



MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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We've Moved!

Week of May 6, 2024

Last week's newsletter reviewed GDP along with jobs revisions. Third quarter 2023 private sector jobs added were initially announced at +585,000. After all the data was finally collected, they were revised down to **-192,000**. When you hear the economy is

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booming because jobs are so strong, remember, the jobs announced are an estimate based on limited data. This, coupled with slow GDP should be a concern. You can read the newsletter here: [Newsletter - Moulton Wealth](#).

Please see our 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.

Last Saturday's radio show discussed the Fed's meeting, Powell's press conference, and the newest jobs numbers. We also reviewed an article by Lance Roberts pointing out that the consumer may not be as strong as advertised. You can listen here: [Your Money Matters – Moulton Wealth](#).

We've been emphasizing that higher inflation and interest rates should be forefront in investors' minds. Certainly, they aren't good for we consumers. Higher prices, coupled with higher borrowing costs, usually means we have to cut back somewhere. But the impact on standard, pie chart, buy and hold portfolios may come as a bigger surprise.

Modern Portfolio Theory (MPT) is the name of the investment approach used by the vast majority of Wall Street and Advisors. It postulates that cutting a portfolio into static slices will eventually provide positive results, because part of the portfolio will always be in the "right" place. Of course, part will be in the "wrong" place, but that's for another time.

Of static, pie chart portfolios, a moderate risk, 60/40 is by far the most common. This means that 60% of the funds are invested in stocks (either directly, or through mutual funds or exchange traded funds (ETFs)), and 40% of the funds are invested in fixed income or bonds.

In theory, the 40% in fixed income serves two purposes.

1. It provides income for the portfolio.
2. It helps offset declines in stocks, ideally by actually increasing in value as stocks fall in value.

MPT was created by Harry Markowitz, and became popular starting in the early 1980's. In August 1981, the 10-year U.S. Treasury rose to almost 16%. It then began a decades long decline, finally reaching a low of about ½% during COVID in 2020. That decline was instrumental to MPT's widespread adoption, because falling rates drive bond prices higher. As such they provided a 40-year tailwind to the 40% fixed income portion of moderate portfolios.

But that was with inflation, and therefore rates, falling.

LISTEN TO RIAL'S AND DON'S RADIO SHOW,

“YOUR MONEY MATTERS”

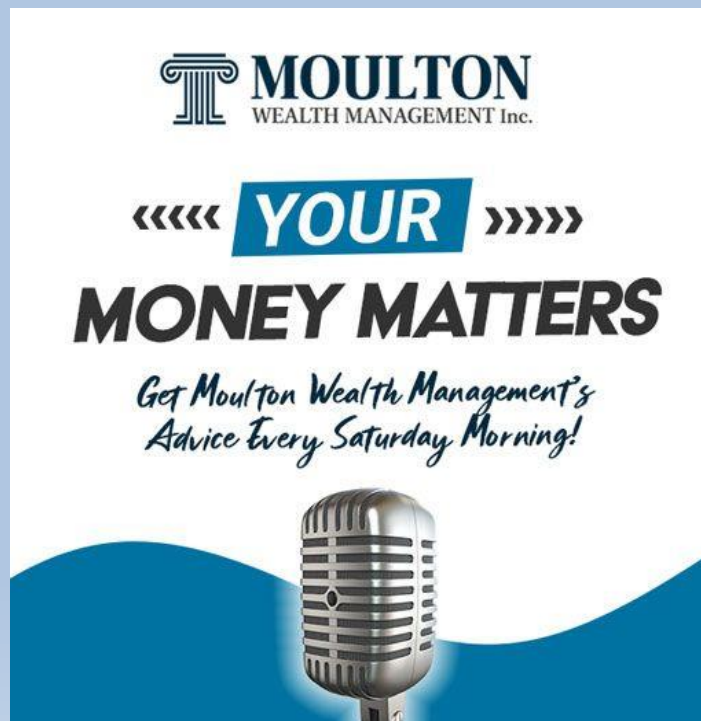
EVERY SATURDAY MORNING AT

8:00 AM ON KXLY RADIO CHANNEL 920 AM IN SPOKANE

AND AT 9:30 AM ON NEWSTALK RADIO CHANNEL 870 AM IN THE TRI-CITIES AREA

LISTEN LIVE AT WWW.NEWSTALK870.AM AGAIN AT 9:30 EACH SATURDAY MORNING

OR VISIT OUR WEBSITE MOULTONWEALTH.COM FOR PODCASTS



We now see inflation and rates rising.

