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 June 16, 2025

Last week's newsletter discussed why the jobs market may be beginning to crack, under the surface. Jobs are obviously vital to the economy, but they are also important to the Federal Reserve. The Federal Reserve has a "dual mandate". They are primarily supposed to promote price stability (i.e. fight inflation), but also support jobs. Unfortunately, these two mandates are on opposite ends of the spectrum. Often the same actions that promote price stability, slows job growth, and vice versa, making the Fed's job particularly difficult. You can read the newsletter here: Newsletter - Moulton Wealth.

Last Saturday's radio show discussed the changes in the Washington State Estate Tax exemption limits and how they may impact your estate plan. We also discussed the newest inflation numbers and Israel's attack on Iran. 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.

For married couples with a revocable living trust, one of the most important—yet often overlooked—questions is what happens when the first spouse dies. Should the trust continue as one? Or should it be split into sub-trusts to preserve each spouse's estate tax exemption and protect the estate?

This decision carries long-term implications for **taxes, inheritance, asset control, and complexity**. And with a significant change to **Washington State's estate tax exemption taking effect on July 1, 2025**, it's the perfect time to reassess your plan.

The New Washington Estate Tax Exemption: $3 Million per Person

Effective **July 1, 2025**, Washington State is increasing its estate tax exemption from $2.193 million to **$3 million per person,** indexed for inflation. This change offers relief for many families—especially those whose estates fall just above the old threshold.

At the same time, the tax rate was raised from 10% - 20% pre-July 1, 2025 to 10% - 35% (the latter for estates over $12M) post-July 1, 2025.

However. one key fact remains: **Washington does not offer "portability."** That means if the deceased spouse's $3 million exemption isn't used when they die—usually by placing assets in a separate trust—it's lost forever.

That's where trust splitting comes into play.

Listen to Rial's and Don's radio show,

"Your Money Matters"

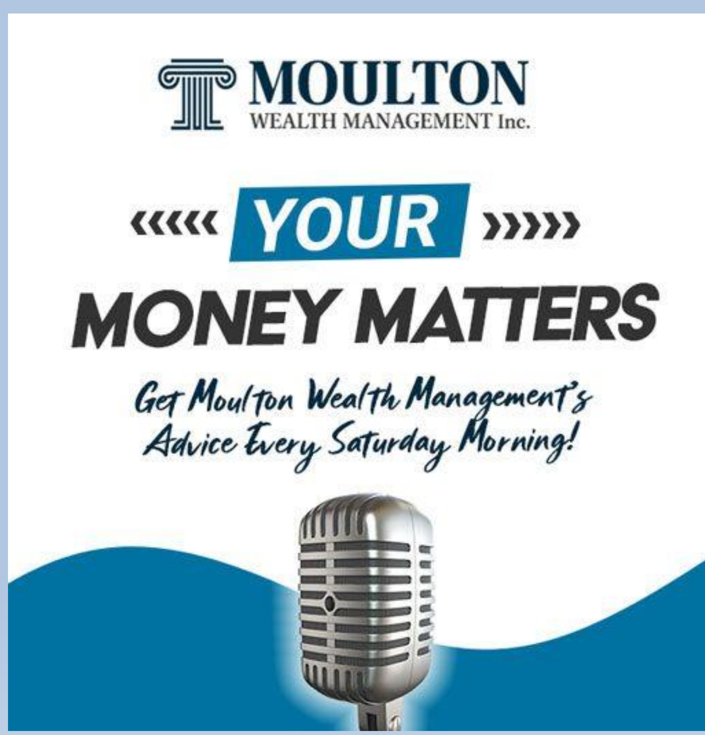
every Saturday Morning at

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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What Does It Mean to "Split" a Trust at the First Death?

In a typical joint revocable trust, all assets are shared while both spouses are living. When one dies, the trust can be:

1. **Kept unified**, with the surviving spouse retaining full control over all assets; or
2. **Split** into two or more sub-trusts—typically a **Survivor's Trust** and a **Decedent's (or Bypass) Trust**.

The Decedent's Trust is usually irrevocable and contains the deceased spouse's share of the estate, preserving their tax exemption and limiting how those assets can be used or altered.

Benefits of Splitting the Trust

✓ Preserve the First Spouse's $3 Million Exemption

Washington doesn't allow unused exemptions to transfer to the surviving spouse. Splitting the trust allows you to fully use the deceased spouse's exemption, shielding up to $3 million from future estate tax.

✓ Protect Future Appreciation

Assets in the Decedent's Trust are removed from the surviving spouse's taxable estate. If you expect significant growth in real estate, investments, or a business, this can provide long-term estate tax savings.

✓ Guarantee Inheritance for Heirs

A Decedent's Trust locks in the deceased spouse's wishes. This is especially important in blended families or where remarriage or asset disputes are a concern.

✓ Creditor and Health Care Protection

Assets in an irrevocable trust may be shielded from creditors, long term care costs, lawsuits, or financial risks affecting the surviving spouse.

Downsides and Considerations

✕ Added Complexity and Cost

Splitting a trust involves:

- Legal fees to create sub-trusts
- Valuation of assets
- Separate accounting and recordkeeping – you'll have to file two tax returns each year going forward
- Potential fiduciary responsibilities for co-trustees or beneficiaries

✕ Reduced Control for the Survivor

The surviving spouse typically has limited access to Decedent's Trust assets—often restricted to health, education, maintenance, and support (HEMS). This can feel burdensome if no asset protection is needed.

✕ Loss of Step-Up in Basis at Second Death

Assets in the Decedent's Trust don't receive another step-up in tax basis when the surviving spouse dies. This could lead to higher capital gains taxes for heirs.

