MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT NEWS!

SPECIALIZING IN RETIREMENT AND TAX PLANNING

1220 N. MULLAN ROAD
SPOKANE, WA 99206
509-922-3110

DONALD J. MOULTON
CFP®, RFC

www.moultonwealth.com

RIAL R. MOULTON
CFP®, CPA/PFS, RFC

THIRD QUARTER 2023

We've been warning that the advance from October 2022 was more likely a bear market rally than the start of a new bull market.

Why?

A variety of reasons including:

- The longest yield curve inversion (more on this later) since the 1970's…
- The housing market which has essentially ground to a halt with affordability reaching all-time lows…
- The Leading Economic Indicator, an excellent signal for recessions, being negative for 18 straight months…
- Bank failures…
- Commercial real-estate prices falling precipitously, just as many of their loans must be renewed…
- Still extremely high stock valuations; the highest ever by some measures…

S&P 500 and DJIA Quarter 3 2023

S&P 500 4,288 -3.7%

DJIA 33,507 -2.7%

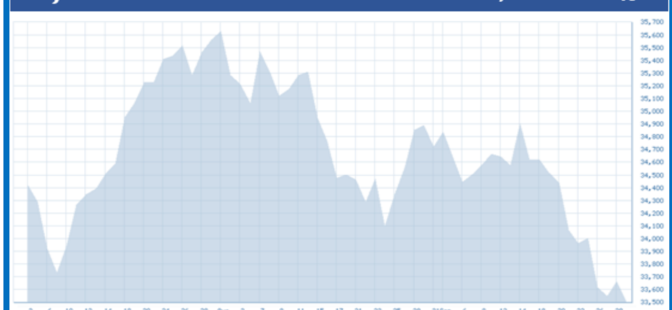


Chart source: bigcharts.com

MONEY RATES *(as posted in Barron's 9/25/2023)*

	LATEST WEEK	YR AGO
Fed Funds Rate*	5.35%	3.09%
Bank Money Market[z]	0.59%	0.13%
12-month Certif[z]	1.96%	0.78%

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

- Sticky and too high inflation which will keep rates higher for longer…
- That a recession is by far the most probable outcome and with recessions come deeper, and longer bear markets…
- The fact that unlike any new bull market in the past 45 years, the small cap Russell 2000 has not led in the first year. In fact, it's barely above break even while the average in past, new bull markets has been +74% with the least being +40%.

We could go on but I think you get our drift.

We wonder, therefore, if this is the beginning of the end of that bear market rally. If so we expect the entire rally to be reversed and new market lows hit in the coming months and possibly years.

The major indexes ended the third quarter lower. For the quarter, the S&P 500 fell -3.7%, ending its three-quarter-long gains streak. This major index closed the quarter at 4,288. The Dow Jones Industrial Average (DJIA) ended the quarter down -2.7%, closing at 33,507. And the technology heavy NASDAQ closed the quarter at 13219, down -4.4% for the quarter. *(Source: Forbes.com; 10/5/2023)*

By the end of the quarter, some of the more optimistic outlooks from investors dwindled, as concerns and volatility increased. Government and economic uncertainty, stubborn inflation, and the news of another potential rate hike this year took the lead on investor worries.

The quarter included the Fed once again increasing interest rates in July, a slight uptick in inflation, and continued talk of a pending recession; however, the US economy held its ground with a strong job market and consumer spending confidence. Personal consumption expenditure (PCE), which the Feds closely watch, increased 3.9% for the 12-month period ending August. At their September meeting, the Fed decided to keep the federal funds rate range at 5.25 – 5.50% and upgraded their view of the pace of the economy as "solid" rather than the "moderate" pace it had previously assigned. They noted in their September statement that, "*Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have slowed in recent months but remain strong, and the unemployment rate has remained low. Inflation still remains elevated."* *(Source: federalreserve.gov; 9/20/23)*

The labor market remained strong in the third quarter. Although inflation is continuing at a slow downward trend toward pre-pandemic levels, labor costs are increasing and this is placing a strain on businesses looking for employees. The current demand for labor keeps pushing wage inflation, with real wages being higher than before the pandemic.

