



HIGHTOWER

White Pine Wealth Management

June 2023



June in Maine may just be the inspiration for its motto, “[the way life should be](#)”, annually confirmed by the throngs of tourists who flock to our state each year to spend the precious and fleeting days of summer basking in the charm, history, beauty, and temperate climate of the erstwhile “Vacationland”. White Pine Wealth Management is excited for everything the summer will bring.

Speaking of Tourists...



It may seem like the state pastime is grumbling about tourists. Thankfully, Maine has been ranked both one of the [friendliest states](#) and [least rude states](#) because Mainers know the tourism industry makes our way of life here possible. According to the [Island Institute](#), tourism spending supports “151,000 jobs.... Restaurant and lodging taxes paid by tourists reduced the tax burden to Maine households by \$2,172.” According to the [Portland Press Herald](#), tourists spent over \$8.6 billion in Maine in 2022. [VisitMaine.com](#) offers some [excellent travel resources](#), including [this link on Maine Travel Alerts & Advisories](#). Yankee Magazine updated their [Summer Travel Guide for 2023](#) and it contains some things that even longtime residents probably haven’t done yet. So, get on out there this summer and enjoy the way life *actually is* for those of us lucky enough to call Maine home.



It's National Homeownership Month, which seems an appropriate opportunity to talk about renovation costs and how to budget for home upgrades and improvements, or even just prepare for the standard maintenance costs associated with homeownership. [An article from ForbesHome](#) suggests that you should “expect to pay between \$20 and \$150 per square foot to hire a general contractor to perform a remodeling project.” They go on to mention that “no single room, except the kitchen, should exceed about 10% of the house’s current value. Kitchen renovations are more costly and, in some cases, can exceed 15% of the home’s value.” [Budgeting for a home renovation](#) is crucial, and having a guideline of what your absolute maximum spending is can help you make decisions when you encounter unexpected issues. [Being smart about how you pay for the renovations](#) is the most important part of the project. While a Home Equity Line of Credit was a very popular source of fast, low-interest cash in the past decade, recent interest rate hikes by the Fed have made a HELOC a last resort only.

Only consider using a variable rate HELOC for structural and system-related repairs, like a badly needed new roof, or a failed septic, when you have no other funding source available. Because the interest rates are approaching 10%, and are typically variable, having a HELOC balance leaves you open to interest rate risk and, should you fail to pay that interest, can jeopardize your primary residence, too. Mortgage rates right now are upwards of 7%, which means refinancing to get cash out for renovations, or doing a construction loan, will be extremely costly in the long run if you've got a mortgage rate that is lower than that. If you can't afford the renovations without refinancing or using a HELOC, you would be wise to wait until you've saved the cash to make changes to your home. Liquidating investments *can* be an option, as long as they aren't retirement assets before you reach age 59 1/2. Considerations such as capital gains and how a withdrawal from your portfolio might impact future goals are something that White Pine Wealth Management can model for you so you have an idea of what you can actually afford to do. Don't hesitate to call us – we're excited to help you plan for your dreams.

Take me out to the shredder...

What do baseball and confidential shredding have in common? White Pine Wealth Management! This summer, we'll be hosting two events: our annual Shred Event and a night at the Sea Dogs.

Shred Event



Our Shred Event will be the week of June 12th through Friday June 16th.

Don't throw it out. Shred it. If you've got loads of confidential documents, paperwork, and statements that you no longer need to retain but are holding on to because they contain sensitive information, White Pine Wealth Management invites you to drop by our office to help stuff the Iron Mountain confidential shred bins we've ordered just for you. Keeping

your information safe is our top priority! Check your email for the official invitation that contains the guidelines.

Monday, June 12th	9:00 am - 4:00 pm
Tuesday, June 13th	9:00 am - 4:00 pm
Wednesday, June 14th	9:00 am - 4:00 pm
Thursday, June 15th	9:00 am - 3:30 pm
Friday, June 16th	9:00 am - 3:30 pm

Sea Dogs Game



Our annual Sea Dogs game will be Friday July 21st at 6pm.