When You *Might Not* Need to Split

If your combined estate is well below **$3 million** and:

- You and your spouse have the same beneficiaries,
- You don't expect significant estate growth,
- You prefer simplicity for the surviving spouse,

…then splitting may be unnecessary. A unified trust with full survivor control can be easier to manage and still accomplish your goals without added costs.

When Splitting *Still Makes Sense*

Even with the higher $3 million exemption, splitting the trust is often advisable if:

- Your estate is **close to or exceeds $3 million**,
- You expect growth in your investments, property, or business,
- You want to **lock in the exemption before further changes in tax law**,
- You have children from previous marriages or other non-traditional family dynamics,
- You want to add **creditor or remarriage protection** for your surviving spouse.

Comparison at a Glance

Consideration	Split the Trust	Keep Unified Trust
Estate > $3M per person	✓ Preserves exemption	⊘ May trigger estate tax at second death
Simplicity for surviving spouse	⊘ Adds legal/admin work	✓ Easier to manage
Protect inheritance for children	✓ Locks in distribution plan	⊘ Survivor can change beneficiaries
Asset growth expected	✓ Shields appreciation from taxation	⊘ Increases taxable estate
Full survivor control preferred	⊘ May be limited by trust terms	✓ Survivor retains flexibility

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Other Options

Even if your estate is over the $3M exemption, you have other options to reduce it for estate tax purposes, other than splitting your trust. Those can include, but are not limited to:

- **Roth conversions** - use some of your money now to pay income taxes that will eventually be owed regardless; this can also help reduce the widow’s tax as well as income taxes for heirs
- **Gifts** – if you’re unlikely to need all of your money to live on, you can begin a process of gifting assets to heirs before you pass. It may require a gift tax return for large gifts.
- **Charities** money left to charities is not included in your estate tax net worth calculation
- **Others**

Planning Tip: Build in Flexibility

You don't necessarily have to commit today to splitting your trust. Many well-drafted trusts include **"disclaimer provisions"** or **optional Bypass Trust clauses**—which allow the surviving spouse or trustee to choose whether to split based on circumstances at the time.

This gives you the flexibility to:

- **Elect not to split** if your estate is still below $3 million, or
- **Trigger a split** to preserve the exemption if assets have appreciated or tax laws change again.

Final Thought: Use It or Lose It

Starting July 1, 2025, each Washington resident has a $3 million estate tax exemption. But it's a **"use it or lose it"** benefit. If you don't plan ahead to preserve the first spouse's exemption, your family may face unnecessary taxes at the second death.

📌 This Month's Checklist:

- Review the total value of your estate, including real estate and life insurance.
- Check whether your trust requires a split at the first death or offers flexibility.
- Talk to your estate attorney about whether your plan still fits with Washington's updated exemption.
- Consider adding "disclaimer trust" provisions if they're not already included.

This is not intended to be legal advice, and only applies to Washington residents or those with Washington assets. If you live in another state, check for their rules. Not all states have state level estate taxes. If you have questions about your trust structure, let's review it in light of your particular situation and the new $3 million exemption. We can then involve an attorney as necessary.

Financial advice should include help with estate planning, tax planning, protection and insurance, in addition to your investments.

Has your advisor alerted you to these changes?

Investments are but one topic we cover at our seminars, and discuss in our consultations. Retirement can be a time of great joy and freedom. But leaving aspects of your finances unaddressed, adds uncertainty and stress. It's why it is so important to look beyond just your investments. In our free, initial consultations we review these five critical areas:

1. **Protection** – how do you protect against disasters such as a fire, lawsuits and health issues?
2. **Estate Planning** – what is the best estate plan for you and for your heirs? Is the one you have set up properly? And did you know that no matter how good, your estate plan likely does not cover your biggest assets? They certainly don't govern IRAs, 401ks, 403bs, 457s, Roth IRAs, life insurance or annuities.
3. **Income Taxes** – we'd all like to pay less income taxes, but how? Tax planning is becoming harder and harder to find. Your tax preparer is likely overworked, and doesn't have the time, or expertise, to tax plan in consideration of your entire financial picture. We strive to suggest strategies to save taxes over time for you, for your spouse, and for your heirs.
4. **Retirement** – the biggest question we get is *"do I have enough money?"* If you've not yet retired, you can always decide to delay, assuming it's your choice. But if you're already retired, you need to resolve this as early as possible, so smaller changes can make a bigger impact. Our Family Index will tell you a lot about what you need to know.
5. **Investments** – when asked how they pick investments, we receive a variety of answers. Most say they look at 5- or 10-year returns, and assume those will continue into the future. Some get tips from friends or off the internet. Still others are frozen with indecision, and don't really know what they have, or even when or how they got them. This is especially problematic for surviving widows and widowers, who were not the partner "in charge" of the investments. While any of these can work for a time, many, if not most, will ultimately fail, especially in bear markets. We think it's critical to understand how much risk you are taking, what the downside could be, and to decide, BEFORE IT HAPPENS, if you can financially survive. If not, you need to implement a strategy to minimize this risk, again, before it happens.

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.

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 4.2% 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.

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.

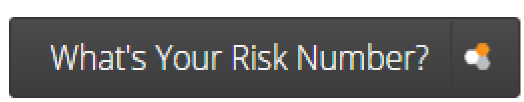
Then in just over a month from September 15, 2008 to October 27, 2008 the S&P-500 fell ***ANOTHER*** 28.8%. And from September 15, 2008 to the ultimate bottom, about 5 months later, it fell ***ANOTHER*** 43%.

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.

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

New Washington State Estate Tax Exemption

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.*