MOULTON WEALTH MANAGEMENT INC.

MOULTON HOT MINUTES

SPECIALIZING IN RETIREMENT AND TAX PLANNING

420 N. EVERGREEN RD; SUITE 100
SPOKANE, WA 99216
509-922-3110

DONALD J. MOULTON
CFP®, RFC

www.moultonwealth.com

RIAL R. MOULTON
CFP®, CPA/PFS, RFC

Week of February 10, 2025

Last week's newsletter explored how bonds work. This included an explanation of why bond prices rise when interest rates fall, and vice versa. You can read the newsletter here: *Newsletter - Moulton Wealth*.

Last Saturday's radio show reviewed the current economic data, as usual. We then discussed what makes an estate plan, and what does not. You can listen to past radio shows here: *Radio Show - 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.

Investing is as much a psychological journey as it is a financial one. While making wise decisions based on research and analysis is crucial, emotions, disorganization, and poor decision-making habits can derail even the most thoughtful strategies.

In this article, we will explore the seven deadly sins of investing—emotions, disorganization, myopia, impatience, greed, arrogance, and cowardice—and discuss why each can be harmful to your financial success.

1. Emotions: Letting Feelings Drive Decisions

Emotions, particularly fear and greed, can significantly impact investment choices. When you let emotions rule your decisions, it often leads to impulsive actions rather than calculated, strategic moves.

Why It's Bad:

Emotions, like fear, can cause panic selling during market declines, while greed might prompt chasing speculative investments for quick gains. These emotional reactions cloud judgment, causing you to stray from your original investment plan. Successful investors focus on long-term goals and remain disciplined, even when market conditions stir emotional responses.

They also base decisions on hard data and math, not hot tips or talking heads. Making decisions based on emotions is seldom successful.

2. Disorganization: Failing to Stay on Top of Your Investments

Disorganization refers to the lack of structure and oversight when managing your investments. Failing to track, monitor, or adjust your portfolio regularly can lead to missed opportunities and poor financial decisions.

We call it "junk drawer investing".

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

"YOUR MONEY MATTERS"

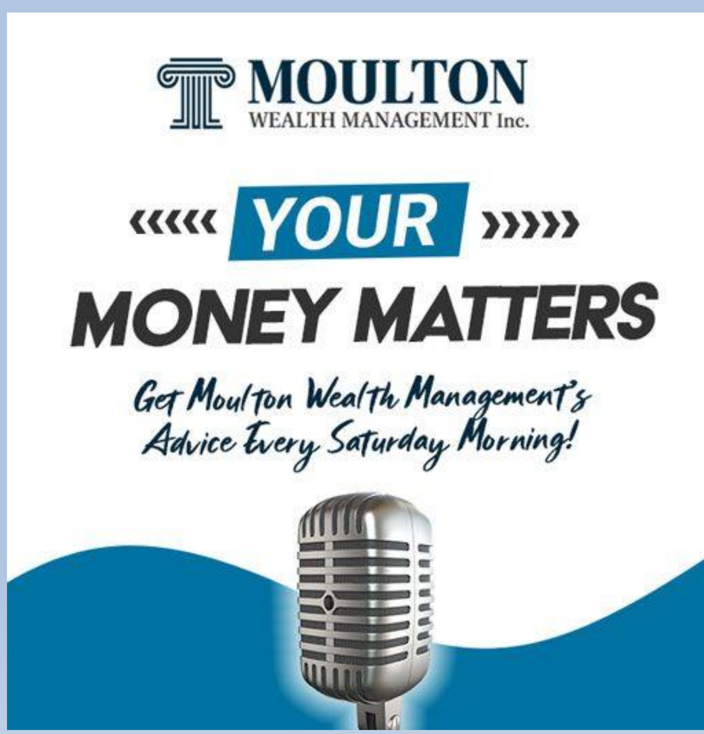
EVERY SATURDAY MORNING AT

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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Why It's Bad:

An unorganized approach to investing means you might overlook rebalancing your portfolio, or fail to spot when your risk exposure becomes unaligned with your goals. Disorganization also increases the chances of forgetting important deadlines, such as tax-related actions or required minimum distributions from retirement accounts.

To avoid this sin, consolidate your accounts and develop a systematic, proactive approach to managing your investments.

3. Myopia: Focusing Only on the Short Term

Myopia, or short-sightedness, occurs when you focus exclusively on short-term gains or certain sectors, while ignoring the broader, long-term picture. This is often fueled by the desire for immediate rewards and instant gratification, as well as the need to "be right".

