MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of October 30, 2023

HAPPY HALLOWEEN

Be Safe, And Watch For Kids When Driving

ATTEND OUR…

RISK MANAGEMENT

LAST OF 2023! ***SEMINARS*** ***LAST OF 2023!***

BRING A GUEST

- **NOVEMBER 15TH @ 9:30 AM – SPOKANE**
- **NOVEMBER 29TH @ 11:00 AM – RICHLAND**

(BOTH HAVE BREAKFAST)

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

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

Last week's newsletter started with a headline from one of our research partners' recent report. It warned ***"Warning Flags Increase… Be Careful Out There"***. We discuss why small cap stocks are not confirming a new bull market, and why this is different from every new bull market over the last 30 years. We also discuss why the 3-month/10-year yield curve inversion is beyond troubling, and is actually scary. You can read it here: *Newsletter - Moulton Wealth*.

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.

Last week's radio show delved into the most recent GDP report. It also covered a Wall Street Journal editorial suggesting the economy and markets are in a Fed induced state of fragility reminiscent of Black Monday, which saw the market drop 23% in a day. You can listen here: Your Money Matters – Moulton Wealth.

GDP (Gross Domestic Product) came out last week and for the third quarter 2023 it was +4.9% annualized rate. Wall Street pounced, proclaiming "any worries about a recession and bear market should now be put to rest". After all, you don't have recessions and bear markets with +4.9% GDP.

Or do you?

The stock market's reaction was telling. After the Thursday announcement, the S&P-500 fell -1.18% on Thursday, followed by a -0.48% decline on Friday. At the same time, the 10 year U.S. Treasury yield fell from 4.95% to 4.85%, which means bond prices rose.

It's never a good sign when stocks decline after "good news". Also declining stocks and rising bonds is what one would expect in a recession.

Famed economist and investor David Rosenberg tells us that ***"on average, within two quarters of the recession, we see a real GDP growth figure come in just above +5% on an annual rate – call it the boom before the storm. A reflexive pick-up that serves as a head fake."***

In fact, fourth quarter 2007 GDP was +4.9% on an annualized basis, and we later discovered we were already in the Great Financial Crisis recession.

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

"YOUR MONEY MATTERS"

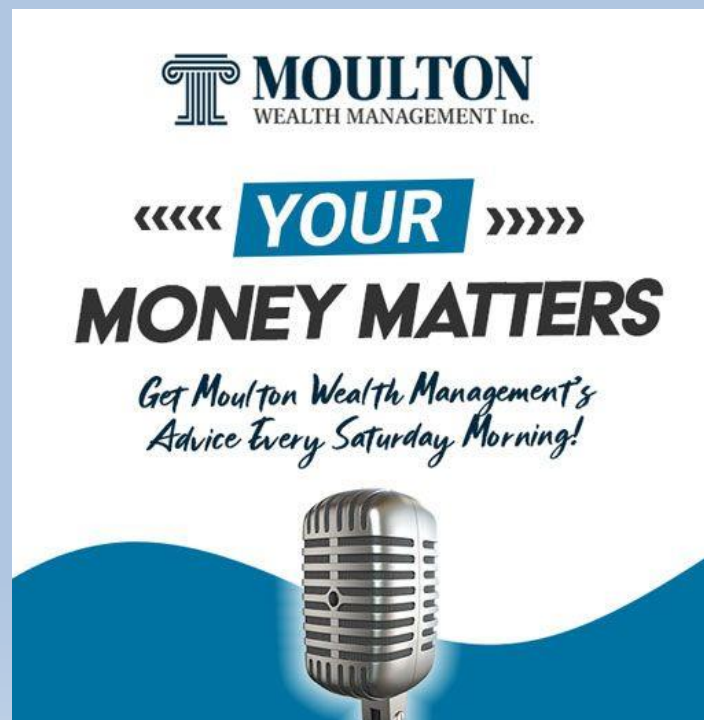
EVERY SATURDAY MORNING AT

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



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And that wasn't an anomaly.

- We had +4.6% annualized GDP growth in the third quarter of 2019 and we had a recession (with or without the pandemic) two quarters later.
- We had +7.5% annualized GDP in the second quarter of 2000. We were already in the Dot.com bear market with the recession just two quarters down the road.
- We had 4.4% annualized GDP in the first quarter of 1990 and the recession began two quarters later.
- We had +4.9% annualized GDP in the third quarter of 1981 and we were already in the recession.
- We had +10.3% annualized GDP in the first quarter of 1973 and entered one of the worst recessions ever two quarters later.
- We had +6.4% in quarter one of 1969 with a recession starting three quarters later.
- We had +9.3% GDP in the first quarter of 1960 and the recession began the very next quarter.
- We had a +7.7% GDP in the first quarter of 1953 and a recession started two quarters later.

The totality of the evidence doesn't point to a soft landing. Nor does it point to a "new bull market" in stocks.

