MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT NEWS!

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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SECOND 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:

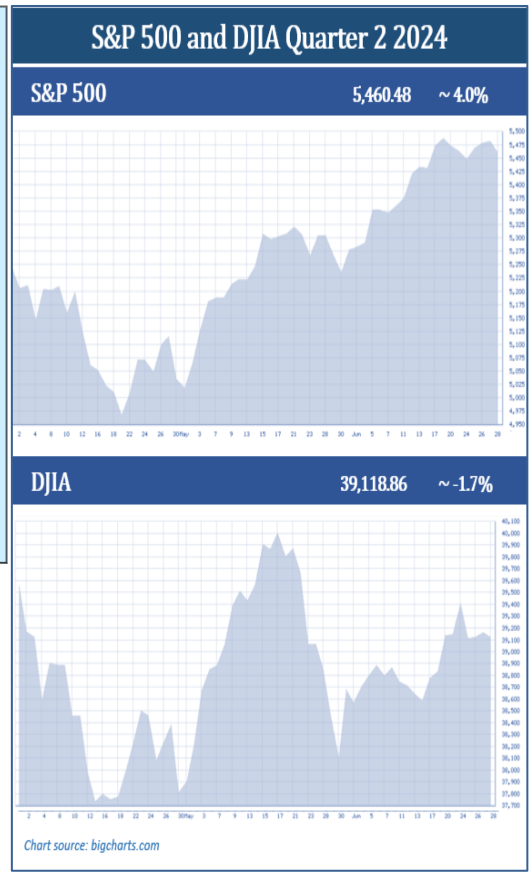
420 N. Evergreen Road; Suite 100
Spokane Valley, WA 99216

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.)

The second quarter of 2024 began with a rough patch for the stock and bond markets, thanks to the Federal Reserve's decision not to reduce interest rates, due to stubbornly high inflation. However, strong performances from companies tied to artificial intelligence, and a more favorable outlook on inflation, changed that perspective as the quarter progressed.

Big tech and large communication companies contributed disproportionately to the equity market's rise. The continued confidence in artificial intelligence, and the prospect of it ushering in a new era of technology, helped fuel the S&P-500. The boom in the market's technology sector was led by companies referred to as the "Magnificent Seven."



MONEY RATE

(as posted in Barron's 07/01/2024)

	LATEST WEEK	YR AGO
Fed Funds Rate*	5.33%	5.08%
Bank Money Market[z]	0.56%	0.32%
12-month Certif[z]	2.05%	1.72%

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

For the first half of 2024, these seven companies, Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla, combined to help drive the market higher. For the quarter, Nvidia alone advanced the Morningstar's U.S. Market Index by 1.6%.

Although the U.S. economy appears to be chugging along, cracks continue to widen. The Non-Farms jobs report showed 206,000 jobs created in June, higher than the 190,000 expected. Jobs' growth has been a consistently pleasant surprise to investors. However, initial reported numbers are then adjusted twice, as more data is obtained. April and May's initial jobs were revised down by 57,000 and 54,000 respectively. Those two adjustments alone erased a full 1/4 of the initially reported jobs created. In fact, 10 of the last 15 reports have been subsequently revised lower.

Of the jobs created in June, 100% were part time jobs, as full-time jobs fell a net 28,000. Over the last 12 months, 1.6 million full time jobs have been lost.

The unemployment rate is also troublesome. It's now risen to 4.1%, up from 4% in May, after having bottomed at 3.4% last year. Although historically low by most measures, the direction and magnitude of increase is a concern. InvesTech Research tells us, looking back 75 years, every time the unemployment rate has risen 0.6% or more (it's risen 0.7% so far), we've already been in a recession, or about to enter one. That includes twice in the 1950's and 1960's when it was even lower than today.

