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WEALTHSMITH INVESTMENT AND ECONOMIC UPDATE- 2ND QUARTER 2023

Hello my valued clients and loyal followers.

Well, last week contained the longest day of the year. That is something to rejoice, yet it is also something that comes across as bitter-sweet, as the days will continue to get shorter and shorter until we fade into darkness!

That is, however, just one way to look at it. I will consider the former statement as "the glass is half empty" way of looking at things.

A more positive and uplifting way to look at it is that we have some of the best days of summer ahead of us….the ever popular "the glass is half full"!

The rain will most likely subside as we are quickly approaching the 40th day and night of the revival of Mosses. God, will this rain every stop? YES…it will (opps, slipped back into "glass half empty" mode) and we will be experiencing the joy that is….late June, all of July, and 2/3rds of August!

You see, there is always something that we can be negative about, and there is always something that we can be positive about. It is our choice 😌.

Now that I think about it, the same goes for the market.

At the beginning of the quarter we could be very worried about the banking sector, or, we could rejoice about the fact that we are once again back to getting over 4% in a money market account like we did back in 2007. For now, the banking sector seems to be "stabilized", and there does not appear to be any further "contagion". We will continue to monitor that sector as we embrace the 4% that we are getting on our cash positions.

In the middle of the quarter we could be concerned about the debt ceiling and the political wranglings of the House and Senate, or, we could rejoice about the fact that we (the United States) has never defaulted on our debt and once we get through the mass-media "gloom and doom" of what would happen IF we defaulted, we will see a nice upswing in the market. Which we did. The upswing seems to be mostly in the tech-heavy Nasdaq, but the S&P is holding it's own as well.

As we move toward the end of the quarter, we could wallow in the fact that the Federal Reserve is still concerned about inflation being at it's current level for quite a while, or we could rejoice as gas and energy prices (not counting CMP, what is up with CMP!) are once again at seasonal lows. By all indications[1] gas prices will most likely stay down (relative of course, as they were under $2.00/gallon a few years ago) until the futures contracts for Winter start to reveal themselves.

CLEAN ENERGY and the battle between THE CLIMATE ALARTMISTS VS. THE CLIMATE DENIERS!

I know that there is a raging debate about climate change and fossil fuels. There are those on the side of "climate change is going to destroy our planet" and there are those on the side of "climate change is a naturally occurring phenomena and we, as the human race, have very little impact on it". Regardless of what side you are on, it appears that money will continue to flow to both fossil fuels and renewables. The transition from one source of energy to the other, or the swing back to old methods from the over-swing toward new methods will continue to drive expansion into both clean energy and existing fossil fuels. How quickly we move in any one direction will depend on the make up of Congress and the Executive Branch. We will continue to be quite diversified in this asset class/sector as betting on one side or the other is not a game we want to be "off sides" with.

RESIDENTIAL AND COMMERCIAL REAL ESTATE.

The real estate market continues to amaze me. New construction and new housing starts continue to be down across the nation. Here in Maine, the average price of housing is lower than a year ago, but still significantly higher than average. Lack of inventory is driving prices to, STILL, elevated prices. Additionally, people are still moving to Maine from other parts of the country. While the days of 49 offers for $100,000 over asking price may be over, houses are still selling over list price after only being listed for a week or less.

Here in my neighborhood in Saco the average sales price per square foot is over $300. My wife and I put in an offer on a house in Yarmouth before Memorial Day and our offer was accepted. We decided to try and rent our house in Saco, and then thought better of it. We alerted our mortgage broker that we were going to sell rather than rent (A fact that was necessary to disclose as he was underwriting the mortgage on our new house) and by the end of the day he had another mortgage broker who was representing a buyer from Colorado call us about our house (which was not even listed yet) and a day later they made an offer to buy our house in Saco without evening physically seeing it. As you can see, it is still a sellers market.

The lack of inventory is creating a bubble that we might not see again in a long time. Our house is now valued at double what it was just 2 ½ years ago when we attempted to sell it in October of 2020. Doubled in 2 ½ years! The rule of 72 tells you that if you want to see how long it takes your money to double you simply divide the number of years into 72 and that will tell you what interest rate you received. 2.5 goes into 72 "28.8" times. That means that we have averaged 28.8% on our house equity over the last 2. 5 years. Now, we did put in a new kitchen so that helps for sure, but still.....

The "glass is half empty" side of this equation is that I have a mortgage-broker friend whose income dropped 50% last year in 2022 from 2021, and it is half again as much in 2023. This person is considering another job as they have to make ends meet. I also have real estate broker-friends in the same situation.