Join White Pine Wealth Management in the Coca-Cola Picnic Grove area for an All-You-Can-Eat ballpark style picnic buffet and watch the [Portland Sea Dogs](#) face off against the [New Hampshire Fisher Cats](#). Food service begins one hour before the game. Tickets are on a first-come-first-serve basis. Check your email for more details. Go team!

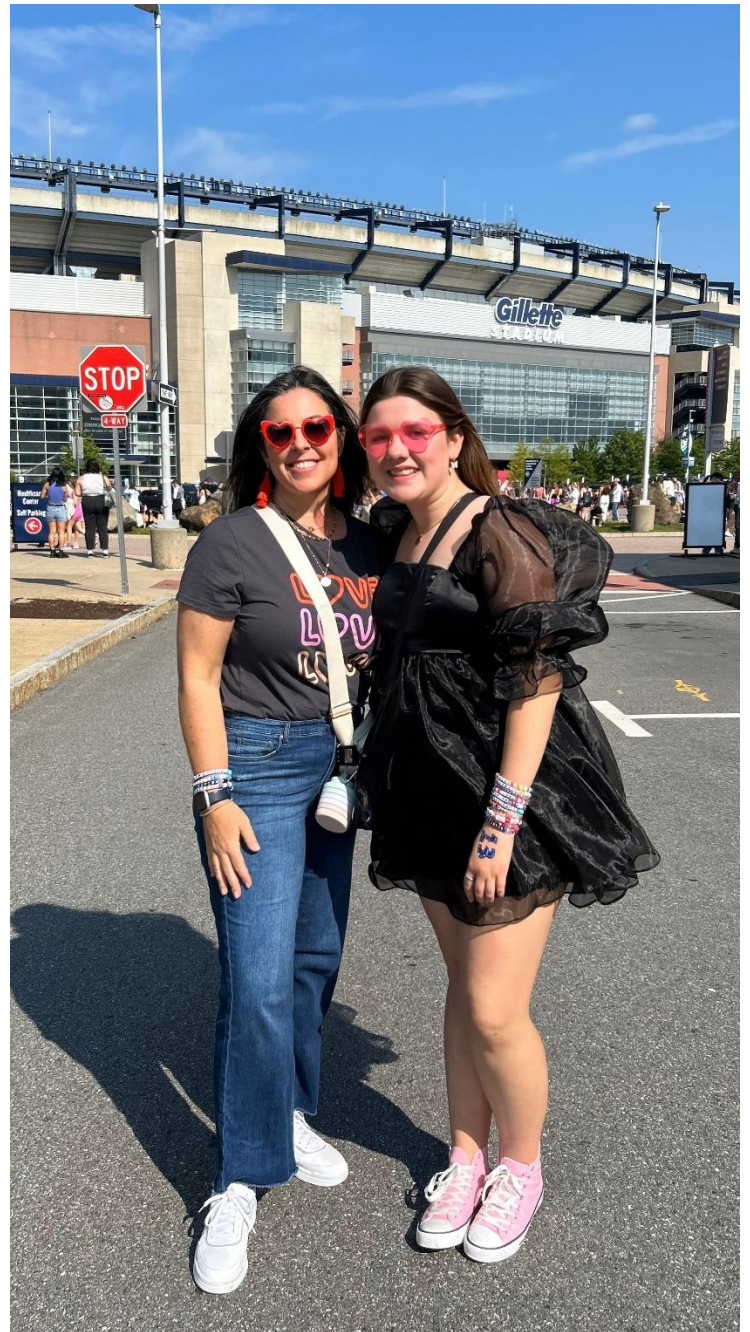
Explore Maine – Peaks Island



Peaks Island is a hop, skip, and a [ferry ride](#) away from mainland Portland. Once known as the “[Coney Island of Maine](#),” it boasts a year-round population of about 900 locals and a few thousand in the summer. Yankee Magazine offers [this great guide to Peaks Island](#). Rent a bike and [pedal around the island](#). And see if you can find this amazing owl, carved from a downed tree in a recent storm, by local artist [Robert Van der Steenhoven](#). Stay at [The Inn on Peaks Island](#), or grab an [Airbnb](#). Grab a bite to eat at [famous Jones Landing](#), and if you want access to some great fireworks shows, head on over to Peaks for the 4th of July. Enjoy!



