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MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of October 16, 2023

Last week's newsletter discussed the Hamas invasion of Israel – prayers to everyone involved. But we also covered three of Marty Zweig's rules of investing. As we hear more and more that a recession has been averted and a new bull market started, we would point you to the rule that says, "Don't put too much faith in the experts". Although Wall Street wants you to believe that every previous recession and bear market was obvious, and therefore this isn't one, it's simply not true. 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 broke down the most recent inflation numbers. It also reviewed an article by Lance Roberts asking "Who has been swimming naked?" That is a somewhat famous line by Warren Buffett. Mr. Buffett makes the point that a rising stock market can make everyone appear like they're doing a wonderful job with their investments. He states "A rising tide lifts all

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.

boats". But he goes on to say "Only when the tide goes out, do we find out who has been swimming naked." In other words, ignoring risk and piling in, as the buy and hold crowd suggests, works when the market is going up, but when it starts going down, we find out who has a defensive process and who's been swimming naked. You can listen here: [Your Money Matters – Moulton Wealth](#).

This week we received key inflation numbers. PPI stands for Producer Price Index and it's a measure of what prices are doing on the business level. These normally lead CPI, which is the Consumer Price Index, which measures what prices are doing at the consumer level.

Even as both of these measures fell fairly dramatically for the first half of this year, we maintained they would at best flatten if not rise in the last half. As such the Fed's 2% target would be more elusive than many think.

This is important because it impacts what the Fed will do and as such the direction of interest rates. Wall Street (again last week) has been saying inflation is under control, the Fed must stop raising and even begin cutting soon.

Why?

Lower rates boost asset prices.

However lower rates likely help keep inflation alive. And inflation hurts the vast majority of Americans much more than higher asset prices help them.

So what did inflation do?

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

"YOUR MONEY MATTERS"

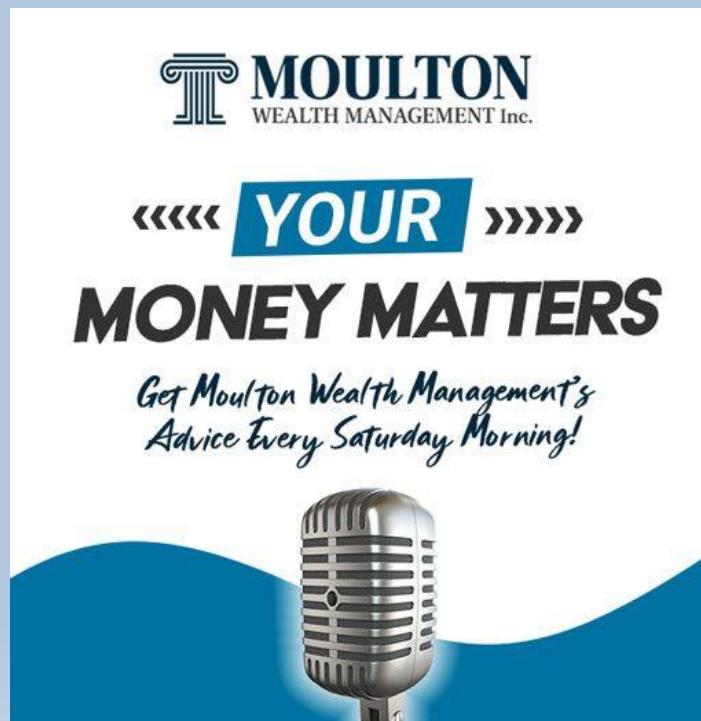
EVERY SATURDAY MORNING AT

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



PPI was announced on Wednesday.

- Overall (what they call headline) PPI rose 2.2% year over year vs 1.6% estimate and 1.6% last month.
- Core PPI (less food and energy) rose 2.7% year over year vs 2.3% estimates and 2.2% last month.
- Headline versus last month rose 0.5% vs 0.3% estimate and 0.7% last month
- Core rose 0.3% vs 0.2% estimate and 0.2% last month.

So overall PPI, is still not down to the Fed's target of 2%. In fact it's accelerated for three months in a row.

Now let's consider CPI.

- Headline was up 3.7% year over year vs 3.6% estimate and 3.6% last month.
- Core was up 4.1% year over year vs 4.1% estimate and 4.3% last month
- Headline versus last month was up 0.4% vs 0.3% estimate and 0.6% last month.
- Core was up 0.3% month over month vs 0.3% estimate and 0.3% last month.

So a little better than PPI, but still not to the 2% target and not falling dramatically.

If we consider the last 3 and 6 months of month over month inflation annualized (in an attempt to better ascertain a trend) we see that CPI is actually rising over both time frames.

Having said all of that, the particulars matter. And the particular that arguably matters most to consumers is the price of food. Especially to less wealthy consumers. Many of the analysts were gushing at how "cheap" food has become. The report said food inflation had fallen to "only" +3.7% vs a year ago. When compared to January when it was +10.13% you can argue it's improved. But as someone who eats, you're likely raising both eyebrows.

