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FOURTH QUARTER 2023

After a down third quarter, the fourth quarter saw equities broadly rally to end 2023.

The rally was credited largely to Fed Chairman Powell's comments after their most recent meeting. Powell stated that the Fed was now considering when rate cuts might be appropriate. The market took that to imply imminent rate cuts, eventually pricing in up to six during 2024.

However, what the Fed has currently projected is core inflation finishing 2023 at 3.2%, 2024 at 2.4%, then to 2.2% in 2025, not reaching its final destination of 2% until 2026. *(Source: cnbc.com, 12/12/23)*

That leaves two questions for investors:

1. Will the Fed cut rates significantly (as in six times in 2024 per the most recent data) if core inflation ends 2024 above their 2% target?

2. If so, is that a good sign for investors since cuts are usually in response to economic or market weakness?

Part of the reason for optimism is falling inflation without rising unemployment. Historically Fed rate hikes slow inflation by creating higher unemployment. Yet so far, inflation has fallen without a significant increase in

S&P 500 and DJIA
Quarter 4 - 2023

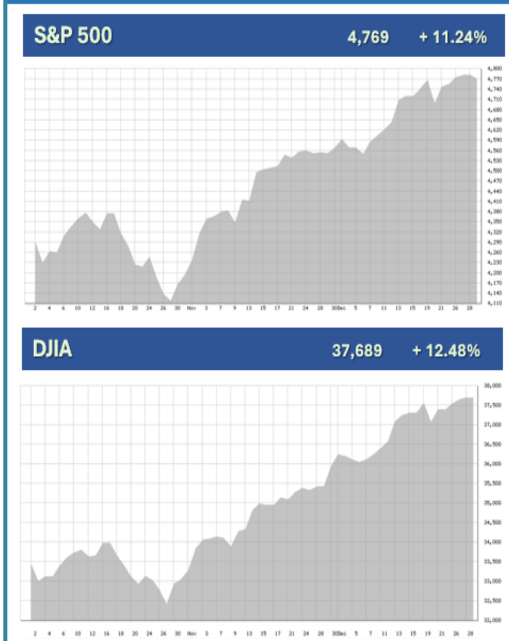


Chart source: bigcharts.com

MONEY RATES
(as posted in Barron's 12/25/2023)

	LATEST WEEK	YR AGO
Fed Funds Rate*	5.31%	4.34%
Bank Money Market[z]	0.60%	0.25%
12-month Certif[z]	1.94%	1.35%

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

unemployment. This has led the market to assume a "soft landing" is assured.

Yellen *(Treasury Secretary Janet Yellen)* **Declares U.S. Economy Has Achieved Soft Landing.** *(Bloomberg January 5, 2024)*

For exuberant investors, this may seem like an "all clear sign". After all, if we avoid a recession, we likely avoid an extended bear market.

Of course the implication is that Janet Yellen and economists see something *different this time*, than past recessionary bear markets, such as the Great Financial Crisis starting in 2007 and ending in 2009.

But is that actually true? Let's revisit what the experts thought heading into the worst recession since the Great Depression of the 1930s.

Fed Chairman *(Ben Bernanke)* **Projects 'Soft Landing' for U.S. Economy.** *(N.Y. Times **Feb 15, 2007**)*

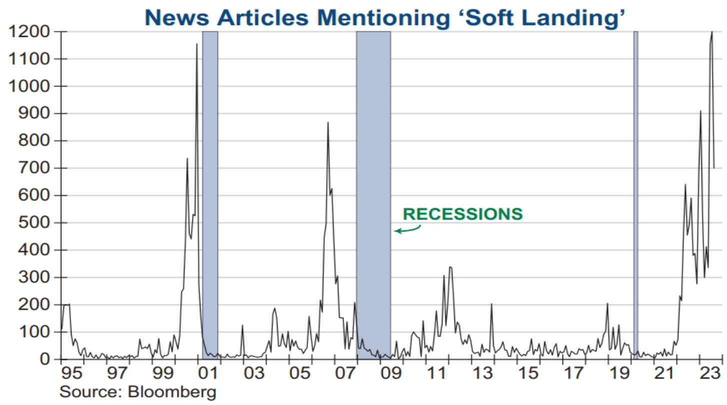
Economists: Jobs Report Confirms Soft Landing. *(CNBC, **March 9, 2007**)*