Where in the world...



[Natalie](#) just returned from a week in [Joshua Tree National Park](#) and reports it was amazing. [Melissa](#) and her daughter just had a blast at the [Taylor Swift](#) concert at Gillette. And [Grey](#) and [Paige](#) attended the Hightower Advisor Summit in Boston where they met up with some [famous locals who seemed to know their name...](#)

Market Commentary

In April, Matt Emery attended the Morningstar Investment Conference in Chicago. He reports back with some interesting moments.



Highlights from the Morningstar Investment Conference

Last month I flew to Chicago to attend the annual Morningstar Investment Conference where I could check out some of the latest technological tools pertaining to portfolio management and hear the latest thinking and insights from various investment managers, executives, and advisors. There were too many memorable presentations and conversations to list, so I've highlighted just a few of the key themes and speakers from the 2023 conference that I think are the most important to share.

To kick things off, **Morningstar's CEO Kunal Kapoor** gave an interesting presentation where he introduced not only the theme of this year's investment conference, which was 'The Evolving Investor', but also introduced Morningstar's A.I. creation, "Morningstar Moe". More on Moe later. Mr. Kapoor stated that while "The Evolving Investor" refers to an asset manager's desire to stay in-tune with the latest investment trends and analytical tools, it also pertains to individual investors. We are all evolving investors, and our needs and situations can change dramatically over time. At the broadest level, the evolving needs of an investor

can be characterized by the need for accumulation, to the need for stability, to the need for legacy planning, but the details underlying these needs are exceedingly personal and unique.

“All investors are influenced by the timing at which they enter and experience the markets...”

Furthermore, Kapoor noted, “underneath all of these changes is the reality that all investors are influenced by the timing at which they enter and experience the markets—the way they think about risk and how technology influenced their investment experience. Just look at the last two years: If you entered the markets for the first time in 2021, you thought you were a genius, for about 12 months. I think it’s also fair to say that if you entered the markets in 2022, you’re probably wondering, ‘what have I gotten myself into?’” For context, the Morningstar Moderate allocation index, a diversified portfolio of 60% stocks and 40% bonds, had its worst year on record in 2022 declining by -15%.

Clearly, after such a year, Morningstar wanted to get a sense of how investors attitudes and opinions may have changed using their “Voice of Investor” study, polling 2,000 people across the country. What they found was that investors are feeling overwhelmed with data these days. Also, investors believe that the value of advice shines through in boosting a client’s understanding of risk management because advisors can personalize the risk experience for them.

“A.I. can significantly shorten the time it takes to get answers to complicated questions...”

Next, Mr. Kapoor introduced the audience to Moe, their digital avatar with artificial intelligence. Using the ChatGPT open AI service, Morningstar uploaded its entire back catalog of articles and all the data available on Morningstar. They then created a digital avatar (essentially a computer-animated person on a screen who answers questions, as if you were on a conference call with them) using a New Zealand-based company called Soul Machines. They named the avatar “Moe”. While at first blush, such a creation might seem unnecessary or even threatening (certainly a broader discussion is happening on that particular aspect of artificial intelligence) but in the context of seeking answers to complicated questions surrounding financial planning and investment management, a tool like “Morningstar Moe”

can be extremely useful. Since Moe can draw from every article and data point within Morningstar, past and present, his answers to the questions posed by Kapoor on stage were surprisingly coherent and thorough, and the pause between Kapoor's questions and Moe's answers were only momentary. "Believe it or not", quipped Kapoor, referring to the information gathering process, "The alternative, is to sit there and type [your question] in and read through a bunch of webpages....that is so two months ago!" It would seem that when it is used for a specific purpose, A.I. can significantly shorten the time it takes to get answers to complicated questions. A video recording of Kapoor's presentation can be found on Morningstar's main website by searching for "Kapoor" and selecting "view all results."

“...maybe 2022 was not the aberration, but the start of the return to normal...”