Why It's Bad:

By concentrating on short-term fluctuations, you risk making hasty decisions that may harm your portfolio's long-term health. For instance, ignoring the overall market trend because you believe your particular sector, or holdings, will "be o.k.", can expose you to oversized losses.

Investing is a game of compounding returns, not necessarily high returns. And myopia can cause you to spend a lot of time trying to regain lost ground. This is especially harmful if you are retired or close to retirement.

4. Impatience: Expecting Quick Results

Impatience in investing comes from wanting fast returns. Investors who are impatient may be tempted to jump in and out of the market, expecting rapid gains, or chase after "get-rich-quick" schemes.

Why It's Bad:

Impatience leads to excessive trading, poor market timing, and emotional decision-making—all of which can be detrimental. Successful investing requires patience and a steady hand, allowing your investments to grow over time. Trying to speed up the process often leads to higher risks, mistakes, and missed opportunities.

We call this the Warren Buffett effect. Mr. Buffett is not only an astute investor, he's also extremely patient. He has repeatedly raised cash years before bear markets, only to be derided by the media. But ultimately, he was able to use that cash to buy at bargain basement prices.

Some call it market timing; some call it common sense. Big losses are detrimental to your long-term goals.

5. Greed: Chasing High Returns at Any Cost

Greed is the excessive desire to make huge returns without considering the risks involved. When investors are driven by greed, they may chase high-risk assets, or speculative opportunities, that promise enormous profits.

Why It's Bad:

Greed can lead to making poor decisions based on short-term gains, rather than a sound investment strategy. This often results in overexposure to volatile assets or investing in things that aren't well understood. While high returns are appealing, chasing them without a strong foundation can result in significant losses. Greed encourages reckless decision-making, while moderation and research are the keys to sustainable financial growth.

Interestingly, most investors suffering from this don't see it that way. In fact, many hold oversized positions in "favorite stocks" and see themselves as long term investors. But risk can be acquired with an aggressive purchase, or from letting your portfolio grow out of balance. It's risk either way.

6. Arrogance: Believing You Can Outguess the Market

Arrogance in investing is when you believe you know better than the market, and attempt to outsmart it. Investors who are arrogant may overestimate their ability to predict stock movements, or dismiss the importance of diversification, or employing a defense.

Why It's Bad:

Arrogance leads to taking on unnecessary risk, such as making concentrated bets on individual stocks, sectors, or trends. Even experienced investors are prone to misjudgments, and believing that you can consistently beat the market is a dangerous mindset. Humility, on the other hand, allows investors to acknowledge their limitations and avoid unnecessary risks. The market is unpredictable, and it's essential to recognize that no one can consistently time it with precision.

Interestingly greed and arrogance often go hand in hand. An investor can make a very poor, high risk investment, but get lucky. This can lead him to believe he's brilliant, and that outsized risks are the key to future success.

7. Cowardice: Avoiding Risk Out of Fear

Cowardice is the opposite of greed—it's the reluctance to take any risk at all, out of fear of loss. Investors who exhibit cowardice often keep all their money in cash, or extremely conservative assets, avoiding potential growth opportunities.

Why It's Bad:

While caution is important, avoiding risk entirely can be just as detrimental as taking on too much. Cowardice often leads to missed opportunities in higher-returning asset classes, such as stocks or bonds, which are essential for building wealth over time. Inflation erodes the value of cash, and a portfolio with zero exposure to risk assets will likely struggle to outpace the cost of living. To succeed, investors must strike a balance between risk and reward, taking calculated risks based on their financial goals.

Conclusion: Avoiding the Sins of Investing

The seven deadly sins of investing—emotions, disorganization, myopia, impatience, greed, arrogance, and cowardice—are all obstacles to building long-term wealth. By being mindful of these tendencies and approaching investing with discipline and patience, you can avoid costly mistakes. The key to success lies in staying organized, keeping a long-term perspective, managing risk, and resisting the temptation of emotional or impulsive decisions.

Remember, the best investors are those who remain focused, humble, and resilient in the face of market fluctuations, and always keep their eyes on the bigger picture. By avoiding these deadly sins, you can set yourself up for a more secure and prosperous financial future.

For many, worrying about investments, along with all the other retirement concerns, is not something they feel comfortable doing. Many would rather spend retirement enjoying themselves.

Working with an advisor may help. And better, it will likely help even more if you know your advisor employs a defensive plan to help protect you from big losses.

Yes, it's important to buy, yes, it's important to hold, but at certain times it's also critical to sell – to reduce your risk before your portfolio declines 30% or 40% or even 50%.

Employing a defense is just one of the 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.

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 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

"Seven sins of investing!"

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.

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.*