STONE PINE
FINANCIAL PARTNERS

Retirement in Focus

Fall 2023

Lessons and Reminders from 2023

2023 has proven to be a fascinating year in the world of finance. We think it's a year with many important insights and lessons for investors. But before we recap what has transpired this year, let's review Stone Pine's investment philosophy. 2023 embodies the reasons why it's important to be consistent with our investment approach and beliefs.

- We believe that the capital markets will provide inflation beating returns over the long term.
- Global diversification is the foundation of an efficient investment portfolio.
- We expect the markets to have downturns and we will be consistent with our investment approach during these time periods.
- For retirees, we maintain a safety net of bonds and stable investments. This allows for continued distributions during downturns in the market and it helps ensure the longevity of the portfolio.
- A good investment plan should be straightforward and avoid unnecessary complexity and confusion.

Market Recap:

- After declining sharply for most of 2022, the S+P 500 ended the year at 3,840.
- As we entered 2023 it seemed as if we might be in a "no-win" situation: either the Federal Reserve would tighten credit enough to relieve us of inflation, thereby plunging us into a recession or the Fed would be too tepid with their tightening, thereby avoiding a recession but allowing inflation to spiral out of control.
- Regardless of which predicted outcome came to fruition, most analysts and pundits agreed that corporate earnings would decline sharply this year, setting the stage for further declines in the stock market.
- If that doesn't sound bleak enough, the first 8 months of 2023 added three new, unpleasant uncertainties: 1) the chance the US would not raise the debt ceiling leading to a sovereign default; 2) a wave of bank failures that seemed to threaten the banking system itself; and, 3) the rating agency Fitch's downgrade of the US credit rating which elicited new fears about the dollar's status as the world's reserve currency.
- After enduring this onslaught of crises both real and imagined, the S+P 500 is at 4487 as of September 14th which is up 17% since the beginning of the year.

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There are lots of conclusions we can draw from this year, however we think the famous investor Peter Lynch summed it up succinctly when he said, "The real key to making money in stocks is to not get scared out of them."

In this sense, 2023 represents to us a successful investing lifetime in microcosm. You and I stuck to our long-term retirement investment plan in the face of much pessimism. We didn't waiver based on the latest headlines and predictions. We were comforted by knowing we have safety nets in place (bonds and other stable investments) to weather the storm when there is an inevitable decline in the stock market. And we continue to believe that stocks will be our growth engine for the long term.

In summary, thinking back over the 20 years Kevin and I have been in the industry, we think the people that are best positioned for investment success are those who are able to digest current events and say "this too shall pass" versus those who conclude "this time it's different" and thereby give themselves permission to pull out of the market and make major adjustments to their long-term plans.

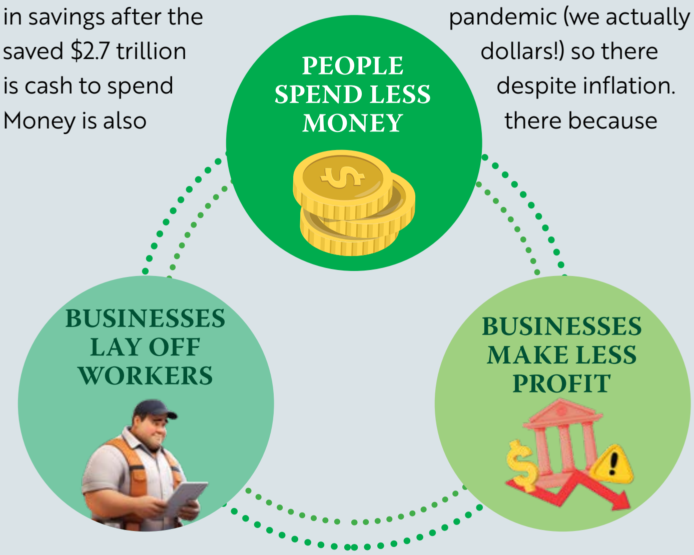
Good planning, patience and discipline are the cornerstones of our philosophy, and this year only reassures us of this belief. As always, thank you for your trust and partnership, and best wishes for the remainder of the year.

No Recession… So Far

When the Federal Reserve started raising interest rates in early 2022, economists predicted a recession would soon follow. But now the fall of 2023 approaches… where did the recession go? While it is certainly plausible that the interest rate hikes will eventually lead to a recession, there's also a definite possibility we could continue to have the "soft landing" the Fed is striving for. Let's talk about how a recession begins and what has actually transpired since the Fed started raising rates.

A recession begins in one of three ways. The first begins with the consumer. When people spend less money, businesses make less money and those businesses then need to reduce costs, of which one method is to reduce workers. Or it can start when workers get laid off, which gives the consumer less spending power, and reduces business profits. Or an industry can start to do poorly and the cycle continues from there.