I also heard an engaging conversation with **NYU Professor Aswath Damodaran**, who is sometimes called the “Dean of Valuation” for his deep knowledge and interest in that fundamental element of investing. But it is his ability to elevate security valuation from tedious number-crunching to something exceedingly relevant and fascinating (at least, to this writer), that sets him apart. He sat down for an on-stage interview with Morningstar's Adam Fleck in which attendees could also ask questions in real-time via the event's app. One of the many thought-provoking points made by Mr. Damodaran was the tendency of many to view the events of 2022, which saw the pronounced and simultaneous decline in both stocks and bonds, as merely an aberration that is now firmly in the rear-view mirror. His response to that line of thinking was, “maybe 2022 was not the aberration, but the start of the return to normal”, and perhaps the preceding decade of ultra-low interest rates was the real aberration. During that time, he adds, “too much money went to firms that didn't deserve it.” Many companies with dubious competitive advantages were able to form and sustain themselves over the past 10 years because of a relatively low cost of capital but 2022 quickly changed that. To illustrate the shifting business environment, Damodaran calculated the median cost of capital for 47,000 companies (with the help of a computer) to be 6% at the beginning of 2022. One year later, the median cost of capital across those companies had risen to 10%. At first, this might not seem like a remarkable change, but it was actually the largest rise in cost of capital that he had ever seen in a single year and such a shift can make a world of difference to a company that relies on debt and equity capital, rather than profits, to sustain its operations. “When your cost of capital is 6%,” he commented, “you can afford to let things

slip...at 10%, you don't have that luxury" and investors should be increasingly aware of the influence of cost of capital on business performance now that it has risen so quickly.

“...perhaps the Federal Reserve will declare victory at some inflation rate that is higher than 2%...”

Finally, perhaps the most recognizable name at the conference was **former Treasury Secretary Larry Summers**, who was one of the early voices warning of the risk of inflation back when the Federal Reserve was still describing it as “transitory”, and for those who find his style of unabashed candor refreshing, he did not disappoint. When asked about the Federal Reserve’s recent efforts to curb inflation, Mr. Summers wondered if the Fed’s target of 2% inflation was even realistic anymore, given the vast amount of government stimulus that flowed into the economy during the pandemic. Based on what the economy has been through over the last 15 years, and the last two years in particular, he thinks, “we turned ourselves from a 2% inflation country to a 5% inflation country [sic],” with a tight labor market and wages still growing at 5%. Given these realities, Summers believes it will be very difficult for the Fed to bring inflation all the way down to 2% without causing a serious economic downturn. In a related question, Mr. Summers was asked whether he believed the Federal Reserve could actually pull-off a “soft landing”, whereby the Fed manages to bring inflation down to its 2% target without causing a recession. After a brief pause, he said that the 18th century writer and thinker Samuel Johnson once described second marriages as the ‘triumph of hope over experience’ and that he would characterize the idea of a soft landing in the same way. That said, he pointed out that perhaps the Federal Reserve will declare victory at some inflation rate that is higher than 2%, and as long as that rate is stable, the economic consequences may be a bit milder than many expect. Lastly, despite his sobering views on inflation and the economy, Summers is still bullish on the United States in general, saying, “I’d rather be playing America’s hand than any other country in the world.” He then mentioned that the collective value of U.S. companies relative to the rest of the world is currently at 60%--the highest level on record and that is a “judgement on our future earnings and prosperity”. He went on to say, (in typical Larry Summers fashion) “while the dollar is high by historical standards, you have to put your money somewhere and the dollar is a good place to put it.”

Despite the variety of voices and ideas, the prevailing tone at the conference was caution about the state of the economy. Among both attendees and panelists alike, the question was not *if* a recession is coming, but *when*. Having seemingly established an upcoming recession as a foregone conclusion, discussions turned to how big this recession will be, what the impact will be on financial markets, and to what degree is the recession already “priced-in” to the