Fed's Yellen *(then Fed member Janet Yellen)* **Sees Inflation Risk, Soft Landing in Sight.** *(Reuters **August 9, 2007**.)*

Four months after then Fed member Janet Yellen proclaimed a soft landing was in sight, we entered the Great Financial Crisis, with S&P-500 losses totaling ***-56% by March 2009***.

Remember, soft landings are exceedingly rare. Over the last 50 years there has arguably been one soft landing and six recessions following the seven previous Fed rate hiking cycles. Interestingly, after the one that did not result in a recession, in the early 1990s, the Fed didn't cut rates appreciably for several years.

Yet it appears investors have gone all in on assuming a soft landing is



KEY TAKEAWAYS

- The Fed has held their federal funds rate range steady at 5.25 – 5.50%, with no changes in the fourth quarter.
- Inflation has been declining but ticked up in December from 3.1% to 3.4%.
- Bonds broke their 2-year losing streak.
- Treasury yields began to drop on the potential of several possible interest rate cuts in 2024.
- Several key factors, including a presidential election and geopolitical unrest in 2024 could bring uncertainty for investors.
- Consistently following an investment process with a defensive component, instead of blindly buying and holding, will serve you well over time.
- ***We are here for you to discuss your unique situation.***

assured. The previous chart from Bloomberg and InvesTech Research shows more articles have been published mentioning 'soft landing' in the last 24 months, than leading into the previous two major recessionary periods combined (2000-2001 and 2006-2007) – both of which ended in -50% bear markets. ***Beware of following the crowd.***

As your financial professionals, we are committed to managing risk. Although it might seem prudent to try to capture each tick higher in the market, had you done so heading into the Great Financial Crisis you could have ultimately lost 12 years of gains in the ensuing bear market. If you have questions, please call.

Inflation & Interest Rates

Although inflation pressures largely eased in the fourth quarter, they ticked up in the final report for 2023. Consumer Price Inflation (CPI) fell steadily into November 2023, when it was reported up 3.1% year over year. However December came in up 3.4% year over year, reversing a series of declines.

December's core CPI (excluding the notoriously volatile food and energy measures) did fall slightly, from 4% year over year in November to 3.9% in December.

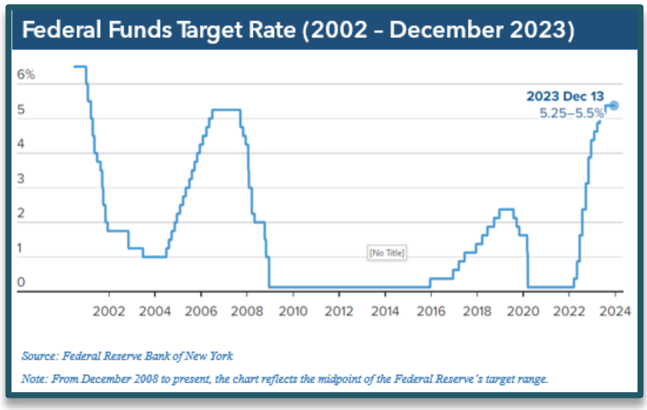
Even as inflation declined significantly from its peak, it's still largely above the Fed's 2% target. After the most recent increase in CPI, several Fed voting members commented that they will not be in a hurry to cut rates.