As for the commercial real estate market, one would have to think that "work from home" is going to impact some of the commercial assets once the leases start to come due, but I have not heard much on this front at this time. What I have seen is that banks are still lending to commercial borrowers.[2] They may be scrutinizing deals more, but they are still lending. I have also seen the "ramping up" of distressed real estate funds as investors attempt to capitalize themselves to take advantage of some of these real estate assets that will not be able to refinance at current rates when their loans come due.[3] Headlines are telling the story that the commercial real estate market is in dangerous waters, but banks are in much better shape than they were back in 2007/2008 during the great recession.

SPEAKKNG OF RECESSION…..

Some of you have asked me if we are heading into a recession and what it means for investments. Generally a recession means that company growth, profits and earnings, has slowed for any number of reasons. In today's environment the major impediment toward growth is the raising of interest rates to fight off inflation. Are we done raising interest rates? Well, we didn't raise interest rates after this last Federal Reserve meeting, but they said they were going to do so two more times this year. I think a more important question is what is it going to take to get our inflation numbers down to two percent, a number that Fed is shooting for? Depending on what "reading" of inflation you look at, we are about 2.5%-3% away from the 2% inflation goal. Let's guess that the Fed wants to achieve 2% inflation in 18 months, around the end of 2024. The only time in the last 60 years that inflation has dropped that much in that short a period of time is FOLLOWING A RECESSION.[4] We can hope that it is different this time, but all we can do is wait and see.

Here is a fun question for some, and not so fun question for others (Employers). Where are all the workers!?!. Why are businesses having such a hard time finding people to hire?

I have a theory, though I have no data to back it up. I think part of the issue is that we had a mass exodus of baby boomers who decided that enough was enough and they retired. They sold their homes over the last two years at inflated prices, had a second home already or they downsized to a condo at "On top of the world" in Florida or the Villages in Florida. This paved the way for other workers to move up in their company to replace the retired baby boomers. Because they moved up, the workers who might have otherwise jumped from company to company are no longer in the "available to be hired" pool. The void left by the workers who "moved up" were filled by others who moved laterally from one company to another. What else could it be? There is no stimulus money coming out anymore. One can only live in their parents' basement for so long before they are going to have to get out and start their life so I doubt that is the issue.

I have clients who own restaurants, law firms, work for software companies, run trucking companies, run cleaning companies, and the list goes on and on. I would love to hear your take on "where have all the able-bodied workers gone", because I don't have an answer to this question.

I don't believe this situation is going to get any better. Over the next 15 years, more people are going to retire than have retired, cumulatively, in the history of our country. How can that be? When Roosevelt signed the social security act into law in 1934 he set the retirement age at 65. The average life expectancy of an American in 1934 was 62![5] They never expected many people at all to retire and use entitlements like social security. What makes this situation even more potentially dangerous is that the current generation that has lived 10, 20, and 30 years past retirement is the first generation to do so in great numbers. Add these retirees to the baby boomers who are about to crash the party, and we are about to have 70 million retirees on a system that was never meant for numbers like this….just food for thought.

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Portfolio Rebalancing and Reinvesting

As we are nearing the end of the quarter I will be rebalancing our portfolio's by the end of the month. In most accounts I plan on adding a small percentage (7-12%) of portfolio balances to "structured notes". If you have questions about this allocation within your account feel free to schedule a time to talk.

For those of you who have excess cash sitting in your account for any myriad of reasons (you contribute monthly, you transferred in an old 401k from a past employer, etc) I will be putting those dollars to work within your investment portfolio. Yes, we like 4% in the money market, but there are some other sectors that are looking attractive.

As is always the case, if you need to schedule a time to meet, or to talk, please do not hesitate to do so.

Thank you for the trust that you place in me to guide you through the world of investing and financial/retirement planning, I do not take it lightly.

Happy 4th of July everyone.

Sincerely,

Gary Smith

[1]Energy Prospectus Group – Dan Stebbins – Oil and Gas Market Update – June 2, 2023.

[2] Wealthmanagementstrategies.com/investment strategies/financeandlending/. Despite panicked headlines, banks continue to finance commercial real estate transactions. Patricia Kirk – April 25, 2023.

[3]Wealthmanagementstrategies.com/investment strategies/financeandlending/. Real Estate Debt Funds Aim To Be Players On Opportunistic, Distressed Strategies. Mary Diduch – May 5th, 2023.

[4]First Trust – Monday Morning Outlook – Is the Recession Threat Dead? Brian Wesbury – 6/20/2023.

[5]WealthSmith Financial Planning LLC – Taxes in Retirement Workshops – 6/13/23 & 6/15/23.