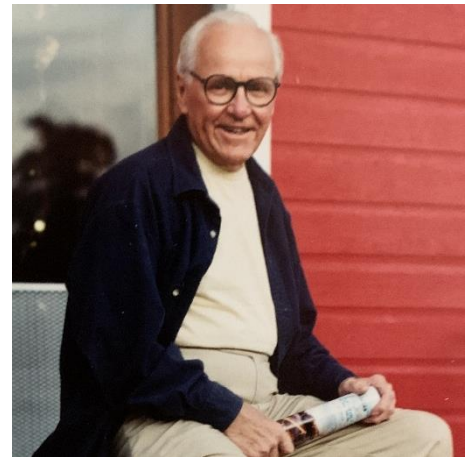
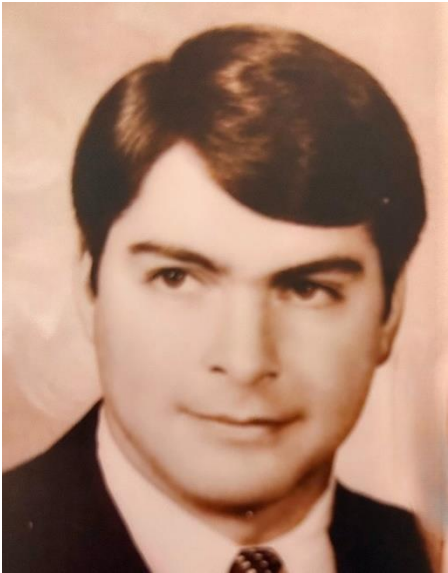
markets. These lines are being written about 4 weeks after the conference took place and the much-anticipated recession still has not happened. This is not to say that an economic downturn is not still ahead of us—the weakening data points observed in March and April are still largely in place today, and we know that the effects of tightening monetary policy tend to be felt with a lag. But the economy and markets—especially the markets! —are notoriously unpredictable and when everyone seems to share the same opinion on what the future holds, it should give investors pause. Adjusting portfolios based on beliefs about the future can be treacherous. Investors can experience significant losses by rushing into stocks in a premature attempt to call “market bottoms”. Conversely, others have fearfully brought down their exposure to stocks in favor of cash based on dire predictions that never came to pass, potentially leaving gains on the table that would have helped them achieve their financial goals. We find it helpful to remember that the reason we have diversified portfolios and target asset allocations is because of the inherent uncertainty of the markets. If stocks always went up, we would all simply invest in nothing but stocks. But in the real world, adhering to a targeted mix of stocks, bonds, cash, and alternative investments is crucial to ensuring that our investments fulfill their purpose for us. As life circumstances and financial needs change over time, target asset allocations may need to be adjusted to lower market risk and return expectations or vice versa. With the help of your Advisor, regularly assessing whether your risk tolerance and return expectations coincide with the nature of your investment portfolio is a healthy way to deal with uncertainty by focusing on something you *can* control.

[Matt Emery](#) is our Director of Research & Portfolio Management.

Father's Day



In May we shared pictures of our mothers, and in June, we're sharing pictures of the father figures we love dearly. Click each picture to reveal who belongs to who below.



Birds of a feather...



If you've ever heard the "thunk" of a bird flying into a window, you know how upsetting it can be. [Windows are not transparent to birds](#), they are mirrors of the sky and surrounding landscape, making them extremely deadly. It is estimated that one billion birds die in the US alone from window collisions. Simply keeping screens on your windows can help significantly. Here in Maine, where large picture windows are standard features of beach and lake cottages, [there are some other things we can do to help](#) our feathered friends [without obstructing our views](#).

Summer Hours Reminder



Our offices are open Monday through Wednesday from 8:30am to 4:30pm, and Thursday and Friday from 8:30am to 4pm between Memorial Day and Labor Day. Our office will be closed on the following NYSE Holidays:

Juneteenth – Monday June 19th

Independence Day – Tuesday July 4th

Labor day – Monday September 4th

Until next month...



June sees the end of school, the beginning of camp, the promise of vacations planned with loved ones, and [more tartar sauce](#) than usual. Balmy evenings standing in line at the ice cream stand, sunscreen with sand in it, trips to [Story Land](#) and [Fun Town](#), cocktails and [croquet](#) on the lawn, [dining oceanside](#), long drives to visit relatives with [kids bickering in the back seat](#)...it's summer. It's wonderful. It's why we live here. Wherever your summer plans take you, White Pine Wealth Management is honored to help you get there. See you in July!



Find White Pine Wealth Management on social media



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