So how is the current economy different? Well, there is actually a lot of money still out there. People had large amounts of money in savings after the pandemic (we actually saved $2.7 trillion dollars!) so there is cash to spend despite inflation. Money is also there because people have jobs (the unemployment rate is currently hovering around the mid 3-percents, while the historical average for the last 75 years is around 5.8%). The low unemployment rate coupled with baby boomers retiring has made it so the number of job vacancies is still higher than pre-pandemic. This keeps wage growth strong, which puts money in people's pockets and corporate profits stay buoyed. Not only have businesses maintained profits, but business debt is low which means they are less impacted by the Fed's interest rate hikes. (And much of the debt businesses do have is locked into low rates).



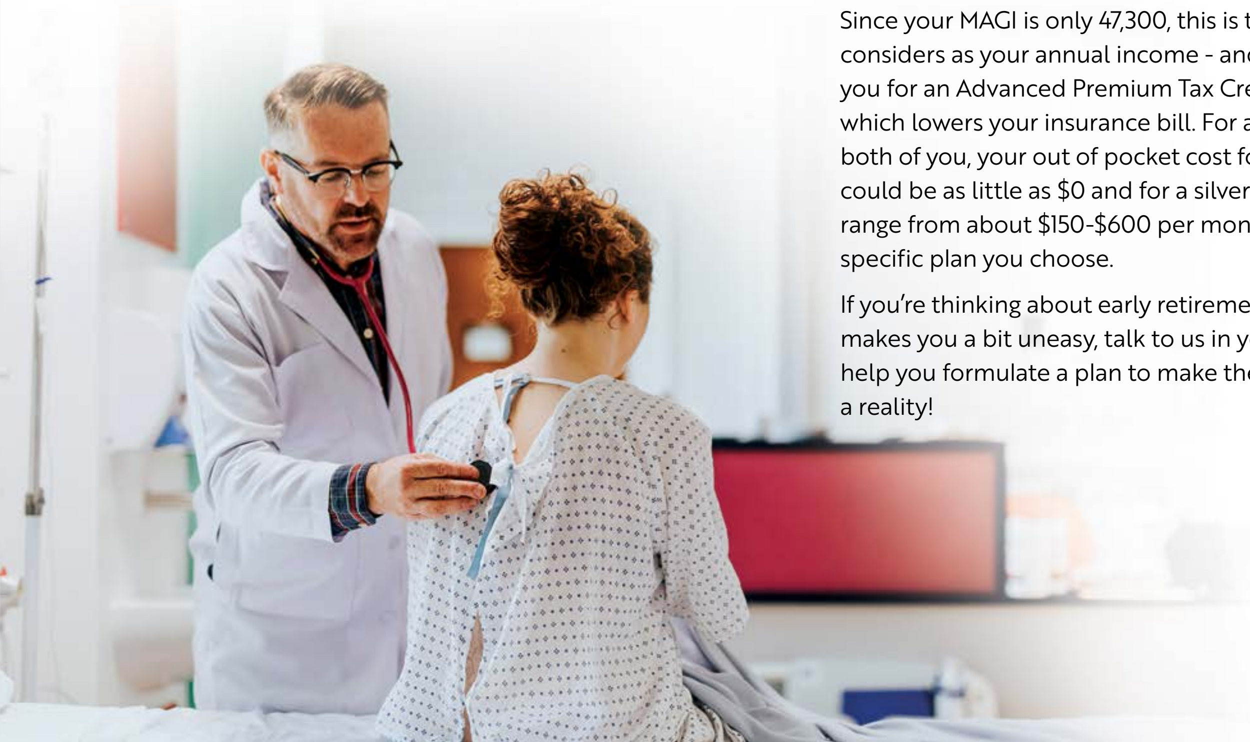
One of the major ways the recession cycle starts is from the housing market. This is especially true when the Fed raises interest rates. Normally, interest rates rise and that increases the cost of mortgages, which decreases the number of houses sold, which reduces spending on furniture, construction, and many other industries. Subsequently, jobs in those industries are reduced too. Thus far, the rise in interest rates has not substantially hurt the housing market, partially because the number of new houses being sold was already slowing before the interest rate hikes took effect. Although spending may not be happening on new homes, 90% of all homeowners currently have an interest rate below 6%. This means many consumers have a strong hedge against both inflation and interest rate increases so they are able to keep money flowing into the economy.

Of course, all of this doesn't mean a recession won't happen eventually. In fact, we know with just about 100% certainty that at some point there will be a recession. The economy works in cycles just like the seasons; a healthy economy needs to retract from time to time. So our advice to you: enjoy the current strong economy, but know when the next recession does eventually come that you are well-positioned with the proper safety net to efficiently weather the downturn.

