# MOULTON WEALTH MANAGEMENT INC.

# MOULTON HOT NEWS!

**SPECIALIZING IN RETIREMENT AND TAX PLANNING**
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# FIRST QUARTER 2024

## We've Moved!

Rial and Don, along with everyone at Moulton Wealth Management, Inc. and RTPS Income Tax Preparation have moved to a new location.

Our new address is:
420 N. Evergreen Road; Suite 100
Spokane Valley, WA 99216

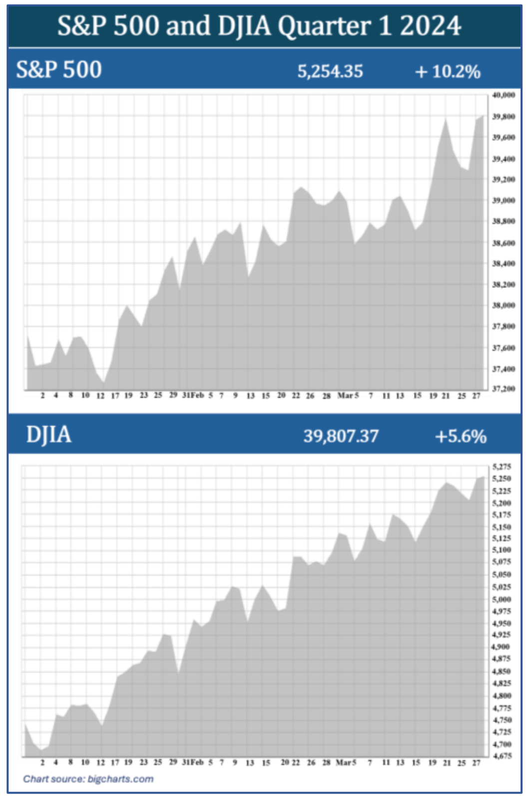
Our phone number and email are unchanged. We look forward to serving you from our new offices.

*(The law firm remains at 1220 N. Mullan.)*

There's an old saying about the stock market:

***"The market goes up on an escalator and down on an elevator."***

What's it mean? Gains in the market tend to be slow and steady, while declines are often fast and violent. The first quarter of 2024 was the escalator, and the first three weeks of April 2024 have been the elevator.




**MONEY RATE**
(as posted in Barron's 04/01/2024)

| | LATEST WEEK | YR AGO |
|---|---|---|
| Fed Funds Rate* | 5.33% | 4.85% |
| Bank Money Market[z] | 0.60% | 0.32% |
| 12-month Certif[z] | 1.95% | 1.61% |

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

The first quarter of 2024 saw the S&P-500 advance over +10%, the tech heavy NASDAQ over +9%, the Dow Jones +5.6% and the small cap Russell 2000 up +4.8%.

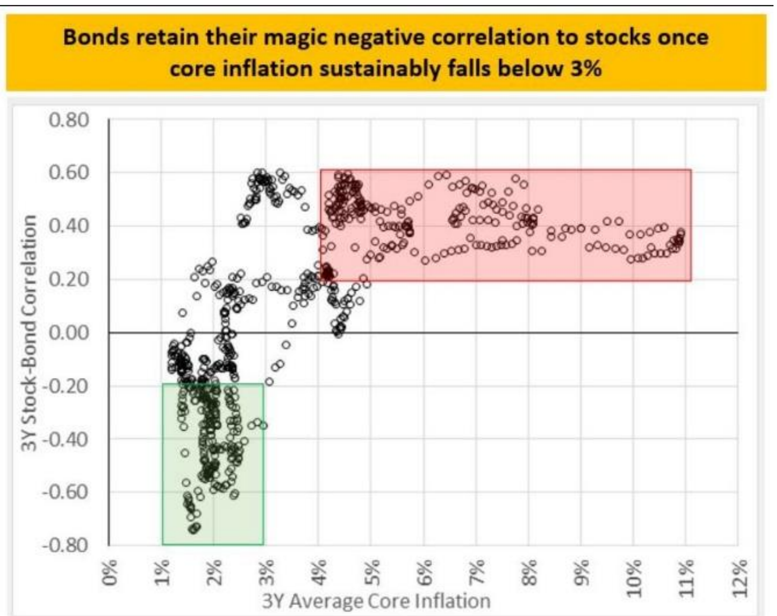
But just as the market lured in the largest number of bullish investors, the first three weeks of April brought the elevator down. The S&P gave back almost -5.5%, the tech heavy NASDAQ was down -6.7%, the Dow Jones fell -4.57%, and the Russell 2000 gave back almost twice the first quarter gains, falling -8.33%.

