MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of November 27, 2023

Hope everyone had a wonderful Thanksgiving weekend. Last week's newsletter dug into the inflation numbers along with reviewing how the market has historically reacted to Fed pivots. You can read it here: *Newsletter - Moulton Wealth*.

Last week's radio show discussed the most recent economic data along with what corporate executives are saying about consumers, when they've announced earnings. Not to bury the headline, consumers continue to get squeezed, and as such, spending continues to contract. We also reviewed a Lance Roberts article that tells us *the data is always good, until it's not*. It's really just a different way of saying that "risk happens slowly, and then all at once". You can listen here: [Your Money Matters – 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.

Much of our work, along with our research partners, centers on identifying economic risks. The reason is simple; bear markets in recessions are much deeper, and last much longer, than bear markets outside of recessions. As such, as recession risk rises, it's prudent to implement defensive measures.

Of course, the risk of being defensive, is timing. It would be ideal if we could identify the day the market peaks, and use it to exit all positions. On the other side, it would be just as nice to identify the day the market bottoms, and to load up on that day.

But that's not realistic.

Yet buy and hold advocates tell us that defensive measures must work perfectly, or they don't work at all. It's simply not true.

Certainly, there will be days of regret when we didn't get defensive enough, soon enough, or when we didn't get aggressive enough, soon enough. But we propose that regret will pale in comparison to the large drawdowns of a buy and hold approach, during a proper bear market.

Remember, in the Dot.com bubble bear market, top to bottom, the S&P-500 fell 50% and the NASDAQ fell over 80%. During the Great Financial Crisis, the S&P-500 fell 57%.

In each instance, it took years of good markets simply to regain those losses.

We suspect a lot of the reason buy and hold investors don't think much about the ramifications of such large losses, is simply because it's been some time since they happened. But don't be fooled. The reason it has been so long isn't some magic new era. Instead, it was a Federal Reserve aggressively printing money to push up stock prices, under the mistaken

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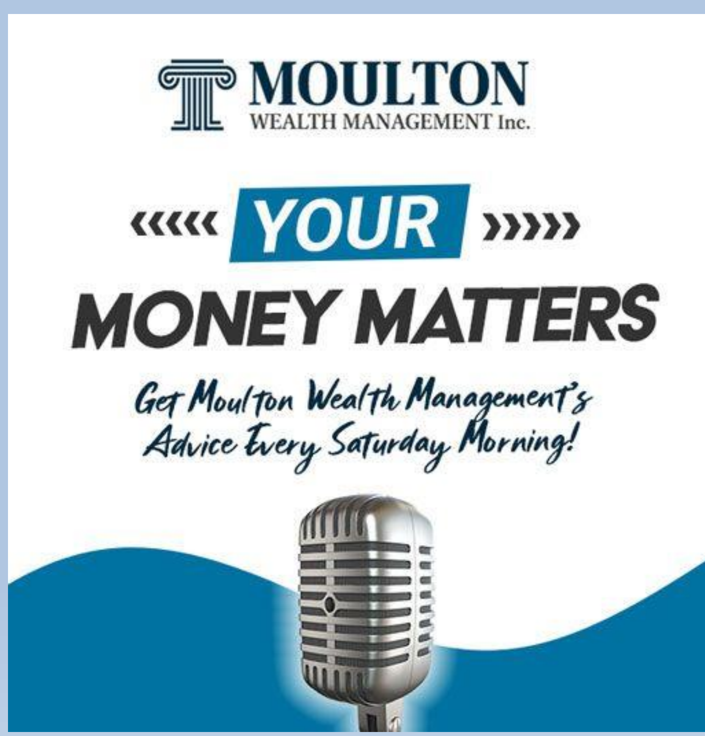


belief it would drive the economy. They could do so because we had no inflation, and common thought was there wouldn't be any negative ramifications.

Then came inflation, and of course, the negative ramifications.

Without the Fed actively intervening on behalf of poor risk management, we're afraid the upcoming bear market may ultimately reverse all the misguided work of 15 years. This means it could be vicious.

Remember…

Risk management is not about knowing the future.
Risk management is about accepting that you don't know the future, yet preparing anyway.

We've said for some time it's important to "measure and map" the data, rather than simply hearing what happened recently. That means you should track the data over time, and commit it to paper (or your computer). Wall Street has a habit of acting with the magicians' sleight of hand. Every good data point is trumpeted, but then forgotten when it turns bad.

Black Friday is a good example. If you listened to the talking heads, you'd assume it was a fabulously successful shopping day. But if you measure and map, you might understand their platitudes are just that.