KEY TAKEAWAYS

- Equity markets closed out the first half of 2024 with strong results.
- The Fed held the federal funds rate range steady at 5.25 – 5.50%, with no changes in the second quarter.
- The Fed is no longer anticipating three rate cuts as previously expected.
- Inflation rates are still above the Fed's desired 2% goal.
- Both the economy and equity markets remain strong.
- Staying the course and maintaining the consistency of a well-devised, long-term focused plan has historically served investors well.
- ***We are here for you to discuss your unique situation.***

Inflation is still a concern for investors. The Fed closely monitors the Consumer Price Index (CPI), which is a broad measure of goods and services costs, as one of the indicators for interest rate adjustments. The good news is that inflation showed signs of slowing down in both April and May. The not so good news is our research partners expect it to turn higher later this year, despite never reaching the Fed's stated 2% goal.

Overall, the second quarter of 2024 brought increasing equity returns and continued investor confidence and optimism. While investors can participate in this bull market, it is still wise to be cautious and focused on one's personal situation.

Inflation & Interest Rates

The Fed held interest rates steady in the second quarter. For the seventh time in a row, at the June FOMC meeting, interest rates remained at a range of 5.25- 5.50%. Since July 2023, when the Fed raised rates by 25 basis points, interest rates have not changed for over a year. The stock market has continued to stay strong despite the Fed reducing their previously anticipated rate cuts in 2024, from three down to one. In fact, the S&P 500 closed at an all-time high of over 5,400 for the first time after the Fed noted there was only "modest further progress" toward their 2% inflation goal.

LISTEN TO RIAL AND DON'S RADIO SHOW,

"YOUR MONEY MATTERS",

EVERY SATURDAY MORNING AT 8:00 AM

KXLY RADIO CHANNEL 920 AM IN SPOKANE

AND AT 9:30 AM ON NEWSTALK RADIO

CHANNEL 870 AM IN THE TRI-CITIES AREA

(BOTH SHOWS ARE ALSO AVAILABLE ON OUR WEBSITE WWW.MOULTONWEALTH.COM)

The Consumer Price Index (CPI) declined in June. From May's reading of 3.3% vs a year ago, June fell to 3%. Meanwhile core CPI (which is CPI less food and energy) fell from 3.4% year over year in May to 3.3% in June. June's numbers were lower than expected representing a continued slowdown in the rate of inflation. However, despite the progress, the Fed is now anticipating it will take longer for inflation to get to the preferred 2% range. Currently, Fed officials are predicting that 2024 will end at 2.6%, and that we won't see the coveted 2% target until 2026. *(Source: barrons.com, 6/14/24)*

After the June meeting, the official Federal Reserve FOMC statement stated, "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent."

The Fed is committed to reaching a 2% inflation rate and will closely monitor key indicators, including labor market conditions, inflation pressures, and financial and international developments. Four more FOMC meetings are scheduled for 2024.

Interest rates and inflation are integral to investors' financial planning, so we will continue to monitor any movements and stay apprised of key economic indicators.

The Bond Market and Treasury Yields

The news of improved inflation numbers, and the Fed's continued commitment to cut interest rates in 2024, helped bond markets in the second quarter.

The treasury yield curve remained inverted for the second quarter. This means that shorter-term treasuries yielded more than longer-term treasuries. This inverted yield curve has been long-running, beginning in July 2022, so far lasting nearly seven consecutive quarters.

While typically economists see this as a sign of a potential recession or poor market performance in the near future, we have yet to see this come to fruition.

The quarter ended with the benchmark 30-year yield at 4.51%, which was higher than the first quarter ending at 4.34%. The 20-year yield settled at 4.61%, which was 0.16% higher than the first quarter ending.

We will continue to closely monitor how the Fed's movements are affecting bond yields. Please remember that while diversification into bonds in your portfolio can help you pursue your goals, it does not ensure a profit or guarantee against loss.

Planning for the Widow's Tax and Investments, During Retirement

Likely everyone reading this has either moved from their old home, or considered moving, based on their stage of life. The multi-level home with acreage, fruit trees and gardens, that was so attractive for decades, now becomes a burden. It's not that the home was a mistake, it's simply that they are entering a new stage of life, with new requirements.

