact on oil prices. The world economy is already teetering on the brink of recession, a sharp increase in oil prices would certainly give it a push in the wrong direction.

From a practical investor perspective, it's nice to have an exposure to energy, gold and U.S. Treasuries; all rose from a flight to safety. However, we don't think it's prudent to move into significantly more – at least not yet. We have to see how this proceeds. Hopefully it will end soon and won't escalate to Iran. *Of course this isn't investment advice as we don't know everyone who is reading this newsletter.*

Again pray for all involved.

Marty Zweig was a somewhat famous stock investor, investment advisor and financial analyst. He really made a name for himself when he appeared on PBS' "Wall Street with Louis Rukeyser". During that show he warned that a big sell off could hit the market. It turns out that was just days before Black Monday, a 23% one day decline in the stock market, the biggest one day decline ever.

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

"YOUR MONEY MATTERS"

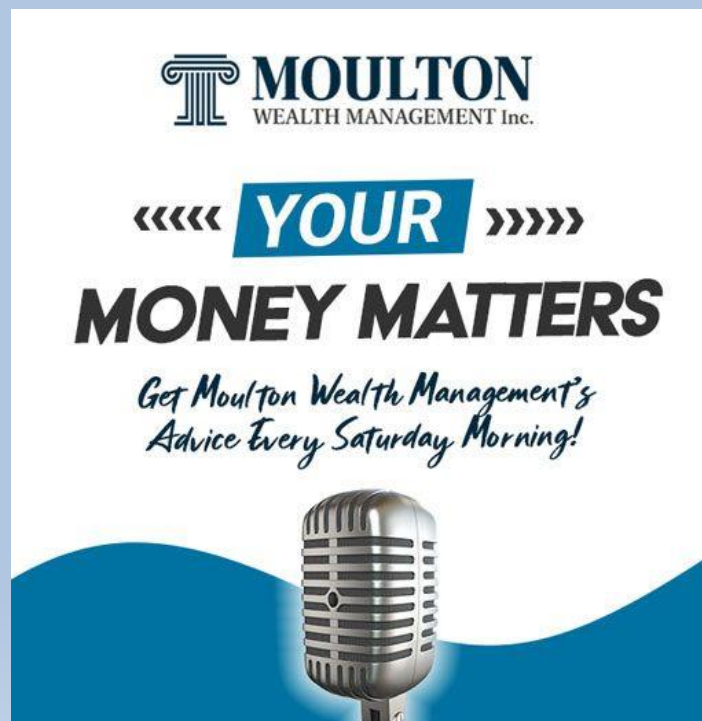
EVERY SATURDAY MORNING AT

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



It was likely the reason that made many take notice when he wrote 17 investing rules. We won't go over all of them here, but there are a few that are timely today.

- Don't fight the Fed.
- Beware of "New Era" thinking, i.e. it's different this time because...
- Don't put too much faith in the "experts".

Let's think about those one at a time.

"Don't fight the Fed."

For the last 15 years the Fed has actively pursued what they deemed "the wealth effect". The theory from Bernanke to Yellen to the early years of Powell, was that by pushing asset prices higher, they would make investors feel wealthy, and they in turn would spend more. And part of it worked. They certainly pushed asset prices higher, unfortunately the boom in spending didn't materialize as the bulk of assets are held by a fraction of consumers.

Wall Street, during those years, was quick to preach this "Don't fight the Fed" rule. Of course it was in their benefit to do so because the more dollars flowing into assets, the more fees they could charge.

But now the Fed is trying to do the opposite. They are on record saying they want to increase unemployment and reduce the value of assets. Wall Street now seems to have forgotten what they thought in the past was such sage advice.

"Beware of "New Era" thinking, i.e. it's different this time because..."

Maybe they think it's different this time. History is replete with examples where inverted yield curves (and they still are) signal recessions, when Leading Economic Indicators at this level was perfect at signaling recessions, when falling U.S. tax revenues always signaled recessions... We could go on but you get the picture.

But we're told none of it matters because we guess "It's different this time".

I'm sure many whose investment life was primarily forged with Fed assistance, really believe it's different. But many simply don't want you to think too much about it.

"Don't put too much faith in experts"

"Expert" after "expert" is trotted out on television, the radio and online to assure us there will be no recession and the market will climb so by all means, don't worry about risk management. But does that make sense or are they simply trying to convince you what is in their best interest?

A poll was taken asking different groups their estimate of recession probability in the next 12 months. Here are the results.

The Probability of a Recession in 2024

Here's what key players are projecting for the economy:

Forecaster	Estimated U.S. Recession Probability (Next 12 Months)
Federal Reserve Staff	0%
Yield Curve*	61%
Economists	48%
Consumers	69%
Goldman Sachs	15%
Bank of America	35-40%
CEOs**	84%

Source: Federal Reserve Bank of New York, Wolters Kluwer, The Conference Board, Goldman Sachs Investment Research, Bank of America. Data based on surveys and projections conducted August-September. *Based on a New York Fed model estimating recession probabilities using 10-year minus 3-month Treasury yield spreads, based on data from 1959-2009.

**Conference Board Q3 CEO survey probability of a recession over the next 12-18 months.

The Fed thinks there's no chance. Why? Because they've done such a wonderful job.

Goldman Sachs thinks a 15% chance. Why? They make money when you're invested and recessions are bad for investors.

Consumers think there's a 69% chance. Why? They operate in the real world, both in terms of employment and spending.

But who tops the list? People who run companies; CEOs at 84%.

Who would you think are being most truthful? Goldman Sachs who has a financial incentive to convince you that a recession is unlikely, or CEOs who have no incentive to say they see a recession?

Don't be complacent or let an advisor talk you into ignoring reality.

It's your retirement they so blithely risk.

This is especially true in light of the fact that short term U.S. Treasuries now pay about 5.5% per year annualized. That's the best "safe" return in 15 years.

Now is the time to act. Take advantage of what we consider a historic bear market rally to reposition yourself into a more defensive portfolio allocation.

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.

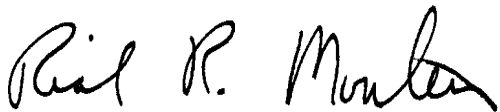
We discuss many of these issues and more on the weekly radio show and invite you to listen.

WEEKLY FOCUS – THINK ABOUT IT

“Don’t be complacent or let an advisor talk you into ignoring reality.

It’s your retirement they so blithely risk.”

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.

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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 companies 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.