Unemployment has now been under 4% for 19 months in a row. This is an indicator that the Fed watches closely. Ironically, low unemployment is NOT what the Fed wants. To subdue inflation, the Fed correctly thinks we need higher unemployment.

Last quarterly newsletter, we told you that we thought the dramatic decline in inflation would stop, and instead inflation would begin to move sideways at best or even to rise. And that's exactly what we saw happen. Inflation numbers for August posted their biggest monthly increase for 2023. Inflation is still roughly twice what the Fed is targeting, meaning the Fed will likely keep rates higher for longer, or even raise them more.

When thinking about inflation, don't fall for the trap that it is falling because the number is getting smaller. These numbers just mean prices are rising less quickly later in the year, than they were earlier in the year; but they're still rising. The cumulative effect is for much higher prices as we've all seen when we visit the grocery store, or fill up our gas tanks. Higher prices for necessities leaves less for discretionary purchases.

Of course the political dysfunction in the House, along with another war, will certainly not help investors' nerves. Remember, the last spending bill was only a 45 day stopgap and runs out in mid-November.

KEY TAKEAWAYS

- The Fed raised interest rates once in July, but refrained from raising rates in September, keeping the 5.25 – 5.50% target rate range.
- A 45-day stopgap bill was signed at the 11th hour, diverting a potential government shutdown.
- Inflation is increasing less quickly from the 2022's highs, reaching 3.7% in August.
- Treasury yields are still providing favorable returns.
- Money market returns remain high.
- There is still debate on Wall Street, but not in our eyes, whether the U.S. will see a "soft landing" or a recession.
- Volatility and uncertainty in the economic environment remain.
- Having a defense as part of your overall investment plan is more important today then it's been in at least 15 years.
- ***We are here for clients to discuss any concerns they have.***

What does all this activity mean? Will the third quarter's gloominess set us up for a stock-market rally in the coming months, or will uncertainty prevail and send U.S. equities further down the receding trend?

Historically, the fourth quarter of the year is the best quarter for the U.S. stock market, with an average gain of more than +4% since 1950. However, if we have learned anything from the past few years, anything is possible. As an investor, the third quarter confirms that volatility is still prevalent. This is not a time to become complacent. We remain firm in our philosophy that investing is a long-term commitment. However, your long term plan can get derailed by large losses in bear markets. We firmly believe the old saying "better safe than sorry" and continue to urge caution. We feel confident our defensive system will help us safely reach a future when there will be bargains in the stock market. It's just not now. *(Source: fool.com; 10/2/2023)*

Interest Rate Increases 2022 - 2023

FOMC Meeting Date	Basis Point Change	Target Rate Range
July 26, 2023	+ 25	5.25 – 5.50%
May 3, 2023	+ 25	5.00 – 5.25%
March 22, 2023	+ 25	4.75% - 5.00%
February 1, 2023	+ 25	4.50% - 4.75%
December 14, 2022	+ 50	4.25% - 4.50%
November 2, 2022	+ 75	3.75% - 4.00%
September 21, 2022	+ 75	3.00% - 3.25%
July 27, 2022	+ 75	2.25% - 2.50%
June 16, 2022	+ 75	1.50% - 1.75%
May 5, 2022	+50	0.75% - 1.00%
March 17, 2022	+25	0.25% - 0.50%

As financial professionals, we are committed to keeping our clients apprised of any changes and activity that could directly affect their unique situation. We are available to schedule an appointment to review your situation to make sure your investments are congruent with your time horizon, risk tolerance, and goals.