We see this in other areas too. People tend to get more serious about estate planning as they enter retirement, which makes sense.

But often, tax and investing planning don't follow the same route. Many assume that what they've always done during the previous stages of their lives, is equally appropriate for the current stage.

In our seminars, we've incorporated information on the 'Widow's Penalty' and the tax burden that will be borne by heirs beyond the married couple.

The Widow's penalty simply means that when one spouse passes away, it's very likely the survivor will be hit by a double whammy:

They will have less income, but at the same time pay even higher taxes, than they did when their spouse was living.

Unfortunately, it only gets worse. When assets are left to the ultimate heirs, usually working children, the "tax cost" can soar even higher.

You've spent your entire adult life working hard and saving to provide for your retirement, but also to leave whatever you don't need to your spouse and then children. The reality is that "doing what you've always done" with investments and taxes, likely means the IRS, and greedy politicians, will end up with much more than necessary.

After all, you could be the best investor of all time – *even Warren Buffett calls you for tips* - but if income taxes as well as estate taxes end up draining 40% or more of your accounts, your investment prowess won't mean much.

We continue to stay abreast of the most recent income tax laws, and particularly how they impact retirees and those close to retirement. Protecting against oversized taxes as well as bear markets is important when you're no longer working.

Investor's Outlook

The S&P 500 continued to rise in the second quarter. We are currently experiencing a bull market, and the question is how long it can last. Many continuing uncertainties surround the economic environment, including interest rates, the pace of inflation, the pace of economic growth, and the 2024 U.S. presidential election.

We continue to stand by our mantra of ***"proceed with caution"*** over these coming months. Maintaining a long-term approach to equities and staying apprised of economic data, could help you stay one step in front of potential market volatility.

According to FactSet Data compiled by CNBC, as of the quarter's end, the stock market is experiencing its longest stretch (over 380 days) without a 2% sell-off, since the financial crisis. This current streak has proven to be healthy for many investors, but remember, many famous quotes start with the same three words, "nothing lasts forever." Seeing some pullback or downturn in equity markets would not be unusual. However, historically, more times than not, after a good first half, equity markets have advanced in the year's second half.

So, what does this mean for investors for the remainder of this year? While previous performance is not a guarantee of future results, should history repeat itself, there is a strong chance we could see equities at higher levels by year-end. On the other hand, some strategists have more bearish outlooks, such as Stifel's Chief Strategist Barry Bannister, who believes that the S&P 500 could see a 10% pullback due to the index being overvalued coupled with an uncertain monetary policy environment. *(markets.businessinsider.com; 6/27/24)*

Talk of "stagflation" is emerging in the news. Stagflation is an economic cycle wherein we experience slow economic growth, a high unemployment rate, and increased inflation. This can be a precarious situation to fix for policymakers, as attempting to correct one factor could aggravate another. Fed Chair Jerome Powell is confident that we are not in a state of stagflation, stating that he sees neither the "stag, nor the 'flation," and that he did not "really understand where talk of stagflation scenario is coming from" in remarks after the release of the May 1 FOMC meeting. *(Source: nbcnews.com; 5/1/24)*

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 reserve but focus on safety and yield, such as provided by short term Treasuries.***
- ***Begin tax planning now – the longer you wait, the less effective the planning will be.***

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. And don't forget that the IRS is waiting to take their share.***

Investments are a matter of opinion. Taxes are a matter of fact!

We don't know what the future for the markets is, but we do know that the government is going to want as much as possible. It's up to us to decide how much we want them to get.

Regardless, 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.

5. **Income taxes, not only for you, but for your spouse and heirs.** We call this "family tax bracket management."

We believe employing tax planning along with a sell discipline can help you keep, spend, and pass along more of your hard-earned dollars.

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,

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Certified Financial Planner™

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

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