The reason consumer spending is so important, isn't about the spending itself, but instead about the sequence of events it unleashes. If we buy more stuff, the stores have to replace it, meaning the manufactures have to produce more, meaning they'll need more materials, more employees, more capital, etc. This sequence of events is what drives GDP.

Conversely, if we spend more, not to buy more stuff, but simply because the stuff we buy is more expensive, none of that happens.

Black Friday saw record spending, according to the headlines, and although technically true, let's explore the numbers to see how strong it was.

First, Black Friday saw U.S. retail sales increase 2.5% from a year ago according to Mastercard Spending Plus, which measures sales in stores and online. But according to the Bureau of Labor Statistics, prices are up 3.2% from a year ago, and if we exclude food and energy since those aren't as impacted on Black Friday, they are up 4%. Since the retail sales as announced don't net inflation, actual sales of stuff fell from a year ago.

To be fair, other tracking services had sales up as much as 7.5% year over year, but even at that, about half of the increase would be inflation.

What was agreed was that the increase in "buy-now, pay later" option surged 72% versus the week before. That doesn't scream "strong consumer" as the headlines tell us.

Back to the big picture, where do we stand on the "soft landing" a.k.a. "avoiding a recession" front?

One of our research partners filled out a calendar for the month of November, up until Thanksgiving, listing the economic reports that deteriorated in red, those that improved in green, and those that were flat in pink. Do you see why measuring and mapping might give you a different view of where we stand, versus opening the paper and reading about the "fabulous" Black Friday?

2023 NOVEMBER

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
OCT Data Released Last Week of October Philly Fed Services = Worse = MISS Richmond Fed Services = Worse = MISS KC Fed Services (Oct) = Worse = MISS Dallas Fed Mfg (Oct) = Worse = MISS Chicago PMI (Oct) = Worse = MISS Dallas Fed Services (Oct) = Worse Conf Board Consumer Confidence (Oct) = Worse = MISS			1 ADP = ↓= MISS ISM Mfg↓ = MISS Auto Sales = ↓ MISS	2 Initial Claims ↑= MISS Cont. Claims ↑ = MISS	3 NFP ↓= MISS ISM SRVCS ↓ = MISS	4
5	6 SLOOS Further Credit Cycle Tightening	7	8 NY FED 3Q23 Consumer Credit = Worse	9	10 Univ. Mich Confidence ↓ = Worse	11
12	13	14 NFIB Confidence ↓ = Worse CPI ↓ = Beats (Kinda)	15 Retail Sales ↓ = Worse	16 Initial Claims ↑= Worse Cont. Claims ↑ = Worse Industrial Production ↓ Builder Confidence ↓	17	18
19	20	21 Chicago NAI ↓ Existing Home Sales ↓ KC Fed SRVCS = still (-)	22 Initial Claims ↓ Durable Goods ↓	23	24	25
26	27	28	29	30		© BlankCalendarPages.com

The Leading Economic Indicator is an aggregate of 10 leading and coincident indicators rolled into one. It has fallen for 19 straight months. Before today, there have only been two previous times it has fallen 19 months or longer:

2008 Great Financial Crisis

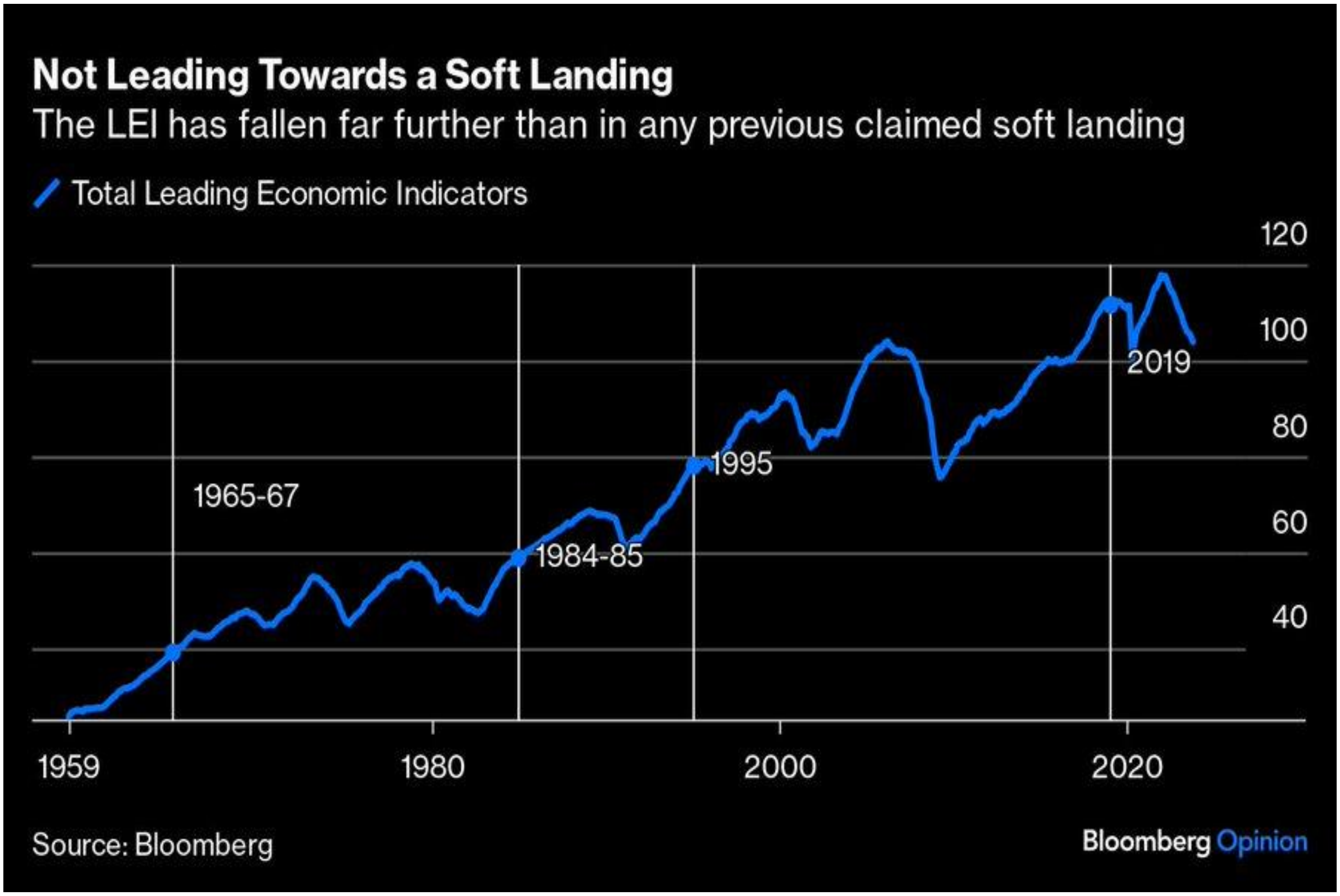
1974 recession and bear market

As mentioned earlier, the S&P-500 fell some 57% during the Great Financial Crisis.

The 1970s were a lost decade (or longer) for stocks. There were four recessions during the 1970s until late 1982. From 1969 to the ultimate bottom in 1982 the S&P-500 lost about 63%. From the 1974 LEI reading of over 19 months of declines, the S&P-500 fell 59% into the ultimate 1982 bottom.

In other words:

LEI readings this extreme should not be ignored.



Yield curves are still inverted, meaning the yields on many short-term bonds are above what the yields are on their long-term equivalent. This is both a warning and a cause of economic distress, as it inhibits bank lending. The last time these inversions were this deep, and lasted this long: the 1970s.

Wall Street advises us to ignore the warnings, as we can't have a recession with the jobs' market this strong. But is it true? Daniel DiMartino Booth recently published a look at history.

Now That's Definitive

	Month	Number of States* With Rising U 'Rates MoM	Comment
1	Mar '80	50	In Recession
2	Sep '81	50	In Recession
3	Nov '82	50	In Recession
4	Oct '01	50	In Recession
5	Nov '01	50	In Recession
6	Jan '02	50	After Recession
7	Apr '08	50	In Recession
8	May '08	50	In Recession
9	May '09	50	In Recession
10	Oct '23	50	...

Source: BLS, *51 including D.C, Danielle DiMartino Booth

There's another, more sophisticated measure, by John Hussman PhD. He aggregates 7 different employment measures to determine the employment trend, and what it might tell us about the trajectory of the economy. Note the darker, vertical bars are recessions, including the very narrow one during Covid. Back to 1969, when this indicator reached the current level, we've never avoided a recession, with no false signals. (See chart on the following page.)

It's frustrating (and more so, irritating) to listen to supposed experts trot out onto Wall Street media with claims that simply are not based on facts, or are shaded – such as averages – to support their contentions that it's smart to ignore risk. Some include:

- The consumer still has excess cash and is strong.
- On average, this time of year is strong.
- We're in a new bull market and as such, it's average gain should be xxx.
- Employment is never this strong in recessions.
- Stocks aren't expensive based on "forward" (i.e., made up) earnings estimates.

