MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

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Week of January 27, 2025

We will move to the actual newsletter prepared for this week, but first I wanted to comment on the oversized market decline we're witnessing this morning.

First, do yourself a favor and turn off the television. This is not to say we agree with the buy and hold mantra of "ignore everything and hope you never need the money". Instead, it's

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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.

simply accepting that the purpose and goal of financial television is not to make you a better investor. Instead, it is merely to get you to tune into financial television. How do they do that? By attempting to “push our emotional buttons”, specifically those of fear and greed.

Certainly, if I had no process to protect against large drawdowns – one based in math – I would rightly be concerned. The markets are extremely overvalued, and ripe for a significant decline. Is this the beginning? We don’t think so for reasons we’ll layout next, but it could be, or certainly could turn into it.

Why don’t we think “this is it”?

On last Saturday’s radio show we discussed our top-down, then bottom-up portfolio management process.

Top-down means assessing how the current economic set up should impact stocks. Please put away your political biases, because math doesn’t know who is in office. Instead, this is based on hard data, and right now it indicates we are in “reflation” which is generally, but not always, positive for stocks.

Next our bottom-up analysis considers individual positions, measured against a myriad of proprietary metrics. We do this daily to determine if the individual positions are breaking down, which sometimes lead a top-down shift to a less favorable environment. As of this weekend, we are not seeing any large-scale breakdowns.

Remember, every significant bear market started from a strong position, and then deteriorated. As such, we are not “predicting” where this is headed. We’re simply saying that at this point, on Monday 1/27/25 at 940AM PST, are indicators are not ***yet*** moving us to a more defensive posture. We might see it starting tomorrow, or later this week. But we are not seeing it right now.

If you’re a client of Moulton Wealth Management, ignore it, and go enjoy the sunshine (but bundle up). We have a defensive system in place. If the situation deteriorates, we will take steps to protect your hard-earned investments.

If you’re not a client, we hope you have a mathematically based defensive system. If not, if you’re simply hoping that “diversification” and 100-year average returns, will help protect your retirement, we urge you to at least explore your options.

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

"YOUR MONEY MATTERS"

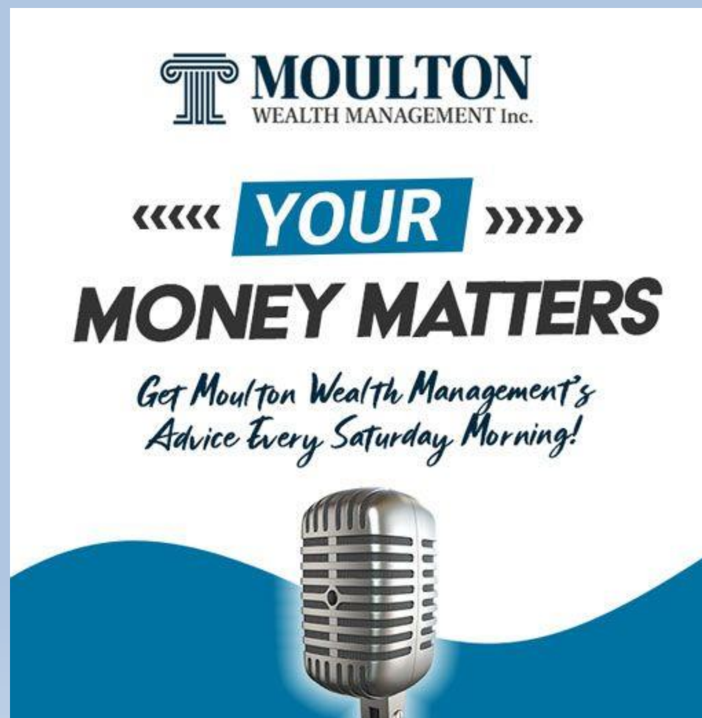
EVERY SATURDAY MORNING AT

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



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In 2008 the S&P-500 dropped some 57%, and took over 5 years to recover. In the Dot.com bubble of 2000-2003 the Nasdaq dropped about 80%, and took about 15 years to recover.

And, those recovery times assumed you didn't touch your money!

The recoveries were also aided by massive monetary intervention by the Federal Reserve and government (i.e., money printing). With the debt as high as it is, do you believe it will happen again?

Be aware, today the market is more overvalued than either of those past bear markets.

Buying and hoping that a market decline won't derail your retirement isn't a good recipe for your ***"second childhood without parental supervision"***, which we think retirement should be.

Protect yourself, your family and your future.

On to the original newsletter.

Last week's newsletter offered a framework to think through whether you should pay off your debt heading into, or already in, retirement. And it may not be as simple as considering the interest rate and return expectations. You can read the newsletter here: *Newsletter - Moulton Wealth*.

Last Saturday's radio show reviewed the most recent economic data. We also discussed our investment process – first top down and then bottom up. Finally, we talked about a very important concept for a successful retirement – your personal Family Index; the least risky rate of return necessary to accomplish your retirement goals. You can listen to past radio shows here: *Radio Show - Moulton Wealth.*

It's the time of year that we all ardently look forward to: ***TAX TIME!***

We once again get the opportunity to gather all our various tax documents, no doubt missing about half, put them into a box, and dump them on our overworked, overwrought tax preparer's desk.