Inflation & Interest Rates

The Federal Reserve decided not to increase interest rates at their September session and the rate range remained at 5.25 – 5.50%. However, they signaled that another rate hike is likely to happen later this year, due to the continued strength of the economy and the slight rise in inflation. *"We are committed to achieving and sustaining a stance of monetary policy that is sufficiently restrictive to bring inflation down to our 2 percent goal over time,"* stated Fed Chair Jerome Powell in the Press Conference following the FOMC meeting in September.

"We will proceed carefully as we decide whether to tighten further or, instead, to hold the policy rate constant and await further data," Powell said in a keynote address. *"It is the Fed's job to bring inflation down to our 2% goal, and we will do so."* *(Source: reuters.com; 8/25/2023)*

In September, Consumer Price Index (CPI) reports for August were released. They showed inflation increased +0.6% in August and +3.7% over the past 12 months. Both rates were a step up from recent inflation reports. This was the biggest monthly increase to date for 2023. The main culprit for this jump was the significant price increase of gasoline, which increased over +10.6%. Consumers cringed at the price of filling up their gas tanks, and the cost of fuel and food continued to put a strain on budgets. Transportation costs, including gas, are the second largest expenses for U.S. households, the first being housing costs.

Last Seminars Of 2023!

Risk Happens Slowly & Then All At Once; Don't Wait!

Weekly Radio Show
Saturday Mornings

8:00 AM KXLY 920 AM Spokane and Area

9:30 AM KFLD 870 AM Tri-Cities and Area

Www.MoultonWealth.com for Podcasts

- **How employing and consistently following a defensive system could help you to a better retirement.**
- The Secure Act tax law change could alter how you leave your retirement accounts!
- What happens when an economic downturn makes it difficult for companies to pay back their massive debt?
- Why Buy and Hold Investing was right for the 80's and 90's yet very wrong for today.
- Will inflation eat up your assets?
- How to potentially decrease taxes on your hard earned Social Security Income
- To Roth or not to Roth?

And so much more!

SPOKANE
Quality Inn—Valley
BREAKFAST!
16418 E. Indiana; Spokane
Nov. 15th @ 9:30 AM

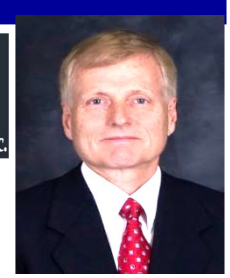
TRI-CITIES
Hampton Inn
486 Bradley Blvd; Richland
Nov. 29th @ 11:00 AM

Limited Seating Seminars Are Back!

For those 50 years old and older

MOULTON WEALTH MANAGEMENT Inc.
1220 N. Mullan Rd; Spokane, WA 99223

SPONSORED BY MOULTON WEALTH MANAGEMENT, INC.



SPEAKERS

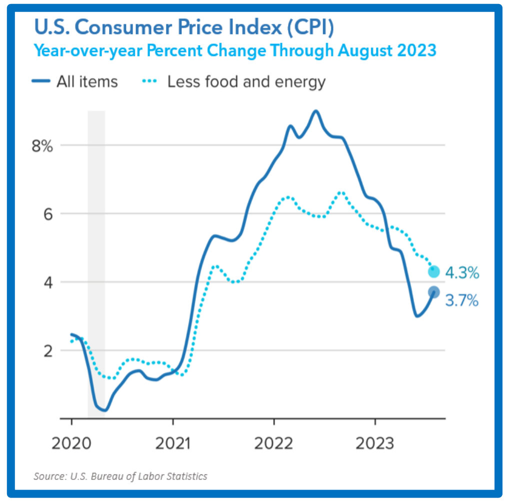
Donald J. Moulton
Certified Financial Planner™
CFP®, RFC

Rial R. Moulton
Certified Financial Planner™
CFP®, CPA/PFS, RFC

Register here: 509-922-3110

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

September's inflation numbers were more recently released, and although the monthly number did decline slightly to a + 0.4% increase from August, the rate of +3.7% vs. a year ago was unchanged. In short, despite what Wall Street is hoping, inflation remains at essentially twice the Fed's target.