Remember, when the rate of price increase recedes from +10.13% to +3.69%, it doesn't mean food got less expensive. It simply means food is getting *more expensive at a slower rate*.

Let's consider a different way to view what's really happening to the price of food. The table on the following page uses the Bureau of Labor Statistics (BLS) data for food inflation. We calculated the year over year increases. But then we did the same annualized for 2, 3 and 5 years as well **as the cumulative impact on prices.**

When we shop, we don't pay the amount the price increased this year, we pay what it's increased over time. And that's an important difference.

Under the numbers you can see the first yellowed line. These are year over year increases and in fact if you look at September it shows a 3.7% (rounded) increase from September of

2022. Moving left you can see what the analysts are gushing over as the rate of increase has fallen from 10.13% in January to that 3.7% last month.

But if we look at 2 years annualized (next numbers lower) we see 7.4% per year over the last two years. That's down from January's annualized 8.53%, but not nearly as dramatically.

What's more important is the cumulative impact on food prices. Over the last two year they are up 15.35% per these numbers.

Now let's go another line lower to see 6.45% annualized increase over the last 3 years and a 20.6% cumulative increase in food prices over those three years.

Finally over five years we see 5% annualized food inflation with a cumulative 27.64% increase over the last 5 years.

Two thoughts and a question about these numbers.

- On the five year lines, notice that September is the highest month of the year. Food price increases aren't yet slowing over five years.
- Even as dramatic as these numbers are, many (including us) would argue they understate what's happened at the store and restaurant.

CPI for All Urban Consumers (CPI-U)														
Original Data Value														
Series Id:	CUUR000SAF1													
Not Seasonally Adjusted														
Series Title:	Food in U.S. city average, all urban consumers, not													
Area:	U.S. city average													
Item:	Food													
Base Period:	1982-84=100													
Years:	2013 to 2023													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	HALF1	HALF2
2016	248.631	248.800	247.978	248.413	247.860	247.482	247.554	247.719	247.917	248.073	247.435	247.313	248.194	247.669
2017	248.242	248.791	249.165	249.739	250.016	249.653	250.214	250.493	250.993	251.364	250.871	251.238	249.268	250.862
2018	252.361	252.266	252.370	253.209	253.098	253.231	253.746	254.077	254.393	254.358	254.379	255.210	252.756	254.361
2019	256.417	257.222	257.724	257.708	258.110	258.064	258.274	258.410	258.943	259.632	259.467	259.823	257.541	259.092
2020	261.057	261.876	262.708	266.757	268.439	269.770	268.863	269.079	269.163	269.828	269.069	270.023	265.101	269.338
2021	270.938	271.363	271.812	273.090	274.212	276.206	278.127	279.135	281.506	284.205	285.507	286.966	272.937	282.574
2022	289.772	292.794	295.728	298.711	302.038	305.041	308.532	310.875	313.142	315.323	315.857	316.839	297.347	313.428
2023	319.136	320.569	320.863	321.566	322.249	322.556	323.523	324.100	324.704				321.157	
Y/y	10.13%	9.49%	8.50%	7.65%	6.69%	5.74%	4.86%	4.25%	3.69%					
2 y annualized	8.53%	8.69%	8.65%	8.51%	8.41%	8.07%	7.85%	7.75%	7.40%					
whole number	17.79%	18.13%	18.05%	17.75%	17.52%	16.78%	16.32%	16.11%	15.35%					
3 y annualized	6.93%	6.97%	6.89%	6.43%	6.28%	6.14%	6.36%	6.40%	6.45%					
whole number	22.2%	22.4%	22.1%	20.5%	20.0%	19.6%	20.3%	20.4%	20.6%					
5 yr annualized	4.81%	4.91%	4.92%	4.90%	4.95%	4.96%	4.98%	4.99%	5.00%					
whole number	26.46%	27.08%	27.14%	27.00%	27.32%	27.38%	27.50%	27.56%	27.64%					

The question is...

“How in the world can the Fed stop raising rates, much less cut them, with food inflation at these levels?”

The last few days of the week should be a warning to investors:

“Time to make sure you’re not swimming naked, as the tide is beginning to recede.”

If you or your advisor have maintained a static allocation through 2022 and 2023, under the idea that an allocated portfolio will provide downside protection, you may want to think again. Unlike the last 15 years, the Fed isn’t likely to come to “market rescue” unless and until it is down significantly. At the same time, inflation may hamper the ability of traditional bond allocations to provide support.

A traditional pie chart allocation, that has been the Wall Street staple for 50 years, didn’t work in the 1970’s because of inflation.

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.

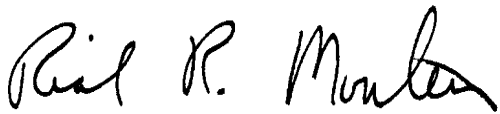
The drop didn't retrace only a few months or even a couple years.

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

WEEKLY FOCUS – THINK ABOUT IT

“Time to make sure you’re not swimming naked, as the tide is beginning to recede.”

Yours truly,



Rial R. Moulton, CFP®, CPA / PFS, RFC
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.

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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.