Does it make a difference?

Yes.

We set up a hypothetical 60/40 portfolio using Vanguard's Total Stock Market ETF for the 60% in stocks and their Total Bond Market ETF for the 40% in bonds. Now to be fair, a well allocated portfolio may include sub categories such as investments in other countries, real-estate, junk bonds, etc. But the point of this exercise would be unchanged.

First, we calculated how far our hypothetical portfolio would have declined During the Great Financial Crisis. Remember, this is when inflation was still low, and rates were still declining.

From October 1, 2007, just before the start of that bear market, through March 30, 2009, just after it ended, the S&P-500 stock market fell -49%. Over that same period, this buy and hold, hypothetical portfolio would have declined -26%. It therefore declined about 53% as much as the overall stock market. The 60% stock slice essentially matched the S&P-500's loss, but the bonds rose in value, offsetting some of that decline.

This is how the portfolio is supposed to work.

Now let's consider 2022's market. 2022 saw the S&P-500 fall -19.44%. But it also saw inflation and rates rising. Our buy and hold, hypothetical portfolio would have fallen -18.58%. Instead of suffering only slightly more than half the market's decline, it would have almost matched it. Again the 60% stock slice essentially mirrored the S&P-500, but this time the bonds also fell, adding to losses, rather than offsetting them.

More recently, if we just consider March and April of this year, the S&P-500 fell -1.19% and our buy and hold, hypothetical portfolio would have declined -1.8%. Actually more than the stock market.

What do we do with this information?

If you think inflation is transitory, and that the Fed will quickly cut rates back to ~0%, probably nothing.

But if you think it more likely that inflation will stay higher for longer, along with rates, you should assess your portfolio.

If we enter a recession, there will almost certainly be a bear market. And with valuations in the top 7% *EVER* based on a number of measures, it won't likely be a mild bear market. If you or your advisor continue to use the same portfolio you always have, the results could be catastrophic.

Risk management is key for success.

Hope for the best, but plan for the worst

Consider exploring how you might add a defensive strategy to your investment approach.

Maybe this time is different, and if you're a buy and hold investor with no defensive strategy, you're betting your portfolio, and possibly your retirement, on it.

Attend a seminar or call the office to find how adding a defensive strategy to your portfolio could help because...

The ledger is stacking up, and not to the positive.

Sure the market comes back, eventually...

How long can you afford your portfolio to be down significantly?

Currently risk free rates approximate 5% compared to 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.

What's Your Risk Number? 

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.

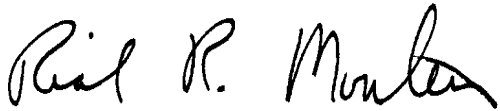
The drop didn't retrace only a few months or even a couple years.

We discuss many of these issues and more on the weekly radio show and invite you to listen.


WEEKLY FOCUS – THINK ABOUT IT

Buy and Hold with Inflation Could be a Big Mistake

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.

Investment services offered through Moulton Wealth Management, Inc., an independent Registered Investment Advisor. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. Yahoo! Finance is the source for any reference to the performance of an index between two specific periods. Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Consult your financial professional before making any investment decision. You cannot invest directly in an index. Past performance does not guarantee future results. Investments in securities do not offer a fixed rate of return. Principal, yield and / or share price will fluctuate with changes in market conditions and, when sold or redeemed, you may receive more or less than originally invested. No system or financial planning strategy can guarantee future results.

To unsubscribe from the “Molten Hot” Minutes please reply to this e-mail with “Unsubscribe” in the subject line, or write us at 1220 N. Mullan Road, Spokane, WA 99206.

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 the 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.