More troubling, the Atlanta Fed themselves publish a measure of "sticky inflation". These are items whose prices move slowly, both up and down. Sticky inflation was up a concerning +5.5% in September vs a year ago. Further Tier One Alpha, one of our research partners, studied sticky inflation and found it to be a more reliable indicator of where we are headed, than the reported headline CPI inflation.

In summary, inflation is likely to remain above the Fed's 2% target well into 2024. This means rates will remain high. That's good news for investors who want to capture the ~5% U.S. Treasury, 10-year risk free rate. But it's bad news for banks, for businesses that have to borrow money, and for housing. The net effect is higher rates will continue to weigh on the economy.

Like all aspects of financial planning that may affect you, we are keeping a vigilant eye on interest rates and inflation. If you'd like to know how these may affect your portfolio, please contact us to discuss any strategies that may help combat the effect on your personal situation. While we cannot predict what the Fed's next move will be, we are keeping an eye on key economic indicators, such as the CPI.

The Bond Market and Treasury Yields

While equities moved down, bond yields moved up. After the Federal Reserve meeting in September, bonds yields rose, continuing their ascent to highs not seen in at least a decade. On Thursday, October 19th the benchmark 10-year yield for risk free U.S. Treasury bonds closed at 4.99%. That's a +0.42% increase from the quarter ending September 30th 4.57%. While that may not seem like much, in the bond world it's a staggering increase in just three weeks.

We are still experiencing multiple inverted yield curves across the bond market. An inverted yield curve means long term rates are lower than shorter term rates for various maturities of U.S. Treasury bonds. If you think about it, this is backwards. If you invest money you expect to earn more by agreeing to tie it up for longer. It's why money has a "time value". These inversions are not normal and usually not only signal, but cause economic problems.

The curve the Fed likes to consider compares the yield on U.S. Treasuries maturing in 3-months versus those maturing in 10-years. As of this writing it is still inverted. InvesTech, one of our research partners, tells us this is the longest inversion in terms of trading days in at least 63 years!

Over that time period, every inversion, no matter how short, save one, has preceded a recession. But they are much more concerning when they last a long time, ***and this one has lasted over 250 trading days.***

Inversions that lasted over 100 trading days ended in painful bear markets, averaging losses of -45%!

If we are headed for a bear market of that magnitude, it would imply additional losses of -38% from where we stand as of the October 20, 2023 close.

With the availability of risk-free rates exceeding 5%, equities currently are a poor risk vs. reward proposition. We wish to remind you that a static allocation, blind to current economics, is usually not ideal.

We will continue to monitor how the Fed's movements and how rising interest rates are affecting bond yields.

Investor's Outlook

We stand by the mantra of "proceed with caution". Patience will indeed be a virtue as the current financial markets we are experiencing will continue to be challenging. Two words should resonate with wise investors during these times: protection and patience. Investing in equities should be viewed as a long-term commitment, but not one that necessitates inaction when conditions warrant it.

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

Unfortunately, in our opinion, for those who listen, Wall Street is more than happy to provide a multitude of misleading statistics in an effort to keep you invested regardless of the risk to your lifestyle, retirement and family. Some of these are…

- **Bear markets are normal.** We would mention so is high blood pressure, getting out of shape, eating poorly and sickness. Yet we would never ignore them, or hope them away because of it.

- **The long-term average frequency between bear markets is 3.6 years, and they last less time than bull markets.** The Great Financial Crisis bear market in the S&P-500 took roughly 13 months from top to bottom, yet it took about 56 months to regain those losses. The fact that the bull market was longer did little good for your portfolio and retirement.
- **You haven't lost unless you sell.** Sadly, yes you have. If you don't think so ask your broker for the balance in your account as of December 31, 2021. At the very least you've lost months or even years.
- **A bear market doesn't mean a recession is coming.** The implication (or hope) is that it will be a shallow and brief bear market. Yet multiple indicators argue the economy entering a recession is much more probable than avoiding one.