Maybe more concerning is what happened to a moderate portfolio. If we use the exchange traded funds VTI for stocks (tracks the total stock market) and BND for bonds (tracks the total bond market), to construct a 60% stock / 40% bond portfolio, the results were not encouraging. This generalized, hypothetical allocation, gained a very healthy +5.17% in the first quarter. But in just the first three weeks of April, as of this writing, it's fallen -4.4%. *(This is not a recommendation, nor a prediction of future results.)*

## KEY TAKEAWAYS

- The Fed held their federal funds rate range steady at 5.25 – 5.50%, with no changes in the first quarter.
- Inflation for March came in at 3.5% compared to a year earlier.
- In April, Fed Chairman Powell indicated that they are no longer confident that inflation is falling to their 2% target.
- Several key factors could bring a worsening market correction this year.
- Staying the course and maintaining the consistency of a well-devised, long-term focused plan has historically served investors well. However, higher inflation could mean that traditional portfolios could suffer as they did during the 1970s.
- ***We are here for you to discuss your unique situation.***

What happened? The bonds, included to help cushion stock declines, did just the opposite. After falling -1.25% in the first quarter, they fell over twice as much, -2.53%, in just the first three weeks of April. Studies show that bonds, in fact, tend to move opposite stocks (i.e. have a negative correlation, and as such cushion declines) when inflation is sustainably below 3%. But when inflation is higher, bonds tend to move in the same direction as stocks (i.e. positive correlation), negating their defensive effectiveness in an allocated portfolio. In the chart to the left from @MacroAlf, notice that the dots to the far, lower left indicate periods with low inflation and a negative correlation between stocks and bonds, while those above the line and to the right show higher inflation and positively correlated stocks and bonds.




For investors, this means it's important to decide if you think inflation is going to sustainably fall below 3%, or whether it will remain "sticky" at 3% or above. If the latter, it will represent a departure from the general economic conditions of the last 40 years, and as such, may result in pie chart, buy and hold portfolio trouble.

Remember, bond prices move opposite interest rates. Rising rates are bad for bonds, and higher inflation result in rising rates.

**Overall, the first quarter was a success for investors, but it's important to remain vigilant as the first three weeks in April have proven. As financial professionals we feel it's critical to always assess where we are headed, and right now that suggests "proceed with caution". We will continue to monitor the situation and keep you apprised of any changes we feel are important.**



# Inflation & Interest Rates

Consumer inflation has certainly fallen, from a high of +9.1% in 2022 to +3.5% in the most recent reading. However, it's still significantly above the Fed's +2% target. Remember, inflation readings tell us how much MORE inflation is rising today. It's good that it's rising more slowly, but it is still rising. That's why the +2% target is so important.

As risk managers, we're trying to position for where inflation is likely headed, not where it's been. The first three weeks of April showed why that's important. Research partner 42Macro tells us that as of the last inflation report…

- Median CPI (the middle reading of all consumer inflation inputs) is up +5% on a 3 month seasonally adjusted, annualized (SAAR) basis. That's a 2 month high.
- Trimmed mean CPI (excludes the outliers) is up +4.4% on a 3 month SAAR basis. That's a 12 month high.
- Headline PPI (producer or business inflation) is up +4.3% on a 3 month SAAR. That's a 6 month high.
- Core PPI (excludes food and energy) is up +4.1% on a 3 month SAAR. That's the highest since August 2022.
- Services PPI is up +4.7% on a 3 month SAAR. That's the highest since May 2022.

Certainly it's not all bad as goods PPI is only up +3.7% on a 3 month SAAR. Even though it's far above the Fed's 2% target, it is a 2 month low.

In other words, inflation has begun to move in the wrong direction. Recently Fed Chair Powell commented that the Fed is no longer as confident that inflation is falling to their +2% target. The fact he admitted this has several implications, possibly the most important is that we should not expect rate cuts soon.

**Interest rates and inflation are integral to investors and their financial planning, so we will continue to watch them closely and keep you apprised of key economic indicators.**

# Investor's Outlook

There's no arguing that the first quarter of 2024 was good for stock investors. But we always warn "it's not what you make, it's what you keep." In just three weeks, much or all of those gains were reversed (depending which index or portfolio you're viewing). We're afraid this could just be the warning shot.

While we don't think the Fed is likely to hike rates even higher, we do think it's likely they hold rates steady for longer than the market currently thinks. Higher for longer rates would be detrimental to both stocks and bonds.

First, stocks are valued based on "risk free" rates. This shouldn't be a surprise. The higher an investor can earn "risk free", the less compelled they may be to put those funds into stocks. ***Less demand for stocks means lower stock prices***.

Next Bloomberg tells us that $3 trillion of debt is maturing for U.S. and European corporations over the next 3 years. That's only 26% of the global total. Much of that debt was originally issued at historically low rates. When it has to be refinanced, at best it will represent a much larger interest expense to these companies. At worst, some companies will default. ***Expect earnings to fall with higher rates.***

With lower earnings, stocks become more expensive without price declines. It also reduces cash flow needed to pay dividends. ***As such, expect dividend cuts.***

Remember, this is all happening while ***stocks are historically expensive***.