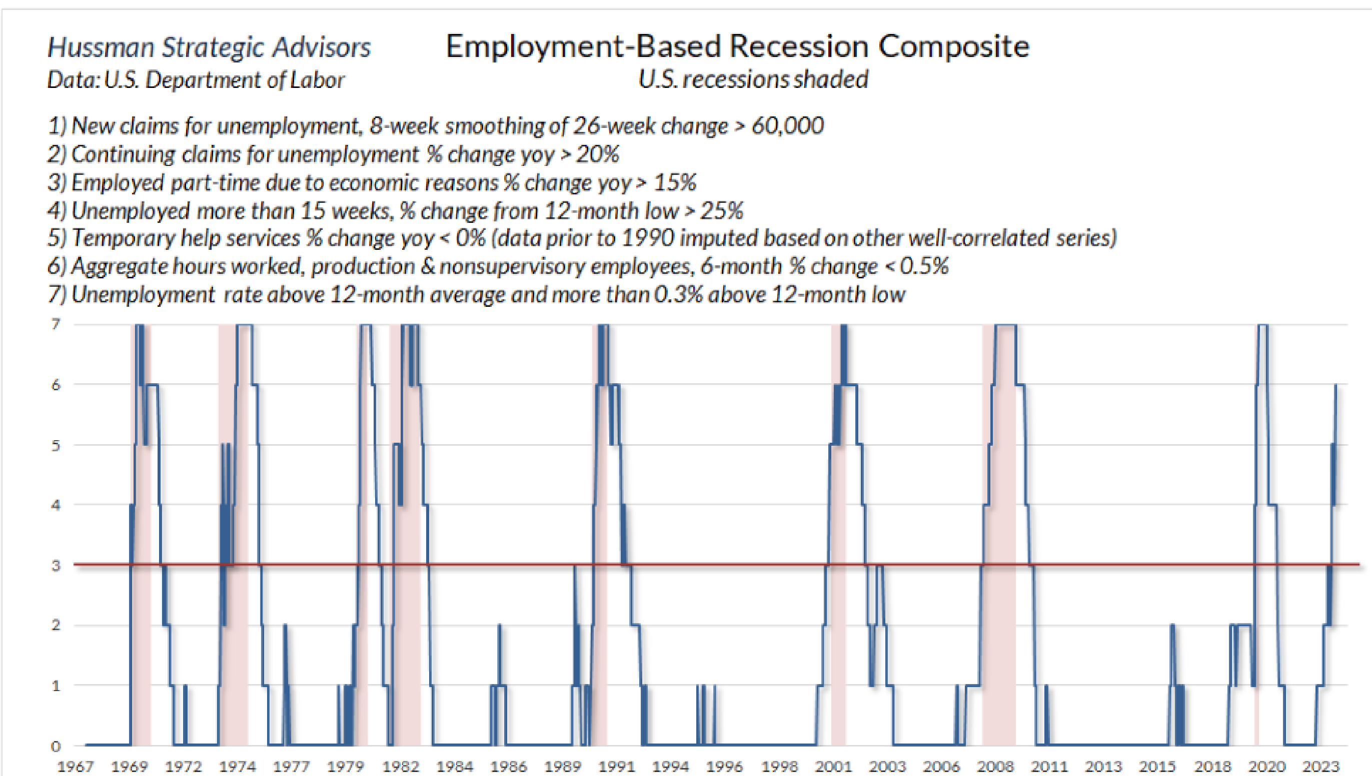
The list goes on and on. And each day the market doesn't fall, they'll assure you that it proves they are right, with the inference being that since the market hasn't fallen yet, it can't. But these were the same arguments heading into the Dot.com bubble and the Housing Bubble, when some of the arguments were:

- The internet makes it a new era so valuations don't matter.
- Housing has never dropped across the country except in the Great Depression.

Yet, as we know in hindsight, it would have been much better to become defensive early, and miss the last drops of gains before the waterfall of losses, versus believing them, and watching your portfolios disintegrate.

But I guess it was all good, because after their insistence that you ignore the gathering storm, and in doing so accept losses that very well might have been life altering, they assured you that…

No one could have seen that coming!



As humans, we generally struggle with change. We would rather "hope" it all works out without us making uncomfortable decisions.

We get that. It's the same for us.

But logically, comparing risk free rates approximating 5% vs what the market "might" make (or more importantly lose) over the coming months, and considering the growing mountain of evidence of an oncoming recession, it seems negligent not to at least explore your options.

This is even more important if your spouse is not as savvy about investments as you are.

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.

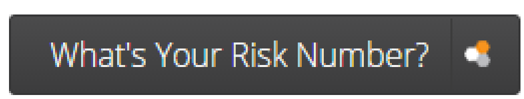
Then in just over a month from September 15, 2008 to October 27, 2008 the S&P-500 fell ***ANOTHER*** 28.8%. And from September 15, 2008 to the ultimate bottom, about 5 months later, it fell ***ANOTHER*** 43%.

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.



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

"Risk management is about preparing for a future that isn't known."

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.

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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 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.*