As of Friday's close…

- The Dow Jones is down **-11.39%** from its peak in early 2022.
- The S&P-500 is down **-14.1%** from its peak in early 2022.
- The NASDAQ is down **-21.26%** from its peak in late 2021.
- The small cap Russell 2000 is down **-32.99%** from its peak in late 2021.

We would expect the first three to catch down to the Russell, and possibly even farther.

If you're working with an advisor, ask him or her about GDP and the market. If they assure you it means we've avoided a recession and we're in a new bull market, run, don't walk.

In fact we continue to see consumer strength deteriorate. I suspect everyone reading understands this to be true. Despite Wall Street telling us, from their opulent offices and limos, that we're all sleeping on beds of excess cash, it's simply not true for the vast majority of Americans.

And the numbers back it up.

Credit card balances are over $1 trillion for the first time ever, at a time that the interest being charged is now averaging 28%.

Yet consumers have to do what they can to put food on the table, as credit card usage has expanded by an annualized +8% over the last three months.

But delinquencies on those cards are rising.

Which makes sense since real (after inflation) personal disposable incomes have declined at a -1.7% annualized rate over the last three months.

There's not much money left over, as the consumer savings rate has declined from 5.3% to 3.9%; the latter a level so low it's only been seen 8% of the time back to 1959.

Oh did we mention student loan payments began again in October?

Again, David Rosenberg, never one to be shy with his feelings, states that…

"The current narrative that the recession won't happen because it hasn't yet is arguably the stupidest thing I have heard in my forty years in the business."

That shouldn't be taken lightly. Bear markets in recessions are much deeper, and longer, than bear markets outside of recessions.

Think -57% drop in the S&P-500 during the Great Financial Crisis, taking 18 months to the bottom and another 4 years to make up the losses.

Think -50% drop in the S&P-500 during the Dot.com bubble, taking 2-1/2 years to the bottom and another 10 years to sustainably make up the losses.

Of course the NASDAQ in the latter fell over -80%, and took about 17 years from peak back to peak.

Do you have 17 years to wait for the market to come back?

I don't.

Back to the data.

Recently it was pointed out on Fox Business that subprime auto loans are defaulting at their highest rate ***ever,*** since they started tracking the data nearly 30 years ago. The default rate, defined as 60 days or more overdue, recently broached 6.11% per Fitch Ratings. This is higher than Covid, higher than the Great Financial Crisis, higher than the Dot.com bubble blow up, and higher than the Asian Crisis.

"Ever" is a long time.

But that wasn't the most interesting / concerning point. After all, many metrics show the economy slowing, consumers struggling, and recession storm clouds quickly approaching.

Most interesting was the color added by Randy Woodward of Raymond James. Randy works with banks to trade large bond portfolios back and forth. As such he has great insight into what the banks are seeing.

He starts out warning of the subprime auto defaults, "it's going to get much worse".

Why?

He tells us that consumer FICO scores climbed artificially higher during Covid, due to the temporary money printing and debt / rent / mortgage moratoriums. Consumers took advantage, taking out a TON of debt (*his words*) priced off those artificially higher FICO scores. It allowed them to borrow more, at lower rates (which were already artificially lowered to essentially 0%) and with less collateral.

Now that the money handouts have ended and the payment moratoriums expired, FICO scores are plummeting back to reality.

How bad is it?

He points to one of his client credit unions who did a "credit migration analysis". To do so they simply compared their customers' FICO scores when loans originated, to what they are today. They wanted to see if the FICO scores changed, and if so, for how many.

They noted that only about 1% of all their auto loans originally were made to borrowers with subprime FICO ratings (<620). Comparing to those same customers' current FICO scores, they found that 10% are now <620. The majority of those were originally >665. That's a huge decline.

He tells us that the Financial Times wrote a similar story about borrowing in Europe.

Now let's consider this beyond the auto market.

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Why wouldn't the same dynamics apply to all consumer borrowing including mortgages, landlord rentals, credit card applications, etc., etc.?

He postulates NO lenders considered FICO scores pre-Covid when making these loans, instead relying on FICO scores at the time the loans were initiated.

He calls it one more Covid stimulus side effect that no one saw coming.

We understand no one is comfortable with change. But as businessman Jim Rohn once said…

"We must all suffer one of two things: the pain of discipline, or the pain of regret and disappointment."

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.

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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.

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?

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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.

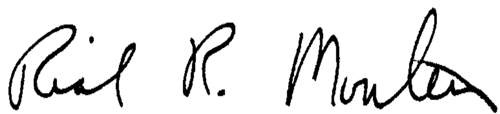
We discuss many of these issues and more on the weekly radio show and invite you to listen.

WEEKLY FOCUS – THINK ABOUT IT

"We must all suffer one of two things: the pain of discipline or the pain of regret and disappointment."

Jim Rohn - Businessman

Yours truly,



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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.*