**Stock Market Valuation Metrics**

| Valuation Indicator | Current Value | Historical Average | Percentile |
|---|---|---|---|
| Buffett Indicator* *(1925 – curr.)* | 1.8 | 0.7 | 98th |
| Price-to-Sales *(1990 – curr.)* | 2.8 | 1.6 | 98th |
| Price-to-Earnings *(1928 – curr.)* | 27.2 | 17.5 | 93rd |
| Shiller Price-to-Earnings *(1920 – curr.)* | 34.0 | 18.2 | 96th |

*Stock Market Capitalization-to-GDP

# Markets go up on an escaltor, but fall in an elevator.

## *Risk management should be more important as uncertainty rises.*

**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!***

## LIMITED SEATING SEMINARS ARE BACK!

**For those 50 years old and older**

**SPOKANE**
Hampton Inn—Valley
*BREAKFAST!*
16418 E. Indiana —Spokane
May 22 @ 9:30 AM

**TRI-CITIES**
Red Lion Hotel
2525 N. 20th Ave; Pasco
May 29 @ 11:00 AM

MOULTON WEALTH MANAGEMENT Inc.
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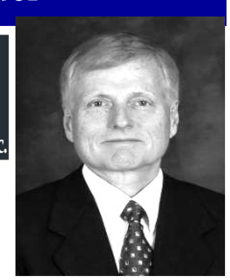

**SPEAKERS**

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# Register here: 509-922-3110

InvesTech Research tells us that current stock valuations (how expensive they are) is in the top 7% of historical averages, with price to sales and the Buffett Indicator in the top 2%.

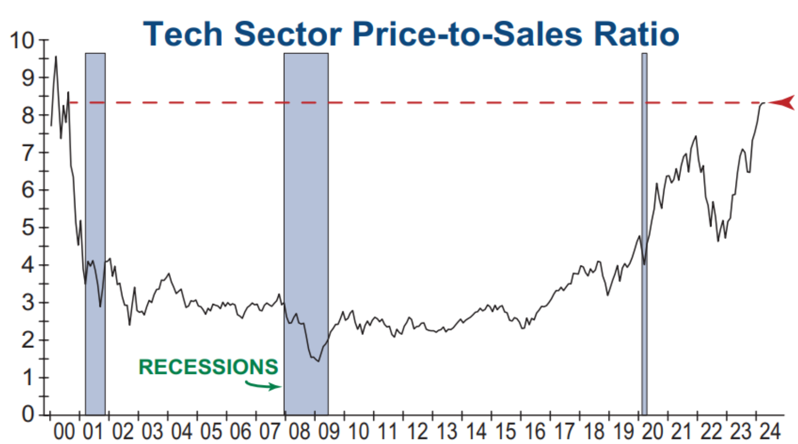
***And bonds won't be spared***. If you own a bond that pays 1%, and equal risk bonds now pay 4%, the value of your bond gets slashed. After all, who would pay you full value for a 1% bond if they could instead invest in 4% bonds?



But it's not just stock / bond portfolios, ***real-estate will likely continue to struggle***. By many measures, housing is more overpriced today than it was at the peak of the 2005 bubble. That bubble saw housing fall by -30% and lead into the 2007 Great Financial Crisis. The most optimistic scenario today is for home prices to gradually decline over time, as incomes rise to meet them. Unfortunately, that's not what is historically likely. The last two major housing bubbles – the 2005 bubble in the U.S. and Japan's bubble in 1991 – resulted in deep and prolonged recessions.

Why haven't we seen it yet? ***Higher rates have caused existing home sales to grind to a virtual standstill.*** Current owners have become prisoners of historically low mortgage rates. It's difficult to sell a house with a 3% mortgage, when replacing it will require a 7% mortgage. Prices are set by transactions.  Yet even the relatively few transactions today are beginning to show cracks. Redfin tells us that the percent of total active listings with price cuts is now almost 18%, a 5 year record.

Investing in stocks always includes an element of risk. But the high level of uncertainty surrounding today's overvalued stock market and potential housing bubble is a glaring reminder that ***risk management has seldom (if ever) been more important.***




Having said that, especially in today's market, all risk is not equal.

While the S&P-500 index is historically expensive by virtually all metrics, some segments are more problematic than others. The Index's Technology sector, for example, currently trades at stratospheric price-to-sales ratio. ***Today's technology valuations are rivaled only by the Dot.com bubble peaks of the late 1990s.*** *(See the chart on the previous page.)*

Managing risk today requires a multi-step approach.

- ***Avoid, or at least reduce exposure, in higher risk sectors such as those mentioned.***
- ***Consider a heavier weight in defensive sectors and exchange traded funds. Historically sectors such as health care and consumer staples hold up better in broad market downturns.***
- ***Consider your exposure to commodities. Today their valuations are far more appealing than many other sectors.***
- ***Carry a comfortable cash reserves but focus on safety and yield, such as provided by short term Treasuries.***

Of course, none of this is meant to be a prediction, nor investment advice. Each person has to consider their risk tolerance, goals, requirements and time frame. ***But to protect your hard earned assets, focus on strategies that can benefit from unique opportunities, while remaining defensive.*** This can allow you to wait for safer (and better) buying opportunities that invariably lie ahead.

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

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.

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, CFP®, CPA / PFS, RFC**
*Certified Financial Planner™*

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

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