Unfortunately, some will get an unwelcomed surprise when it is time to file the return; you'll find your taxes went up.

Why?

After all, your income didn't change (much), and President Trump's tax cuts are still intact.

It's because of "provisional income", something we discuss in our seminars.

Provisional income is an IRS threshold above which social security is taxable. Depending on your provisional income, anywhere from 0% to 85% of your social security will be included in your taxable income. This amount is recalculated for each tax year.

What is provisional income? We know the IRS wants to make it understandable.

From IRS publication 915, you can calculate it as follows:

1. One-half of your social security benefits;

plus

2. All your other income, including tax-exempt interest.

and

3. Adding back any taxable exclusions from your other income for items such as:
    a. Interest from qualified U.S. savings bonds,
    b. Employer-provided adoption benefits,
    c. Interest on education loans,
    d. Foreign earned income or foreign housing,
    e. Income earned by bona fide residents of American Samoa or Puerto Rico.

This is why they invented computers.

The amount you come up with – your personal provisional income – is then compared to what the IRS refers to as "base amounts". And the base amounts, it turns out, are the problem.

First, the "bottom" base amounts are as follows:

- $25,000 if you are single, head of household, or a qualifying surviving spouse;
- $32,000 if you are married filing jointly; or
- $0 if you are married filing separately and lived with your spouse at any time during 2024.

If your provisional income exceeds the base amount applicable to your filing status, a portion of your social security will be included in your taxable income. Generally, it's 50% of your social security.

If your provisional income is less than the base amount applicable to your filing status, none of your social security will be included in your taxable income.

Next is the ceiling for taxability on your social security.

- $34,000 if you are single, head of household, or a qualifying surviving spouse;
- $44,000 if you are married filing jointly; or
- $0 if you are married filing separately and lived with your spouse at any time during 2024.

If your provisional income exceeds the ceiling amount applicable to your filing status, 85% of your social security will be included in your taxable income.

Why may your taxes go up?

Even as your social security was increased due to inflation, the base and ceiling amounts were not. The math then tells you that it's more likely your social security will be taxable in 2024 than past years.

This can become an even bigger "surprise" when taxpayers trigger a usual taxable event during the tax year.

Let's assume John and Jane Taxpayer (JJT) are in a tax situation that results in 50% of their social security being taxed. That leaves them in the 12% bracket as a married couple, under the current code.

JJT decide they want to take more out of their IRAs than they normally do, maybe for a vacation or a Roth conversion.

The amount they settle on is $10,000, and they are confident the tax associated with it will be $1,200 ($10,000 x 12% marginal tax bracket).

However, if that "extra" $10,000 pushes them further above the base amount for their provisional income, it could cause more of their social security to also be taxed. Instead of a net $1,200 increase in their taxes, it could be $2,000 or $2,200.

Fidelity calls it the "tax torpedo", as it's almost as if you're taxed twice: once on the IRA distribution, and a second time on the money you were already getting, that hadn't previously been taxed, but now is.

How do you avoid this?

First, understand the "real tax increase" of any additional taxable action. Second, assess whether that action is prudent, based on the real tax cost.

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If you're converting to a Roth IRA, whether you get hit with the "tax torpedo" depends on your starting tax situation, coupled with the amount you convert. Because the money has to come out of a taxable IRA, your options are limited.

However, if you're trying to fund a purchase, or a vacation, consider other sources of funds you could draw from, that may not increase your taxable income as much.

This is just one of the many things we help clients plan for. We also cover it at the seminars.

It doesn't matter if you lose money because you pay more than you need to in taxes, get sued or have a disaster, lose it because your estate plan is not implemented properly, or take a big loss during a stock market decline…

It's all lost money!

We offer free, no obligation "Financial Physicals" where we address all of these potential land minds, in addition to your longer term, retirement cash flow needs.

Come to a seminar and decide if a Financial Physical could be helpful.

Hope for the best but plan for the worst.

If you're not a client, what should you do with this information?

Prepare!

Procrastination and Planning both start with a P, but they are not the same.

Failing to prepare,

is preparing to fail.

Come to a seminar and find out how you might protect yourself. In our seminars, and at initial, free, consultations called "Financial Physicals" we discuss the five areas most important to financial health for retirees or those close to retirement.

1. Protection
2. Estate Planning
3. Income Tax
4. Retirement
5. Investments

Risk management is key for success in all of those areas.

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…

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.

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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.

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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%.

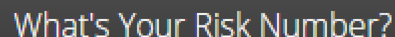
Not only do bear markets normally unfold in three stages with the last being the most virulent, it also demonstrates that risk happens slowly and then all at once.

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 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.



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.

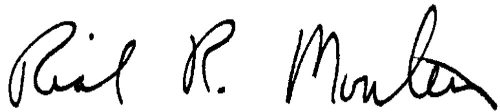
The drop didn't retrace only a few months or even a couple years.

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

WEEKLY FOCUS – THINK ABOUT IT

"Your taxes may be higher in 2024."

Yours truly,



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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 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.

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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.*