We're told not to worry about it because it's been a good run. *In fact that's even more reason to worry. Years and even decades of irresponsible monetary policy by both politicians and the Federal Reserve have stretched the economic rubber band much farther than is normal. When it snaps back, we're concerned it could be vicious.*

Some tell us to "stay the course" and "ride out the bear market" rather than protecting ourselves. This may make sense if you have no plan, or tested methodology, and are just shooting from the hip. However, realize that it's possible there is a lot more downside in our future.

GMO founder Jeremy Grantham recently told CNN that his best case is ANOTHER -30% drop in the stock market from here, his worst case is ANOTHER -50% drop.

Although we've made some headway in bringing down inflation, the Fed has told us it's not yet enough.

To be clear, as long as inflation remains elevated, the Fed will be actively working to slow the economy and bring down asset prices. This is a real – and very large – risk to your portfolio.

While it's not possible to perfectly time equity market tops and bottoms, we feel it is possible to sidestep much of the damage caused by bigger declines. By doing so investors can help avoid the panic that leads to poor decisions, as well as the months or even years spent trying to regain losses.

There will be a time to return to a full equity allocation. But we think it will be from much lower levels.

After all, you can't buy low if you don't sell high.

Please call our office to discuss any concerns or ideas you have, or bring them up at our next meeting. Prior to making any financial decisions, we highly recommend you contact us so we can help determine the best strategy. There are often other factors to consider, including tax ramifications, increased risk, and time horizon fluctuations when changing anything in your financial plan.

Although investing should be thought of as a long term commitment, the benefits of a defensive strategy should be thought of in the same light.

Regardless of how equities are performing, investors should always focus on their personal objectives and long-term goals.

Four factors that investors should consider are:

1. **Your risk tolerance or appetite.** How much risk are you willing to take, or better yet, how much can you afford to take? A well-designed, defensive strategy can help with downside risk, but whenever investing, losses are possible.

2. **Your time horizon.** The amount of time you want to be invested in any particular situation can help you determine what investments are appropriate. Longer-term horizons provide more flexibility than shorter-term horizons.

3. **Your behavior.** How well can you emotionally endure the potential ups and downs of your investments? Market volatility is part of the investment experience and can create panic and anxiety. Making rational decisions during this mindset can be more difficult. Again, two factors can help moderate destructive behavior: ***first, relying on data over news stories and second, having a mathematically based, defensive strategy in place to keep "normal" losses from becoming catastrophic.***

4. **Your overall strategy, and how losses play into it.** Are you employing a strategy that doesn't fit you fiscally or emotionally? Perhaps you think of yourself as a "buy and hold investor", but admit you have sold at inopportune times in the past when losses were too severe to tolerate. We always say that it's nice if markets come back, but will your portfolio

in a time that aligns with your retirement? This is especially critical if you're relying on those funds for living expenses.

We believe employing a sell discipline to protect your retirement is critical to your investment success.

Investing is a marathon, not a sprint…

But even in a marathon, it's important to manage risk with an eye towards limiting losses. After the last two bear markets outside of Covid, the first 100% (or more) gains in the S&P-500, over multiple years, were required just to get back to break even. Using years of gains simply to recoup past losses does not further your retirement goals.

Please listen to our radio show as we cover many of these topics, and we have a bit of fun too.

For more information, call the office and sign up for our weekly email newsletter. You can also sign up for a free Financial Physical.

Yours truly,

Rial R. Moulton

Rial R. Moulton, CFP®, CPA / PFS, RFC
Certified Financial Planner™

Donald J. Moulton

Donald J. Moulton, CFP®, RFC
Certified Financial Planner™

Please share this report with others!

Our goal is to offer services to several other clients just like you! If you would like to share this article with a friend or colleague, please call us at **509-922-3110** and we would be happy to assist you!