Interest rates and inflation are integral to financial planning so we will continue to keep a close eye on their movements. While the efforts of the Fed's stringent monetary tightening policies the last few years are now being seen, the Fed still maintains their willingness to raise rates again should inflation reverse direction. Although we cannot predict what the Fed's next move will be, we will continue to follow key economic indicators for our clients.

The Bond Market and Treasury Yields

Thanks to a year-end surge, bond prices rallied, and after two straight years of losses, bond investors saw a positive year-end. Bonds were still in the negative until mid-November, and the closing rally in the fourth quarter ended their two-year losing streak.

2023 was a significant year for treasury yields. In October, the 10-year treasury yield reached 5%, the first time in 16 years, before tempering back down. On December 29, the 10-year note was 3.88%, as compared to the end of the third quarter, where it reached 4.59%. The 20-year treasury ended the fourth quarter at 4.20% and the 30-year note closed at 4.03%. *(Source: treasury.gov)*



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 most 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 300 trading days.***

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

With the availability of risk-free rates exceeding 5%, being "all in" equities is currently a poor risk vs. reward proposition. We wish to remind you that a static allocation, blind to current economics, is usually not ideal. Reducing equity exposure might be prudent.

We will continue to monitor how the Fed's movements, as well as interest rates, are affecting bond yields.

Jobs aren't as strong as advertised.

Bear Markets in Recessions are Much Deeper and Longer than Outside of Recessions!

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?

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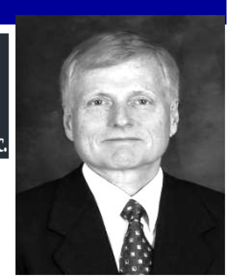

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Register here: 509-922-3110

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

MOULTON WEALTH MANAGEMENT Inc.

Help us grow in 2024!

This year, our goal is to help more people!

If you are currently a client, we would be honored if you would:

- Add a name to our mailing list;
- Bring someone to a workshop, or
- Have them come in for a complimentary initial meeting

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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.

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

We can't ignore the risks and suggest you shouldn't either. Let's consider some hard data.

First, the Leading to Coincident Economic Indexes demonstrates the growing disparity between deteriorating leading data vs current conditions. It has now declined for 21 consecutive months. This is the third longest streak ever, outside of 1973-1974 and 2007-2009 during the Great Financial Crisis.

Although employment has been cited as the lynchpin to a soft landing, looking under the hood is troubling.

- The ISM Services Sector Employment Index has turned deeply negative in the last few months, the lowest it's been outside of Covid and the Great Financial Crisis, since at least 1997. It has never fallen this rapidly, to this level, without an economic downturn. Remember services are 2/3 of the economy and employment, so this shouldn't be ignored.
- Small business owners have grown quite pessimistic, citing labor issues as one of the most difficult problems they've faced over the last 12 months. However, the most recent survey shows a deep downturn in hiring plans over the next three months.
- There is a measure of employment health called the 'quits rate'. It measures the propensity of employees to quit a job. The idea is that you would only quit if you were confident you could find another, even better job. This measure has always fallen as labor markets get tougher, and today is no different. It is now below the pre-pandemic level.
- The JOLTS report tracks Job Hires. The hire rate has not only dropped back to pre-pandemic levels, it has declined further, and is now at the lowest level since 2014.
- Temporary Help Services Payroll has turned down, as it does historically heading into recessions. Outside of Covid lockdowns, the number of new temporary positions are now at the lowest level since 2014, and they are still falling.

- In the most recent employment report, 1,500,000 full time jobs were lost – ***in just one month***. The overall report was positive due the addition of part time jobs. However, multiple part time jobs do not equal one full time job in terms of an employee's ability to consume. Full time jobs offer higher pay and better benefits. They also offer more security, which should not be underestimated when considering purchasing decisions.

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 fully 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, 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 high-water balance in your account after a large decline. 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 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 -40% drop in the stock market from here, his worst case is ANOTHER -50% drop.

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 decision, 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.

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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 that 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.

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Yours truly,

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