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MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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We've suggested for some time that it would be prudent for investors to augment their buy and hold portfolios with a defensive strategy. Luckily, one has not been needed recently, outside of Covid and 2022. However, those two declines were merely blips compared to real bear markets, like the Great Financial Crisis, the Dot.com Bubble, and the Japanese Nikkei market bubble burst.

From top to bottom and back to top, the Great Financial Crisis took about 5-1/2 years. From top to bottom and back to a sustainable top the Dot.com Bubble took about 12 years. But from top to bottom and back to the top reached on February 22, 2024, the Nikkei took over 34 years. Of course, I use the term "back to the top" in nominal dollars. If we adjust for inflation, 5-1/2 years after the Great Financial Crisis peak, the stock market's purchasing power (using Consumer Price Index for inflation) was still down over 10%. The inflation adjusted market was still down about 25% twelve years after the Dot.com Bubble burst. And the Nikkei is still down about 60% in inflation adjusted terms, after its ballyhooed new market high last month.

But of course, hope springs eternal. We're told there are no clouds on the horizon this time around, unlike the three bear markets mentioned, which were apparently *"obvious far in advance"*… well except to all those in the market who spent years, or even decades, trying to recoup their losses.

Mike Shedlock is an economist and money manager. Recently he wrote a research piece trying to reconcile the divergent economic data we seem to see every day. One set of data makes it appear the consumer is strong and flush with cash, that inflation is not problematic, and that the economy is rebounding. The next set of data seems to tell the opposite story. As one might expect, data across an economy as big as the U.S.'s is never homogenous in its message, but it seems since Covid, the divergences have been amplified.

Mike found that a lot of the differences depend on which age demographic is queried.

When computing CPI inflation, a large component is called "Owner's Equivalent Rent". It is intended to capture the cost of shelter. For this letter we won't get bogged down in how it is calculated, but needless to say, it's not a real-world expense that any of us pay.

In the real world, we either own our homes outright, pay a mortgage, or pay rent. And those payments – shelter – are a large part of all of our budgets.

Let's consider each in light of the inflationary bout we've endured (are enduring?) over the last 3 years.

If you own your home outright, inflation has not impacted your payments because you have none. Certainly, property taxes and insurance have increased, but those are minor in relationship to a mortgage payment (which also include both taxes and insurance), or rent payments.

The data shows, that the overwhelming majority of those who've owned a home with a mortgage, for any length of time, refinanced at historically low rates, just prior to this inflationary bout. As such, their housing payments have remained relatively stable (again, outside of property taxes and insurance).

But it's a far different story for those who rent. Renters have seen the cost of shelter increase over 21%, on average, and up to 70% in some areas, just over the last three years.

Home ownership in the U.S. is 65.7%, with the remaining 34.3% renting.

Who rents and who owns? Baby Boomers, 60-77 year olds, are 77.8% owners with the Silent Generation, over age 78, second at 76.8%. Generation X, 43-59 years old, are third at 69.7%. Millennials, 28-43, are next at 51.3% with Gen Z, under age 28, coming in last.

Now let's compare who is struggling most financially, based on age groups.

Just as credit card balances have reached a record $1.2 trillion, credit card "Serious Delinquencies (over 90 days) Percentage Change" shows that it's the youngest cohorts who are transitioning to delinquent fastest. Age 18-29 increased over 9% in the 4th quarter of 2023. Next were the 30-39 year olds at just under 9%. Then a significant drop to the 40-49 year olds at just over 6%.

Auto loans tell the same story. Those 18-29 transitioned to seriously delinquent in the 4th quarter of 2023 at the fastest rate, just under 5%. 30-39 year olds were second at about 3.5%. 40-49 year olds were third at about 2.5%.

Putting it all together, the divergent data points make much more sense. Maybe on average we're all doing well. But averages don't pay the bills. Broken down along home ownership vs. renters, it becomes apparent that the drastic increase in shelter for the latter vs the former, is a serious stress on budgets.

What's that mean of the economy and stock market?

Consider consumer spending is 70% of the economy, it is implausible that both can continue unabated if a full 1/3 of consumers are falling further behind. This is especially true when you consider that up to age 50 is generally considered prime spending years, due to raising families.

Meanwhile the most recent CPI inflation report unexpectedly turned up, not down.

Could we avoid a recession? Sure, but the probabilities are not in our favor.

It's not too late to protect yourself.

What is your defensive plan? Attend a free seminar or call the office to hear about ours.

Yours truly,

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

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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 ask them to send an email with their information and permission to be added.

About 1/3 of Americans, mostly younger, pay rent, with much higher inflation implications.

Weekly Radio Show
Saturday Morning:

8:00 AM KXLY 920 AM
Spokane and Area

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

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SPOKANE

Quality Inn—North
Breakfast
7919 N. Division —Spokane
March 20th @ 9:30 AM

TRI-CITIES

Hampton Inn
Breakfast
486 Bradley Blvd—Richland
March 27th @ 11:00 AM

- **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!

COMPLIMENTARY SEMINAR

For those 50 years old and older

MOULTON WEALTH MANAGEMENT Inc.

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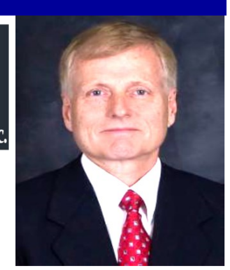

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Call to reserve a spot: 509-922-3110

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Explaining

Divergent Economic Data; Own vs Rent

Spokane **March 20th** **@** **9:30 AM** ***Details Inside***	*No Cost Seminars for Retirees and those close to Retirement*	**Richland** **March 27th** **@** **11:00 AM** ***Details Inside***