Healthcare in Early Retirement

Many Americans express excitement upon reaching the age of 65, when at long last they qualify for their Medicare benefit. After all, you've been paying into the system for your entire working life, so it's nice to finally reap some of its reward. Unfortunately, some folks who may be financially and emotionally ready to retire prior to 65 continue to work in order to keep their employer healthcare benefits. Although navigating the world of private healthcare can be intimidating, it's not always the best reason to continue working if you're otherwise ready to retire. Fortunately, having a solid plan going into early retirement can make healthcare much less intimidating, and even affordable.

If your employer doesn't offer healthcare to retirees, and you don't yet qualify for Medicare, then typically your choices are COBRA (the continuation of your employer coverage) or obtaining coverage through the Affordable Care Act (ACA). While COBRA can be a fantastic bridge to Medicare for a short time period, it tends to be very expensive. For this reason, an early retiree who has more than 12 months to go prior to reaching age 65 often finds the ACA to be a better option. In Pennsylvania, there is a state-run program called Pennie that follows the ACA guidelines. As you know from working with us, retirement income and taxes go hand in hand and strategic planning can reduce your taxable income, especially in early retirement before Required Minimum Distributions. It just so happens that the same strategies we use to lower your taxes in early retirement also have the potential to reduce your cost of pre-65 health insurance! The ACA looks at your Modified Adjusted Gross Income (MAGI) to determine your cost of health insurance. Therefore, the lower your MAGI, the lower your cost of coverage. Luckily, in retirement, you often have more control over your MAGI and with some careful planning you can keep this figure low and use it to your advantage.



The types of income that are included and not included in your MAGI are as follows:

Included in MAGI	Not Included in MAGI
Employment/business income	Qualified Roth IRA distributions
Pension income	Qualified Roth 401(k) distributions
Social Security	Cash from checking/savings/money market
IRA/401(k) distributions	Basis from investments (return of principal)
Dividends and interest	
Realized gains from investments	

The trick is to create your early retirement income with consideration of how much of your income is included in your MAGI. For example, if you and your spouse are both 62 years old, retired, and need $100,000 of retirement income in 2023, you might create your retirement paycheck to look like this:

Distribution from taxable investments	100,000
Basis from taxable investments (75k gains)	-25,000
Standard deduction married filing jointly	-27,700
MAGI	47,300

Since your MAGI is only 47,300, this is the amount that the ACA considers as your annual income - and amazingly, it qualifies you for an Advanced Premium Tax Credit of $1,606 per month which lowers your insurance bill. For a high deductible plan for both of you, your out of pocket cost for your monthly premium could be as little as $0 and for a silver plan your cost could range from about $150-$600 per month depending on the specific plan you choose.

If you're thinking about early retirement but health coverage makes you a bit uneasy, talk to us in your fall meeting. We can help you formulate a plan to make the early retirement dream a reality!

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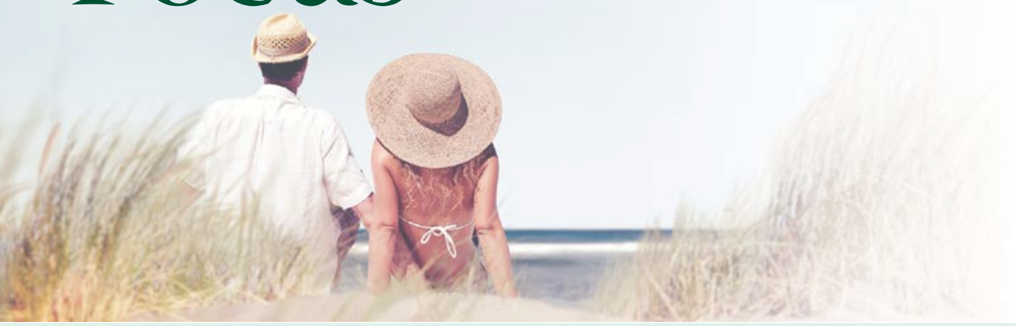

Fall Meetings

In just a few weeks, we will send out an invitation to sign up for your fall meeting which will take place in November. During the meeting we will be going over your investment performance and projections, as well as any year-end planning. We're looking forward to catching up with you soon!

Baby Herron Alert!

We are so excited to announce the newest baby Herron, Eleanor "Nora" Elizabeth, born on September 14th! Andy and Suzie are smitten with their new beautiful baby girl. Nora is very lucky to have two big brothers, Oliver and Finley, who have graduated to parent helpers and are sure to be protective big brothers as she grows up. We are so happy to welcome Nora to our Stone Pine family!

Now Offering eNotary Services!

Stone Pine is now offering complimentary online notary services in addition to our in-office notary services. Online notarization is a quick and easy way to notarize the documents you need, especially if you don't live close to our office or if you'd like to stay in the comfort of your own home! Please don't hesitate to reach out if you are in need of this service. Sky, from our office, will be more than happy to electronically notarize the documents you need.